LEOFF
Plan 2 Retirement Board

Social Security Bridge Option

Initial Consideration
November 19, 2014

Issue

The Social Security Bridge Option would allow retirees to take an increased retirement benefit from the LEOFF 2 Trust fund until the member reaches the Social Security Full Retirement Age (SSFRA).

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Overview

Bridge Option Basics

- 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 bridge option

Background

Actual Equivalence

- There is no actuarial difference in the total amount you receive with or without this Bridge Option
- May provide you with the flexibility and financial resources to retire earlier than you might be able to otherwise

Example

Basic Calculation with Bridge Option

- $2000 per month pension benefit at 53
- $1000 per month Social Security benefit at 62

Age	Pension	Social Security	Total $
53	$2500	$0	$2500
62	$1500	$1000	$2500

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How Does it Work?

- **Benefit payments for this option are calculated using your Social Security estimate, which you would normally receive at full retirement age**
- **The amount the LEOFF trust will pay 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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Survivor Options

Most plans nationwide allow for a retiree to set a survivor benefit

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

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Advantages

More Money Up Front

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

Simplicity

- The bridging option can also greatly simplify retirement financial planning, as your income will remain consistent

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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 SSFRA

- Your benefit will drop after SSFRA — often significantly — even to zero
- Often, retirees forget the reduction will occur and are unprepared when it happens

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Questions?

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November 19, 2014

Social Security Bridge Option

INITIAL CONSIDERATION

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ISSUE STATEMENT

The Social Security Bridge Option (Bridge) would allow retirees to take an increased retirement benefit from the LEOFF 2 Trust fund until the member reaches the Social Security Full Retirement Age (SSFRA).

OVERVIEW

The Board is continually looking for ways to add benefits to the members at little to no cost to the plan. The Bridge, sometimes referred to as Leveling, is designed to provide members who retire between ages 53 and 67 with a consistent total income before and after receiving Social Security benefits.

It provides an increased allowance before SSFRA and a reduced allowance after SSFRA. It is payable to you for your 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 bridge option.

BACKGROUND & POLICY ISSUES

With this option, your monthly pension benefit payment is temporarily increased by the amount your estimated Social Security benefit will be when you hit your SSFRA. Starting the second month after your SSFRA, your pension benefit is permanently decreased by the amount of this previously estimated Social Security benefit.

There is no actuarial difference in the total amount you receive if you choose this option or if you elect to receive your pension before the SSFRA without "leveling." However, this option may provide you with the flexibility and financial resources to retire earlier than you might be able to otherwise.

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

Example

Say you are planning for your retirement, and your initial pension payment would be $2,000 per month starting at age 53. In a few of years when you turn 62, the earliest age to collect Social Security benefits, you will start receiving $1,000 per month from Social Security for a total retirement income of $3,000 at that time. If you take a Bridge option, your initial pension amount would be increased to $2,500 and then reduced to $1,500 when you can start to receive the $1,000 from Social Security. The level up keeps your retirement income at a steady $2,500 per month instead of starting your retirement earning $2,000 and then jumping to $3,000 per month when you start to receive Social Security.

Age	Pension	Social Security	Total $
53	$2500	$0	$2500
62	$1500	$1000	$2500

Calculating Your Benefit

Benefit payments for this option are calculated using your Social Security estimate, which you would normally receive at full retirement age. To calculate this option, you would need to provide a Personal Earnings & Benefit Estimate Statement (PEBES) from the SSA based on the date you will be terminating your LEOFF 2 employment.

When you request a quote, provide the date you plan to retire from your LEOFF 2 job and ask for an estimate for full retirement (between ages 62 and 67). Make sure the estimate includes “zero future earnings” for after you stop your LEOFF 2 employment. If you fail to specify “no future earnings,” Social Security will assume you are continuing to work to full retirement age and your quote will reflect that assumption. (The annual statement you receive from SSA cannot be used to calculate a benefit.)

The amount the LEOFF trust will pay as an “acceleration” is based on your age and the number of years you are away from your SSFRA. It is important to know once the LEOFF 2 accelerated amount is determined from your Social Security estimate, it will not change (except for cost-of-living adjustments) even if your Social Security benefit turns out to be different from your estimate.

Survivor Options

A modification of this option in many plans nationwide allows for a retiree to set a 50% or 100% survivor benefit, which would continue the stream of payments throughout the designated survivors' lifetime. If your survivor were to die before you, your benefit would be bumped up to reflect the loss of a survivor option on your pension.

Advantages

The Bridge can allow you to retire earlier by providing higher initial payments from the end of your working life until you can begin drawing Social Security. It also greatly simplifies your retirement financial planning, as your income will remain consistent.

Disadvantages

First, 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.

Second, at your SSFRA, your benefit will drop—often significantly – possible to zero. Often, retirees forget the reduction will occur and are unprepared when it happens.

SUPPORTING INFORMATION

Appendix A: Medicare Gap Option Oklahoma

APPENDIX A
Medicare Gap Option in Oklahoma

The 2004 Oklahoma Legislature passed a bill that would allow for this type of bridge option to be tied to Medicare rather than Social Security.

This option allows those who retire before becoming Medicare eligible to receive a higher benefit to cover the cost of health insurance until that person becomes Medicare eligible. The year after that person becomes Medicare eligible, his or her retirement benefit will be reduced. 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 neutral.

The option must be chosen prior to retirement, and if a member chooses this option, such election is irrevocable.