

Life Plans



UNDERSTANDING THE 2.2 UPGRADE OPTION

July 1, 1998, the formula used to calculate pensions for the Chicago Teachers' Pension Fund changed. Members who earned service prior to this date may be eligible to purchase an upgrade that can increase their pension. This brochure explains the 2.2 Upgrade Option and illustrates its benefits.

Life Plans

THE 2.2 UPGRADE OPTION—THE BASICS

Your CTPF retirement pension is calculated using the following formula:

$A \times B = \text{Your annual pension}$

A = the **pension percentage** x your service credit, (cannot exceed 75%).

B = your final average salary (FAS) — calculated by taking the average of the four highest consecutive salaries in your last 10 years of service.

The 2.2 Upgrade Option provides a way to increase the **pension percentage** used to calculate your benefit.

For service credit earned prior to July 1, 1998, the percentage used in the pension formula is determined using incremental factors as low as 1.67%. With the 2.2 Upgrade Option, the 2.2% factor is applied to all your CTPF service credit, and your pension increases.

| YEARS OF SERVICE CREDIT | PENSION PERCENTAGE | |
|----------------------------|---------------------|--------------------|
| | BEFORE JULY 1, 1998 | AFTER JULY 1, 1998 |
| First 10 years | 1.67% per year | 2.2% per year |
| Second 10 years | 1.9% per year | 2.2% per year |
| Third 10 years | 2.1% per year | 2.2% per year |
| Years beyond 30 | 2.3% per year | 2.2% per year |

This brochure provides a general overview of CTPF's 2.2 Upgrade Option. Individual situations will vary and are governed by Illinois pension law. Contact CTPF Member Services with questions regarding your specific situation, eligibility, and cost.

ELIGIBILITY

Members who wish to purchase the 2.2 Upgrade Option must have been active contributors to CTPF on July 1, 1998, or must have contributed to CTPF for at least one year after July 1, 1998.

UPGRADE COST

The cost to purchase the upgrade is based on your highest annual salary in the 4 years prior to the year in which you apply for the upgrade, multiplied by 1% for each year of service. The cost is capped at 20 years.

You must upgrade all of your service before July 1, 1998, including any purchased service.

Your cost may be reduced. For every 3 years of service credit earned after July 1, 1998, the cost to upgrade is reduced by 1 year.

Eligible members who retire with 30 or more years of CTPF service credit receive the upgrade at no cost.

HOW TO UPGRADE SERVICE

1 . Submit an Application for the 2.2 Upgrade Option.

Contact Member Services and request an application or download one from www.ctpf.org. Complete and return the form. CTPF will review the application, and if approved, send you an Optional Bill to Upgrade to the 2.2% Pension. The bill will detail the service credit available for upgrade, the salary used to determine the upgrade cost, payment options, and the expiration date.

2 . Decide if you want to make the purchase.

Purchase of the 2.2 upgrade is entirely optional. The upgrade cost is valid for five years. If your bill expires

before you complete payment for the upgrade, any amount you paid will be refunded.

If you decide to upgrade at a later date, you must submit a new application and restart the process.

3. Send the completed bill to CTPF with your selected payment option.

If you decide to purchase the upgrade, indicate your payment option on the bill, sign, and return the bill to CTPF.

PAYMENT OPTIONS

Payment for the upgrade can be made with one of (or a combination of) the following options:

- A personal check payable to the Chicago Teachers' Pension Fund.
- A tax-deferred rollover of funds from a 401(k) plan, a 403(b), a conduit IRA, or another qualified pension plan. Contact CTPF for a certification letter and instructions.
- A deduction from earnings through an irrevocable payroll deduction agreement with your employer. Contact your employer directly to initiate this deduction. Deductions will be in equal installments for a period not to exceed 5 years and must be completed by your retirement date.
- A deduction from your first 24 pension payments in equal installments.

Except for payment by pension deduction, you must complete payment of the upgrade by the date specified on your contract or by your retirement date, whichever is earlier.

EXAMPLE: HOW THE 2.2 UPGRADE WORKS

Jerry is a current member who plans to retire at age 62 with 26 years of service credit. He earned 15 years before July 1, 1998, and 11 years after July 1, 1998. His final average salary (FAS) is \$60,000. His annual pension will be calculated:

Annual Pension without the 2.2 upgrade

| | | | | | | |
|----------|---|----------|---|-------|---|----------|
| 10 years | * | \$60,000 | * | 1.67% | = | \$10,020 |
| 5 years | * | \$60,000 | * | 1.90% | = | \$5,700 |
| 11 years | * | \$60,000 | * | 2.20% | = | \$14,520 |
| | | | | | | <hr/> |
| | | | | | | \$30,240 |

Annual Pension with the 2.2 upgrade

| | | | | | | |
|----------|---|----------|---|------|---|----------|
| 26 years | * | \$60,000 | * | 2.2% | = | \$34,320 |
| | | | | | | <hr/> |

Pension Increase

If Jerry decides to purchase the 2.2 upgrade, his annual base pension will increase by \$4,080:

| | | | | | | |
|--|--|----------|---|----------|---|---------|
| | | \$34,320 | - | \$30,240 | = | \$4,080 |
| | | | | | | <hr/> |

Upgrade Cost

Because Jerry has not earned 30 years of service, he must pay for the upgrade. Jerry's cost to purchase the upgrade is based on his highest annual salary in the 4 years prior to the year he applies for the upgrade, multiplied by 1% for each year of service. Jerry's highest salary was \$65,000.

The upgrade cost decreases by 1 year for every 3 years of service after July 1, 1998. Jerry has 11 years of service after July 1, 1998. With the discount, Jerry can upgrade 15 years of service by paying for 12.

Jerry's upgrade cost will be:

| | | | | | | |
|----------|---|----------|---|-------|---|---------|
| 12 years | * | \$65,000 | * | 1.00% | = | \$7,800 |
| | | | | | | <hr/> |

Paying for the Upgrade

After carefully considering his financial situation, Jerry decides to make the purchase. Jerry's pension will increase by \$340 a month with the upgrade. He chooses to deduct the \$7,800 cost (\$325 per month) from his first 24 pension payments.

When Can You Upgrade?

You can purchase the 2.2 upgrade any time prior to retirement, provided you have at least one year of service with CTPF after July 1, 1998. An application to upgrade may only be made once within a five-year period.

Service Purchases

If you purchase the 2.2 upgrade, you must upgrade all your service, including any optional service you may have purchased.

Optional service purchases (for service before July 1, 1998) made after a 2.2 upgrade must be upgraded.

Reciprocity

The only other state retirement system that provides a 2.2 Upgrade Option is the Teachers' Retirement System of the State of Illinois (TRS). If you have reciprocal service with TRS, you may upgrade both CTPF and TRS service or you may choose to upgrade one or the other. Each system will determine its respective upgrade cost and payment options based on its specific rules.

If you retire with 30 or more years of combined service credit in a reciprocal pension, you may receive an upgrade at no cost if you meet the following conditions:

1. Your final service credit is with CTPF.
2. Your final service credit includes at least one year post July 1, 1998.

If you retire under a reciprocal pension and CTPF is not your final retirement system, your service credit will be upgraded at no cost only if you have 30 or more years of CTPF service credit.

Refund of Upgrade Cost at Retirement

For every 3 years of service credit earned after July 1, 1998, the cost to upgrade is reduced by 1 year. If you pay for the upgrade and then retire with fewer than 30 years of service, you may receive a partial refund. Your final cost will be determined at retirement.

If you pay for the 2.2 upgrade prior to retirement and then retire with 30 or more years of service credit, the amount you paid will be refunded with 5% annual interest.

Survivor Pensions

If you die before completing payment for the 2.2 upgrade, survivor pensions will be determined as if the upgrade was paid in full. If there are no eligible survivors, any amount paid will be refunded to your designated beneficiaries or estate.

More Information

If you need additional information about the 2.2 Upgrade Option, contact CTPF Member Services at 312.641.4464. Additional information about pension benefits can be found in the CTPF newsletter, *Pension News*, and at www.ctpf.org.

CONTACT INFORMATION

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