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Income Leveling Options

INITIAL CONSIDERATION
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ISSUE STATEMENT

The Board is continually looking for ways to add benefits to the members at little to no cost to the plan. Income Leveling options are designed to provide members who retire between ages 53 and 67 with a consistent total income before and after receiving either Medicare or Social Security benefits.

OVERVIEW

There are two options the Board could decide to move forward with:

1. The Social Security leveling option is available for members who retire before Social Security Full Retirement Age (SSFRA). It provides an increased allowance before SSFRA and a reduced allowance after SSFRA. It is payable to a member for their lifetime only. SSFRA is age 65 for those people born before 1938. For those born later, SSFRA is between ages 65 and 67. Any member who is paying into Social Security, 58.5% of law enforcement officers and 6.5%[1] of fire fighters, would be impacted by implementing this option.

2. The Medicare Leveling option is an irrevocable election made at retirement to temporarily increase the amount of the monthly retirement benefit from LEOFF 2 if a member is under the age of 65. This increase is intended to help pay health insurance premiums until reaching the eligibility age for Medicare. However, there will be a permanent decrease in a member's monthly benefit amount to repay this pre-Medicare increase. In some cases, the permanent decrease in the benefit amount will be greater than the temporary initial increase. In essence, members are taking a loan against future benefits to fund this temporary increase and will pay it back in the form of a permanent decrease in benefits upon reaching Medicare eligibility. All members would be impacted by implementing this option.

BACKGROUND & POLICY ISSUES

[1]http://leoff.wa.gov/boardmtgs/2005/BrdMtg_09.28.05/092805.9_LEOFF%20Plan%202%20Employer%20Benefit%20Survey%20Results.pdf

Social Security Leveling

Benefit payments are calculated using a Social Security estimate, which a member would normally receive at full retirement age. Members will need to provide a Personal Earnings & Benefit Estimate Statement (PEBES) from the SSA based on the date that they will be terminating LEOFF 2 employment. When a quote is requested, they would specify the date they plan to retire from their LEOFF 2 job. Then, they would ask for an estimate for full retirement (between ages 65 and 67). It's important to specify that this estimate includes "zero future earnings" for after LEOFF 2 employment is stopped.

If "no future earnings" is not specified, Social Security will assume that members are continuing to work to full retirement age and the quote will reflect that assumption. (The annual statement received from SSA cannot be used to calculate a benefit.) The amount LEOFF 2 will pay as an "acceleration" is based on the member's age and the number of years they're away from the SSFRA. It is important to know once the LEOFF 2 accelerated amount is determined from a Social Security estimate, it will not change (except for cost-of-living adjustments) even if the Social Security benefit turns out to be different from the member's original estimate.

If they retire from active service before eligible to collect Social Security benefits, at age 65, and is eligible to receive benefits from the Pension Plan, they would be able to elect the Social Security Leveling Option at the time of retirement. With this option, the monthly pension benefit payment is temporarily increased by the amount estimated the Social Security benefit will be when they hit their SSFRA. Starting the second month after reaching the SSFRA, the pension benefit is permanently decreased by the amount of this previously estimated Social Security benefit.

There is no actuarial difference in the total amount the member would receive if they choose this option, or if it's elected to receive the pension before the SSFRA without "leveling." However, this option may provide members with the flexibility and financial resources to retire earlier than they might be able to otherwise.

A modification of this option in Idaho allows for a retiree to set a 50% or 100% survivor benefit, which would continue the stream of payments throughout the designated survivors' lifetime.

Medicare Leveling

The member's regular retirement benefit will be calculated based on the retirement option that is selected: 0% survivor benefit, 50% survivor benefit, or 100% survivor benefit. If the Medicare leveling option is selected, the pre-Medicare increase will be added to the regular retirement benefit. Beginning in the month following their 65th birthday, their benefit will be permanently reduced to an amount less than the original retirement benefit to begin repaying the pre-Medicare increase.

The total benefits payable to the member over a lifetime will remain essentially the same, on average, and the calculation of the benefit must be actuarially equivalent to what they would receive had they elected a normal pension with no leveling. The option must be chosen at retirement, and such election is irrevocable.

The Medicare Leveling option expires upon the death of the member. Their election of the option will not affect the amount of benefits payable to the joint annuitant under the survivor option selected at retirement. A surviving spouse or joint annuitant's benefit will be based on the member's regular retirement benefit, including all cost of living adjustments after their retirement date. He or she will receive the amount as if the Medicare Leveling option had not been selected.

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Income Leveling Options

Initial Consideration
June 24, 2015

Issue

- **The Board is continually looking for ways to add benefits to the members at little to no cost to the plan**
- **Income Leveling options are designed to provide members who retire between ages 53 and 67 with a consistent total income before and after receiving Medicare or Social Security benefits**

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Overview

There are two options to consider:

- Social Security Leveling
- Medicare Leveling

Overview

Social Security Leveling

- Designed to provide members who retire between ages 53 and 67 with a consistent total income throughout their lives
- Provides an increased allowance from trust fund before SSFRA, and a reduced allowance after SSFRA
- Any member who is paying into Social Security, 58.5% of law enforcement officers and 6.5% of fire fighters, would be impacted by implementing this option

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Overview

Medicare Leveling

- This increase is intended to help pay health insurance premiums until you become eligible for Medicare
- However, there will be a permanent decrease in your monthly benefit amount to repay this pre-Medicare increase

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Background

Actual Equivalence

- There is no actuarial difference in the total amount received with or without either leveling option
- May provide you with the flexibility and financial resources to retire earlier than you might be able to otherwise

Example

Basic calculation with leveling option

- $2000 per month pension benefit at 53
- $1000 per month Social Security/Medicare benefit

Age	Pension	Social Security /Medicare	Total $
53	$2500	$0	$2500
65	$1500	$1000	$2500

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How Does it Work?

Social Security

- Benefit payments are calculated using your Social Security estimate, normally received at full retirement age
- The amount the LEOFF trust pays as an "acceleration" is based on your age and the number of years you are away from your SSFRA (Social Security Full Retirement Age)

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How Does it Work?

Medicare

- Your regular retirement benefit will be calculated based on the survivor option you select: 0%, 50%, or 100%
- The pre-Medicare increase will be added to your regular retirement benefit
- Beginning in the month following your 65th birthday, your benefit will be permanently reduced to an amount less than your original retirement benefit to begin repaying the pre-Medicare increase

Survivor Options

Social Security

- 50%, more money to the retiree
- 100%, more money to the survivor
- Payments guaranteed throughout the designated survivors' lifetime

Survivor Options

Medicare

- Expires upon the death of the member
- The surviving spouse or joint annuitant’s benefit will be based on your regular retirement benefit, including all cost of living adjustments after your retirement date
- He or she will receive the amount as if you had not made this election

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Advantages

More money up front

- Either leveling option can allow you to retire earlier if your standard benefit isn't enough to live on

Simplicity

- Can also greatly simplify retirement financial planning, as your income will remain consistent throughout retirement

Disadvantages

Post-retirement employment

- The impact of post-retirement employment, even part-time, has a drastic effect on Social Security
- If the retiree continues to work in retirement, they will lose $1 for every $2 they earn above about $14,000 a year

Benefit drop after reaching eligibility age

- Your pension benefit will drop after reaching eligibility age
- Often, retirees forget the reduction will occur and are unprepared when it happens

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Next Steps

1. Direct staff to continue to research and report on this issue
2. Defer to another interim
3. Dismiss the issue for now

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Questions?

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