

It's Your Choice Video – SCRS Plan or State ORP – Web Script

It's your choice: SCRS Plan versus State ORP

Since you're working for a state agency, school district, or higher education institution employer covered by the Retirement Systems, you have a choice to make. You have 30 days from your date of hire in a covered position to choose between two different retirement programs.

The South Carolina Retirement System, also referred to as SCRS, which is a traditional pension plan or the State Optional Retirement Program, referred to as the State ORP.

Why not just one plan for all public employees?

Things aren't how they used to be 15 to 20 years ago. Now you have people changing careers all the time, especially the younger generations. A one-size-fits-all pension plan doesn't work for everyone so we let employees choose which plan might be best for them.

The SCRS traditional pension plan is a **defined benefit** plan. With this plan, the amount of your annuity is not based on how much money you put into the plan, but rather is based on a formula including your accumulated service credit and average final compensation. When you retire, you receive a monthly check for plus applicable cost-of-living increases.

The State ORP is known as a **defined contribution** plan. You have four approved investment providers to choose from. With this plan, your benefit is a lump sum amount based solely on the contributions put into the plan by you and your employer, and the investment earnings on those contributions.

In summary, with SCRS, the longer you work, the greater your benefit. With State ORP, the better your investments perform, the greater your lump sum retirement amount.

A certain percentage of your gross salary goes into your retirement account. The employee contribution rate is the same whether you choose SCRS or the State ORP.

How the SCRS Plan Works

A certain percentage of your gross salary goes into your retirement account. The employee contribution rate is the same whether you choose SCRS or the State ORP. With SCRS, all contributions are pooled together and the money is invested by the Retirement System Investment Commission. The Commission consists of a group of five investment experts who are held to strict standards by statute and must have excellent qualifications to be appointed by the members of the Budget and Control Board. The contributions, and the investment earnings generated by the Commission, are used to pay benefits for everyone enrolled in SCRS.

A major advantage of SCRS is that the state assumes all investment risk so no matter how the investments perform, your individual benefit will not be affected.

When you're eligible to retire, your benefit is calculated based on:

- Years of service
- Average final compensation (or the 12 highest consecutive quarters of earnings divided by three) and
- A multiplier.

To be eligible for a benefit, you must work for an employer covered by SCRS and make employee contributions for at least five years. This is called 'earned service.' You may also be able to purchase additional service.

There are four criteria to be able to retire under SCRS. Two are for full benefits; two are for reduced benefits. The two for full benefits would be 28 years of service at any age, or at age 65 with a minimum of five years of earned service. The two items for reduced retirement would be age 55 with a minimum of 25 years of service, or at age 60 with a minimum of five years of earned service credit.

When you retire from a covered employer, you will receive your benefit through monthly payments for life. You can also choose from several options that provide continued survivor monthly payments throughout your beneficiary's life when you die. If you choose one of these survivor options at retirement, monthly payments to you will be reduced.

How State ORP Works

If you choose the State ORP, an account is set up with one of the four providers available. The vendor will offer you choices as to how you want your money invested. Your retirement benefit is the cash value of that account when you terminate. Of course, there are many options as to how you receive that money. Whether you convert it to a monthly annuity or a lump sum is up to you and that provider.

With the State ORP, you assume the risk. If your investments do well, you'll have more money available in retirement. Your lifetime retirement benefit is always the total balance in your account. With the State ORP, there's no minimum age or years of service required for retirement. You have access to all the money in your account upon termination of employment. If you are under age 59 ½ there may be tax penalties involved, so consult with your tax advisor.

You can choose to receive your benefit as a single payment, or you can allow your funds to continue growing tax-deferred. You can purchase a monthly annuity based on what your account balance can afford.

Which plan will give you the most money when you reach retirement?

"Many things affect the amount of an employee's benefit. For SCRS, the important factors are the amount of service credit in your account at retirement and your average salary."

"On the other hand, with the State ORP the potential monthly income grows according to investment performance."

Your State ORP account balance will go up and down, especially in the short term. Although you should expect some market volatility, based on historical market performance, over the long term your investments have the opportunity to grow steadily.

"It's really hard to say which plan will pay the most in the end. It just depends on the choices you make and your life expectancy. We do have a benefits calculator on our Web site where employees can estimate future benefits under both plans."

What happens if you leave covered employment? SCRS Plan

If you're enrolled in the SCRS Plan and you leave your job before retirement, you can leave your money in the system. Your account will accrue interest at 4 percent and when you reach age 60, as long as you have at least five years of earned service, you're eligible for a reduced benefit.

If you decide you want to withdraw your money, you can only take a refund of what you contributed plus interest, but not your employer's contributions. You'll also forfeit your rights to any future retirement benefit. If you take your money out, you'll have tax consequences unless you roll it over into another qualified retirement plan or an IRA.

What if you leave covered employment? State ORP

If you're enrolled in the State ORP when you leave your job, the money you and your employer put in your account, plus your investment earnings are all yours. You may also choose to leave the money in the State ORP so it has a chance to continue growing tax-deferred.

If you withdraw the money out there may be tax consequences and penalties unless you roll the taxable portion over into another retirement plan or an IRA.

What else do you need to know?

Disability Protection

There are several other things that you may want to consider. **If you become disabled before retirement, have five years of earned service, and are approved for disability**, the SCRS Plan pays you a monthly retirement benefit for as long as your disability lasts. Your benefit is figured as if you would have worked until age 65, less an actuarial reduction.

If you become disabled and you participate in the State ORP, there is no separate disability coverage and your benefit is the balance in your account when you become disabled.

Death Benefit

If you die before retirement, under the SCRS Plan, the person you name as your beneficiary can receive a refund of your contributions plus interest. Or, if you had 15 years of service, five years of which were earned service, your beneficiary can select a monthly benefit for life.

What if you change your mind?

If you enroll in State ORP and later change your mind, you may switch to SCRS during the open enrollment period. However, to qualify you must have worked at least 12 months but no more than 60 months by March 1st of that year. If you switch, you may purchase service in the SCRS Plan for your years of participation in the State ORP. If you choose the SCRS plan you may not switch to the State ORP.

If you enroll in the SCRS Plan, there is no window to allow you to switch to the State ORP.

In Conclusion:

Consider SCRS if you:

- Want a benefit that is not affected by fluctuations in the financial markets.
- Plan to stay with a covered employer for many years.
- Prefer to have the state make investment decisions and assume the related risk.
- Need disability coverage as part of your plan.

Consider the State ORP if you:

- Want investment control and are willing to assume the risk associated with the opportunity for potential growth of your retirement money, or
- Do not plan to stay with a covered South Carolina employer for many years.

Don't forget to read the *Select Your Retirement Plan* guide, use the Retirement Systems' website resources, or contact the Retirement Systems for answers to your questions. The Retirement Systems' goal is to make sure you have the information you need to make the choice that's best for you!

For more information, comparisons, and calculators, visit the Retirement Systems' website at <http://www.retirement.sc.gov/>.