

Bio

- Steve Hostetter – Retired from Local 2819, Central Kitsap Fire and Rescue in 2017.
- Presently a board member of the WSCFF Retiree Association
- I'm Not a Financial Advisor! We will discuss real financial advisors later in this presentation.
- This presentation is strictly my thoughts and opinions based on my experience navigating the LEOFF 2 retirement system. Info only!
- Financial Background – BA in Business Admin, Insurance Industry, personal finance enthusiast, active investor, read and listen to podcasts, taught a retirement planning class at CKFR.

We have the unique opportunity to be financially independent at a reasonably early age, but we have to do some planning, and navigate a few obstacles, to pull it off.

We have several resources that tell us how the LEOFF 2 system works and what our options are, but not many that guide us through the decision-making process.

Today I'm going to share my decision-making process and the considerations I made on my path to retirement. You can use it as a starting point if you deem it worthy.

Today's agenda

1. Discuss the **Retirement Equation**.
2. Discuss paying for **Health Care** prior to Medicare.
3. Identify **Pension Maximization** Strategies to retire better and/or earlier.
4. Discuss LEOFF 2 decision considerations regarding:
 - **Survivor Options**
 - **Purchasing Service Credits and/or the Annuity**
5. Discuss **Financial Advisors**
6. Answer any questions (if I can)

The Retirement Equation:

$$\text{Retirement Expenses} < \text{Retirement Income}$$

Sounds simple...but your expenses and your income will be dramatically reduced the day you retire.

The problem - Not knowing what those figures will be in the future when you retire.

The solution - Calculating your retirement **Expenses** and **Income** accurately and early, so you have an opportunity to make adjustments.

First step - Calculate your **Retirement Expenses**

Your pension check will be much less than your current income. But several of your expenses will simple “go away” the day you retire.

This is where we’ll start.

The expenses that will “go away” can be found on your paystub. What’s a paystub? Start this process by printing one and identifying your “go away” expenses.

Bob's pay stub

Employee



Pay Period: 01/01/2023 - 01/31/2023 Pay Date: 01/31/2023

Old W4; Single; Since 02/01/1993

Wage Summary	Current	YTD	Accruals	Beginning	Used	Earned	Adj	Ending	Cap
Earnings	10,825.49	10,825.49							
Ded & Benefits	-4,168.19	-4,168.19							
L&I Deduction - 216.67 Hrs									
Social Security									
Medicare	-149.25	-149.25							
Federal Tax = <i>X 1/2</i>	-1,155.99	-1,155.99							
State Tax									
Net Wages	5,352.06	5,352.06							
Non Wage Items									
Net Pay	5,352.06	5,352.06							
Taxable Wages:				7,128.55				Retirement Basis:	10,725.49
SS Wages:				0.00				Taxable Benefits:	
Medicare Wages:				10,293.43					

Earnings	Quantity	YTD	Rate	Current	YTD	Quantity	YTD	Rate	Current	YTD
Salary	216.67	216.67		9,743.45	9,743.45					
457 Decision Pt M				100.00	100.00					
457 Decision Pt Nf				300.00	300.00					
Longevity				682.04	682.04					

Ded & Ben	Match	Emp	Total	YTD	Dist	YTD	Match	Emp	Total	YTD	Dist	YTD
Medical BUB		121.01	121.01	121.01	1,728.40	1,728.40	PFML	45.77	45.77	45.77	16.79	16.79
Dental					116.30	116.30	LEOFF 2	914.88	914.88	914.88	568.45	568.45
HRA/VEBA					275.00	275.00	WSCFF Fast Pac	20.00	20.00	20.00		
HRA/VEBA EE		292.30	292.30	292.30			IAFF Fire PAC	62.50	62.50	62.50		
AFLAC (No TX)		118.75	118.75	118.75			IAFF 2819 UNION	166.81	166.81	166.81		
AFLAC (TX)		8.40	8.40	8.40			MEDIC ONE	15.00	15.00	15.00		
Life Insurance					2.20	2.20	KITSAP BENEVOLE	50.00	50.00	50.00		
Disability Insurance		60.24	60.24	60.24			CKFR HOUSE DUES	22.50	22.50	22.50		
EAP					1.94	1.94	IAFF 2819 Differen	10.03	10.03	10.03		

Def comp on next page # 2,250

Direct Deposit Advice
 Account Amount
 *****7311 5,352.06

Bob's Expenses that "Go Away "at Retirement

- Medicare (not listed under deductions) \$149
- Retirement contributions (LEOFF 2) \$914
- Deferred compensation \$2,250
- Disability insurance \$60
- HRA-VEBA \$292
- IAFF Fire PAC \$62
- Medic one \$15

Bob's "Go Away" Expenses cont.

- Benevolent \$50
- House Dues \$22
- AFLAC \$126
- Union Dues (possibly retired membership) \$166
- Medical insurance premiums \$121 (will be accounted for later)
- Income tax \$1,155 (will be reduced but not eliminated)

Retirement Expense Formula:

(Assuming your Current Take Home pay is meeting all your life expenses now.)

Current Take Home Pay + New Health Insurance Cost – Reduction in Taxes = **Retirement Expenses.**
(applies to apples of your current income)

Bob's Retirement Expenses

\$5,352 Bob's Current Take Home Pay from his Paystub
+\$1,220 Bob's New Health Ins. Cost (I used my current cost)
- \$778 Bob's New Tax figure (approx. ½ of what he
previously paid, I'll explain)
\$5,794 Bob's Post-Retirement Expenses

You will be paying less taxes in the higher brackets on your pension income, than you do on your current income. **Discuss your retirement tax liability with your accountant or advisor!** Use the tax table to get a more accurate estimate.

2022 tax table for a married filing jointly. Standard deduction \$25,900

Tax bracket percentage	Taxable income bracket	Taxes owed
10%	\$0 to \$20,550.	10% of taxable income.
12%	\$20,551 to \$83,550.	\$2,055 plus 12% of the amount over \$20,550.
22%	\$83,551 to \$178,150.	\$9,615 plus 22% of the amount over \$83,550.
24%	\$178,151 to \$340,100.	\$30,427 plus 24% of the amount over \$178,150.
32%	\$340,101 to \$431,900.	\$69,295 plus 32% of the amount over \$340,100.
35%	\$431,901 to \$647,850.	\$98,671 plus 35% of the amount over \$431,900.
37%	\$647,851 or more.	\$174,253.50 plus 37% of the amount over

Retirement Income Formula

Pension per LEOFF 2 formula (accounting for survivor option choice and service credit/annuity purchase) + Outside Income = **Retirement Income.**

- LEOFF2 pension formula = (FAS x years of service x 2% (plus 1/2% for years 16 through 25 per new benefit enhancement) yeah!

[Refer to the DRS website for the benefit estimator!](#)

(If you remember nothing else remember this)

Bob's Retirement Income

From the DRS website - Bob's monthly pension check is \$5,341.

His Final Average Salary (FAS) was \$10,825 and chose option #4 Survivor option. No service credits/annuity purchased or Outside Income at this time = \$5,341

[Refer to the DRS website for the benefit estimator!](#)

Bob's Retirement Equation

Are Bob's Retirement Expenses less than his Retirement Income?

Bob's Retirement Income - pension check: **\$5,341**

Bob's Retirement Expenses **- \$5,794**

-453 deficit

Bob's Retirement Income is less than his Retirement Expenses so he can't retire...but wait!

Bob pulls some levers! There are many.

- Bob has saved \$515,000 in his 457 deferred comp plan. He'll be using \$210,000 to purchase service credits that will provide another **\$915** a month in perpetuity with a COLA for himself and his survivor. This will leave him with over \$300,000 left in his 457 to grow, spend however he likes, or bequeath to his kids.
- And...Bob's has MERP as well as HRA/VEBA in his benefit package. His accumulated SL and VAC buyout will go into his already substantial HRA/VEBA account. He's calculated that he has approx. **\$900** a month to pay for health care for he and his spouse.

Bob's New Retirement Equation

Bob's new Retirement Income - pension Check: \$6,256
(with his +\$915 service credit purchase)

Bob's new Retirement Expenses: - \$4,894
(Reduced Health care cost -\$900)

+\$1,362

(Service Credit + health insurance saving)

Bob can retire...in style!

Levers to pull – filling the gap between **Retirement Income** and **Retirement Expenses**.

- Deferred Compensation (457) purchase service credits...or not!
- HRA-VEBA and MERP to reduce health care expenses.
- Stocks, Bonds, etc.
- Other Real Estate Investments
- Home options – Pay it off? Downsize?
- Illimitation of debt – credit card, student loans, big ticket items.

Gap fillers - continued

- Retirement Job/Business – Its OK to keep working - do something you like or have a passion for!
- Sick leave/Annual leave that can be cashed in or rolled into VEBA. MERP? Consider tax consequences if cash out.
- IRA's, 401k's at 59 ½
- There are many others. Be creative!

Paying for Health Care

Health Insurance expense is the number one factor keeping eligible LEOFF 2 FFs from retiring. (I think)

Ways to pay for Health Care:

- HRA VEBA – If you have this plan consider not using it now. In tax free, grows tax free, out tax free. Can be funded with Sick leave/Vac buyout if your contract allows it. Never throw away an EOB. Can be transferred upon demise.
- MERP – endorsed by IAFF. Wasn't an option for me.

- Working Spouse's plan (until they retire)
- Another job with benefits
- Retired Military/Reserves
- Negotiate a stipend until Medicare into your contract.

Health Insurance plans - I have nothing for you. If your Dept. allows you to stay on their Health Care plan as a retiree that may be your best option.

Pension/Retirement Maximum Strategies – Last 5 years

Increase your FAS by:

- Working overtime - every OT shift is worth literally thousands of dollars in retirement
- Selling back holidays
- Cash in comp time
- Promote (it's not for everyone)
- Negotiate benefits that will increase your FAS

Note: Selling back accumulated VAC or SL at retirement does not count in FAS

Pension/Retirement Maximum Strategies from day one of your career.

- Contribute to 457 (def. comp) IAFF's "15x5" Principle
- Promote (again...it's not for everyone)
- Accumulate VAC and S/L to cash out or lump into HRA-VEBA or MERP.
- Negotiate into your contract
 1. Pre-Medicare stipend for Healthcare
 2. Matching dollars for Deferred comp, HRA/VEBA, MERP

Survivor Options – A Survivor Option provides a continued benefit for a designated Survivor, if the retiree dies.

- Option 1 Single life - No Survivor option.
- Option 2 Joint and 100% Survivor - Monthly benefit is significantly reduced but if the retiree dies, the survivor continues to receive the same benefit.
- Option 3 Joint and 50% Survivor - Monthly benefit is reduced, not nearly as much as Option 2. If the retiree dies the survivor receives 50% of retirees benefit.
- Option 4 Joint and 66.67 Survivor- The inbetweener.

Some Survivor Option facts – [Refer to DRS website's LEOFF 2 info for a complete list.](#)

- Named survivor is usually a spouse but it doesn't have to be.
- Spouse has to sign a DRS form regarding your choice if married. No signed form - Option 3.
- If the Survivor dies first the benefit goes back to Option 1.

[Refer to the DRS website LEOFF 2](#) for all Survivor option details including the few instances one can change their option.

Survivor Option Cost

- The cost of a survivor option is determined by the amount of your benefit, your age, and your Survivor's age.
- Go to the **benefit estimator on the DRS website** to find out exactly how much your benefit will be affected by the various survivor option choices.

A Survivor Option Example (not Bob)

Assumptions:

- Age 54, Survivor is close to the same age
- 30 years service.
- Benefit \$6498

Survivor Option Approx. Example

Option	Initial Benefit Reduction	Member Benefit	Survivor Benefit
1 (Base)	0	\$6498	\$0
2 (100%)	(\$832) 12.9%	\$5,666	\$5,666
3 (50%)	(\$448) 6.9%	\$6,050	\$3,025
4 (66.67%)	(\$591) 9.1%	\$5,907	\$3,938

Survivor Option Considerations (my two cents)

5 Categories

1. Other sources of cash flowing income for you or your survivor.

- Does your survivor have a pension or a retirement plan? Are they eligible for Social Security? **Look on the SS website for accurate numbers.**
- Do you plan on working in retirement, and do you intend to save any of those funds?
- Do you have other sources of income like a business or rental income? How long do you intend to do that?

2. Other investments – POTENTIAL future cash flows

- How much money do you have in a retirement accounts like deferred compensation, IRA's, 401K's, etc.?
- Do you have assets you can liquidate in the future - stocks, bonds or real estate?
- Are you the beneficiary of an inheritance (careful)

3. Financial Health

- How much debt do you have? House paid off?
- Do you plan on downsizing?

4. Physical Longevity

- Your ages, Current health, Lifestyle, Heredity factors

5. What expenses will go away if pensioner passes first?

- Health Insurance, Other insurances, Cars, Food, Travel, Entertainment, All personal needs, others.

Steve's Editorial Opinion

A Survivor Option provides a level of security that other “investments” may not and you don't have to preserve as much capital in retirement.

Please don't gamble with your loved one's financial well being! Error on the side of conservative.

Life Insurance Strategy for Survivor Option

What is it?

The problems -

- The cost of insurance increases exponentially with age. Eventually it is unaffordable. This plan won't work if you live too long and don't have a plan B.
- How do you know how much LI is needed to generate the required income at a future date?
- Converting insurance proceeds to an income stream isn't simple and can be costly.
- Life insurance plans don't factor inflation. No COLA.

Purchasing Service Credit and/or the Annuity

What is it?

Purchasing service credits – Paying for more service credits (months of service) to increase your retirement benefit.

Annuity – Paying a lump sum for a consistent revenue stream. Same payout as service credits.

Is it a “good deal”? Steve’s opinion - yes

Is it right for you? It Depends.

Service Credit Pro's and Con's

Pro's

- Reasonable return on investments -WSIB actuaries currently use 7%. Not a direct 7% return on credits purchase.
- No personal or professional management required!
- Increasing your pension provides a level of security that other “investments” may not and no mental energy required!
- A Cola!– Benefit increases and compounds - inflation hedge.

Con's

- Can not change your mind.
- No lump sum later once you buy credits/annuity.
- Can not leave these funds to heirs. Income stops when you or your survivor pass away.

Service credit and Annuity Similarities and Differences

Similarities

- They pay the same. (Same bang for the buck)
- Both have a COLA. Same COLA as the retirement benefit.
- Both have a survivor option election. Must be the same as pension benefit choice.

Differences

- The Annuity doesn't have a limit to how much you can buy. The Service Credit purchase is limited to 5 years.

- The Annuity Purchase must be funded from governmental plan (457 deferred comp), but a Service Credit purchase can be funded from any source.
- If you work for a government agency post-retirement, the Annuity will continue, but the Service Credit will be suspended.

Refer to the DRS LEOFF 2 Member information on the DRS website for a complete list of details.

Use the Service credit/annuity estimator on the DRS website to see how it would increase your pension.

LEOFF Plan 2 Retirement Board Website and the WSCFF website has videos on this subject. Also, videos at www.Firefighterretire.com.

“Consult a Financial Advisor”

“Consult a Financial Advisor” – It’s easier said than done to find one that’s qualified.

Financial advisor qualifications:

- Should know and understand all aspects of LEOFF 2.
- Must take all financial considerations into account for you and your significant other including pensions, retirement accounts, Social Security (Windfall Elimination Provision), all assets, insurances, wills/trusts, contract considerations, your goals and priorities, many other considerations.

“Consult a Financial Advisor” - continued

- Must have your best interest in mind. Fiduciary?
- Know how that are paid. If they can't easily explain it that's a red flag.
- Ask other FF's that have gone through the process for a reference.

The IAFF Wealth Management Initiative

“Your IAFF- Financial Corporation announced a Wealth Management Initiative with MassMutual firms across the country to bring members financial strategies to assist in making timely decisions at each stage in life. With MassMutual offices located nationwide, we are committed to delivering the personalized attention and accessibility IAFF members and their families deserve. We believe that a financial strategy begins with education first, and is about providing you with guidance, insight, and results.”

Major Retirement Future Financial events to keep in mind when planning.

- Retirement of Spouse
- Medicare Eligibility
- Social Security eligibility for you and/or spouse
(don't forget about the Windfall Elimination Provision)
- Long term care planning

Closing Argument

What do you want your retirement to look like?

Think about what you want for this part of your life?

Spend some time contemplating it. It's a fun fantasy!

Official Retirement Planning Resources

- DRS Website - LEOFF Plan 2 information. Call DRS with questions
- LEOFF Plan 2 Retirement Board website. Call LEOFF with questions
- WSCFF Website - click to Benefits and Retirement then Life and Disability then Retirement Planning to see the videos.
- IAFF Financial Corp - Retirement Planning (this is new)
- Very Unofficial resource – www.firefighterretire.com or search same on YouTube.

Steve Hostetter

Contacts:

Email - shostetter@wavecable.com

Cell 360 731-4953

www.firefighterretire.com - website or YouTube for video's