

# LEOFF Plan 2 Retirement Know-how



## Introduction

The three major elements of your retirement portfolio include your LEOFF 2 Pension, Social Security, and Personal Savings. Many LEOFF 2 members do not have access to Social Security. If this is you, then it is very important to focus on investing in personal savings for your retirement.

This publication provides:

- A plan summary
- Retirement planning considerations
- Retirement ready options and considerations, including
  - Estimating your benefit
  - Purchasing an annuity
  - Purchasing additional service credit
  - Deferred Compensation or other deferred savings programs
  - Retirement application process
  - Insurance coverage for medical, life and long-term care
  - Social Security
- Post-retirement Information
- Retirement checklists for financial and estate planning, and retirement
- Contact information

## Plan Summary

LEOFF Plan 2 is a defined benefit plan. When you meet plan requirements and retire, you are guaranteed a monthly benefit for the rest of your life. You earn this right by being vested in the plan, meaning you have 5 years of service credit. A full benefit will then be awarded when you retire at age 53 or later, or at age 50 with 20 years of service credit.

Your monthly benefit will be based on your years of service, using the following calculation:

$2\% \times \text{service credit years} \times \text{Final Average Salary} = \text{monthly benefit}$

Final Average Salary (FAS) is the average of your 60 consecutive highest paid service credit months, including overtime.

If you've divorced, a court-ordered property division could affect your benefit. As long as the order complies with applicable laws, a monthly benefit will go to your ex-spouse according to the division.

Keeping your beneficiary information updated is important. It tells the Department of Retirement Systems (DRS) who you want to receive your remaining benefit, if any, after your death.

## Retirement Planning Considerations

Retirement may seem a long way off, or just around the corner. No matter what stage of life you are at, take time to check in on your retirement planning regularly. Have you analyzed how much you will need and how much you will have in retirement? Has anything in your plan changed?

Things to consider:

- Identify your retirement lifestyle goals.
- Take care of your health, as medical expenses may be among your highest costs in retirement.
- Pay down debt.
- Sign up for a deferred compensation program or another similar savings plan, or increase your contribution to your existing account.
- How much income will you need in retirement?
- What will your monthly benefit be?
- If you are eligible for Social Security, how will your needs change if you work past age 65?
- Will you want to increase your benefit by purchasing additional service credit or an annuity?
- What other income will you have available to you in retirement?

### *Retirement Planning Seminars*

If you are within five years of retirement, we encourage you to attend a DRS retirement planning seminar. Seminars offer valuable tips on preparing for retirement. Check the schedule, and sign up online. You also have the option of watching a retirement planning seminar online.

## Retirement Ready Options and Considerations

### **Estimating Your Benefit**

If you expect to retire within the next year, contact the Department of Retirement Systems (DRS) to request a written estimate of your benefit. They can run different calculations for you, based on whatever options you choose. Your online account access includes an estimate calculator as well.

### **Purchasing an Annuity**

When you apply for retirement, you can supplement your monthly benefit by making a one-time, lump sum payment to purchase an annuity. Purchasing an annuity increases your monthly benefit for the rest of your life, and your survivor's life if you choose one. You will continue to receive the annuity portion of your monthly benefit if you return to work or membership. Annuities are eligible for an annual Cost-of-Living Adjustment (COLA), just like your pension benefit.

### **Purchasing Additional Service Credit**

At the time you retire, you may purchase additional service credit to increase your monthly benefit. You cannot use the additional service credit to qualify for retirement. An estimate for the cost of purchasing the service credit and the increase to your benefit can be provided by DRS.

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## **Early Retirement with 20+ Years of service**

If you have 20 or more years of LEOFF Plan 2 service, you can retire between 50 and 53, with a subsidized reduction of 3% per year (versus the normal 8% reduction). You will make part of that back up with your annual COLA. If you separate from service and leave your money in your retirement account, your benefit will increase 3% a year until you retire.

## **Deferred Compensation (aka: 401(a); MEET; 403(b); or 457(b))**

Most programs offer access to a wide range of investment choices, low fees, flexibility and access to valuable services. Check with your employer to discover what deferred compensation or other tax deferred savings options they offer. These funds can be used to purchase an annuity or additional service credits as described above, tax and penalty free.

## **Retirement Application Process**

It is recommended that you start the application process at least 30 days before your chosen retirement date. You can apply online through your DRS online account access, or request a paper application. Follow the step-by-step instructions. Changes will be saved each time you login and add information to your application. Click submit the application when you are ready.

### ***Benefit Options***

When you apply for retirement, you will choose one of the four benefit options shown below. If you are married and choose a Survivor Option other than Option 3, the law requires that your spouse consent to your choice by cosigning your retirement application. Once you retire, you can change your option only in limited, specific circumstances, so select carefully.

To calculate your options, first determine the age difference between you (the member) and your survivor (rounded to the nearest year). Then find the [survivor option factor](#) that applies to your age difference. For the purpose of this document, we will say you are 53 and your survivor is 52. Therefore, you are 1 year older and have a survivor option factor of 0.865. We will also assume you are eligible to receive a \$2000 monthly retirement benefit under Option 1.

### **Option 1 - Single Life**

This option pays the highest monthly amount of the four choices, but it is for YOUR lifetime only. No one will receive an ongoing benefit after you die. If you die before the benefit you have received equals your contributions plus interest (as of the date of your retirement), the difference will be paid in a lump sum to your designated beneficiary.

### **Option 2 - Joint and 100% survivor**

After your death, your survivor will receive the same benefit you were receiving for his or her lifetime.  
 $\$2,000 \times 0.865 = \$1,730$  per mo. (survivor gets \$1,730)

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## **Option 3 - Joint and 50% survivor**

After your death, your survivor will receive half the benefit you were receiving for his or her lifetime.  
 $\$2,000 \times 0.927 = \$1,854$  per mo. (survivor gets \$927)

## **Option 4 - Joint and 66.67% survivor**

After your death, your survivor will receive 66.67% (or roughly two-thirds) of the benefit you were receiving for his or her lifetime.  $\$2,000 \times 0.905 = \$1,810$  per mo. (survivor gets \$1,207)

## **General Benefit Information**

### ***Benefit Payments***

After you retire, your retirement benefit will be paid at the end of each month and directly deposited in your financial institution account you choose during the application process. If you are unable to receive payment by direct deposit, payment will be mailed at the end of each month.

### ***Insurance Premium Tax Benefit for Public Safety Officers***

LEOFF 2 members can exclude up to \$3000 of their pension distributions if this income is used to pay the premiums for accident or health insurance or long-term care insurance. The distribution must be made directly from the plan to the insurance provider. If you elect to do this, there is a DRS form to complete and return, along with insurance verification. [DRS Webpage](#)

### ***Federal Taxes***

Most, if not all, of your benefit will be subject to federal income tax. The only exception will be any portion that was taxed before it was contributed. When you retire, we will let you know if any portion of your contributions has already been taxed. Since most public employers deduct contributions before taxes, it's likely your entire retirement benefit will be taxable.

At retirement, you will be required to complete and submit a federal W-4P form to let DRS know how much of your benefit should be withheld for taxes.

For each tax year you receive a retirement benefit, we will provide you with a 1099-R form to use in preparing your tax return (see the 1099-R sample). These forms are usually mailed at the end of January for the previous year.

### ***Divorce and Your Retirement***

If you become divorced or legally separated, a court can divide your retirement account between you and your ex-spouse through a property division order. You can either award an interest in your account to your ex-spouse, or split your account into two separate accounts - one for you and one for your ex-spouse if you are a vested member of a retirement system. [DRS Webpage](#)

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## Insurance Coverage

### *Employer and/or Organization Medical*

Ask your employer if you will be eligible for health insurance coverage through the Public Employees Benefits Board (PEBB) once you retire. You can also call the Health Care Authority at 800-200-1004 or visit [www.hca.wa.gov](http://www.hca.wa.gov). If you qualify for continuing coverage, you must meet strict timelines to apply or request a deferral. If you are not entitled to PEBB coverage, you might be eligible for health insurance your employer provides:

### **Medical Expense Reimbursement Plans (MERPs)**

A MERP is a type of Health Reimbursement Arrangement (HRA) that enables employers to fund portions of their employees' health plan deductibles, coinsurance, or copayments, as well as, cover the cost of other qualified medical expenses on a tax-free basis. These can also be used to bridge medical expenses between retirement and Medicare eligibility.

### **Consolidated Omnibus Budget Reconsolidation Act (COBRA)**

COBRA gives workers and their families who lose their health benefits the right to choose to continue group health benefits provided by their group health plan for limited periods of time under certain circumstances, including retirement. Qualified individuals may be required to pay the entire premium for coverage up to 102 percent of the cost to the plan.

### **Voluntary Employees Beneficiary Association Plans (VEBAs)**

A tax-free post-retirement medical expense account used by retirees and their eligible dependents to pay for any eligible medical expenses. VEBA plan funding varies, but typically allows the employee to utilize unused sick leave at the time of retirement. Check with your employer regarding your specific plan, if any.

### **Life and Disability Insurance**

There are multiple types of life insurance plans, including whole, term and universal coverage. Some employers offer a small life insurance benefit to cover funeral costs. Check with your employer for more information. Private companies also offer life insurance, which is an excellent way to ensure you don't leave debt behind for your loved ones.

### **Long-term Care Insurance**

Long-term care is generally defined as hands-on assistance provided for an extended period of time to people (of any age, though older people are the primary users) who can't take care of themselves due to a prolonged disability, illness or cognitive impairment such as Alzheimer's disease. AARP is a good resource to learn more about how best to approach long-term care insurance. [www.aarp.org](http://www.aarp.org)

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## *Common Organization Plans for LEOFF Members:*

[WA FOP](#) | [WACOPS](#) | [WSCFF](#)

### ***Open Market Medical***

If the medical options available to you through your employer aren't viable, there are other ways to find healthcare.

### **Statewide Health Insurance Benefits Advisors (SHIBA)**

Part of the insurance commissioner's consumer protection services, SHIBA provides free, unbiased, and confidential assistance with Medicare and health care choices. [www.insurance.wa.gov/shiba](http://www.insurance.wa.gov/shiba).

### **Washington Health Plan Finder**

Find and compare plans, apply for coverage, and get help along the way. All plans offered through Washington Health Plan Finder meet strict benefit and quality standards. Essential services are covered like visits to the doctor and emergency room, prescriptions, maternity care, preventive care, and more. [www.healthplanfinder.org](http://www.healthplanfinder.org).

## **Medicare**

This federal health insurance program is available to people who are 65 years or older. Here's a little bit about what each "Part" covers. More information at [www.medicare.gov](http://www.medicare.gov).

### **Medicare Part A (Hospital Insurance)**

Part A covers inpatient hospital stays, care in a skilled nursing facility, hospice care, and some home health care.

### **Medicare Part B (Medical Insurance)**

Part B covers certain doctors' services, outpatient care, medical supplies, and preventive services.

### **Medicare Part C (Medicare Advantage Plans)**

A type of Medicare health plan offered by a private company that contracts with Medicare to provide you with all your Part A and Part B benefits. If you're enrolled in a Medicare Advantage Plan, most Medicare services are covered through the plan and aren't paid for under Original Medicare. Most Medicare Advantage Plans offer prescription drug coverage.

### **Medicare Part D (Prescription Drug Coverage)**

Part D adds prescription drug coverage to Original Medicare, some Medicare Cost Plans, some Medicare Private-Fee-for-Service Plans, and Medicare Medical Savings Account Plans.

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## **Social Security**

Social Security is the federal retirement system most Americans pay into through their employers. Benefits distributed are intended to supplement other retirement savings.

In order to qualify for benefits, most people need to have earned 40 credits (about 10 years of work). Your full retirement age is dependent upon the year you were born. If you wait until full retirement age, you will receive the maximum amount of benefit available to you. If you were born in 1960 or after, your full retirement age is 67.

Many plan members do not pay into Social Security through their LEOFF 2 employer, so you aren't earning the credit needed to qualify. However, you may have earned Social Security credit through another employer, or perhaps you have a side business that you've used to pay into the program.

Additionally, if you qualify for Social Security, but receive a pension for work for which you didn't pay Social Security taxes, your Social Security benefits may be reduced. This is because of a rule called the [Windfall Elimination Program \(WEP\)](#). Spouses may also be impacted by through a similar rule called the [Government Pension Offset \(GPO\)](#).

You can often work while receiving Social Security, but there are restrictions. Be sure to know the rules before deciding whether or not to work. Specific information can be found at [www.ssa.gov](http://www.ssa.gov) or by calling 1-800-772-1213.

## **Post Retirement Information**

### **Cost-of-Living Adjustment (COLA)**

On July 1 of every year following your first full year of retirement, your monthly benefit will be adjusted to a maximum of 3% per year, as determined by the Consumer Price Index. [Board Video](#)

### **Working after Retirement**

If you return to public service in Washington State after you retire, your benefit could be affected, depending on the position and number of hours you work. In certain circumstances, you might be required to become a member of, and pay contributions to, another retirement system. You might be able to work limited hours with no impact to your benefit. [Handout](#)

### **Changing A Benefit Option or Survivor After You Retire**

Once you retire, you may change your benefit option or survivor under certain circumstances only. Contact DRS for more information. [DRS Webpage](#)

## Retirement Planning Checklists

The earlier you begin planning for retirement, the better prepared you will be. The checklist below can help you successfully transition into retirement. You might be able to increase your retirement income or even retire sooner than you had planned.

### Financial Planning

If you haven't already sought financial planning advice, now is a great time. [WSJ Article](#)

- Determine your cash flow
- Assess your net worth
- Outline priorities and goals; attach time frames and dollar amounts
- Establish a savings account for planned expenses
- Establish an emergency account for unplanned events
- Review and re-evaluate investments
- Get an estimate of how much money you will receive from your retirement system
- Investigate how much you can expect to receive from Social Security ([online account access](#))
- Examine your insurance protection for gaps (medical, life, long-term care)
- Organize your records
- You and your spouse/partner have many complex legal obligations and rights to consider as you approach retirement. Before committing yourself to any action, take the time and care to find out exactly what your legal obligations and rights are.

### Estate Planning

What will happen to your assets when you are gone? Most of the items below can be accomplished with general legal documents, but working with an attorney is highly recommended. [AARP Article](#)

- Determine the size of your estate
- Estimate tax, probate and other costs
- Determine which legal document will best meet your needs in transferring your assets upon your death: Do you need a Will; Community property agreement; Trust or other?
- Complete a letter to my survivors and heirs (optional)
- Consider which, if any, additional documents you want drawn up now in the event that you become disabled or incompetent:
  - Durable Power of Attorney for Financial Purposes
  - Durable Power of Attorney for Healthcare
  - Washington Health Care Directive (Living Will)
  - Other
- Review your estate planning documents regularly to ensure they remain current (tax laws and life circumstances change)
- Keep your attorney informed of anything that may impact your estate
- If married or in a similar committed relationship, encourage your spouse or partner to do all of the above



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## 1- 5 years before retirement

- Review the [LEOFF Plan 2 Handbook](#).
- Review your financial and estate plans.
- Use [online account access](#) through DRS to verify the accuracy of your service credit.
- Use the Online Benefit Estimator under the online account access to estimate your future monthly benefit.
- If you haven't already signed up, consider participating in a deferred compensation program or another employer-sponsored voluntary retirement plan.
- Explore "catch-up" savings options.
- Explore the option of [purchasing an annuity](#) and/or [additional service credit](#).
- Explore distribution options of your other retirement saving accounts to maximize tax benefits.
- Plan for insurance coverage during retirement (medical, life, and/or long-term care)
- Register for a DRS retirement seminar or watch a seminar video online at [www.drs.wa.gov](http://www.drs.wa.gov).

## 3 – 12 months before retirement

- Request an official estimate of your monthly benefit payment from DRS. You can do this securely through [online account access](#) or by calling DRS.
- Determine which insurance options you are going to choose and if necessary, start the process for establishing those.
- Determine what distribution plan to use for your other retirement savings.

## 30 – 90 days before retirement

- Contact DRS to make changes to your official estimate (for example, you want to change your retirement date or survivor option).
- Apply for retirement through online account access, or through the paper form.
- Review your acknowledgment letter to ensure accuracy. It summarizes the options you chose and tells you which forms still need to be turned in to DRS.
- Pay any outstanding optional service credit or annuity invoices.
- Complete and return the necessary forms to receive the \$3000 tax credit described on page 4.
- Tell your employer your intended retirement date.

## At and during retirement

- Make sure the retirement information on your benefit letter is correct. You will receive this letter once DRS calculates your monthly benefit.
- Contact DRS if you do not receive your first payment within one week of the date listed in your benefit letter.
- Ensure the deductions on your monthly benefit statement are correct.
- Contact your insurance company with questions regarding your new coverage.
- Contact DRS if you have questions about any necessary deductions.
- Keep your address and beneficiary information current with DRS.
- Enjoy your retirement!

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## Contact Information

### **Department of Retirement Systems**

(360) 664-7000 or toll-free 1-800-547-6657

Email: [recep@drs.wa.gov](mailto:recep@drs.wa.gov)

Website: [www.drs.wa.gov](http://www.drs.wa.gov)

### **LEOFF Plan 2 Retirement Board**

#### *General Policy Information*

(360) 586-2320

Email: [recep@leoff.wa.gov](mailto:recep@leoff.wa.gov)

Website: [www.leoff.wa.gov](http://www.leoff.wa.gov)

#### *Disability and Survivor Information*

Tammy Sadler

Benefits Ombudsman

(360) 790-3190

Email: [tammy.sadler@leoff.wa.gov](mailto:tammy.sadler@leoff.wa.gov)