LEOFF Plan 2
Retirement Know-how

LEOFF Plan 2 Retirement Board

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.

The following information should not be viewed as financial advice or that of a professional planner. A certified financial planner or legal counsel should be consulted.

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Retirement Planning

Retirement may seem like a long way off, or it might be 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?
- Have you involved your spouse or family in your retirement planning?
- Stay appraised of Social Security, Medicare, and tax changes.

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 at drs.wa.gov. You also have the option of watching a retirement planning seminar online.

LEOFF Plan 2 Basics

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.

Monthly Pension

Your base monthly benefit will be based on your years of service, using the following calculation:
2% x service credit years x Final Average Salary = monthly benefit

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

Benefit Enhancement

In addition to your base monthly benefit, an enhancement was added beginning 2021. Your enhancement choices are dependent upon your date of hire and are as follows:

For members active or inactive in LEOFF membership on or before Feb. 1, 2021

If you earned 15 years *or less* of service credit, and are eligible for retirement, you will receive a 2% multiplier with a one-time $100 per service credit lump-sum benefit. If you earned *over* 15 years of service credit, you are eligible to make an irrevocable choice between the 2% multiplier with a one-time $100 per service credit lump-sum benefit or the tiered multiplier at the time you retire.

For members who started in LEOFF membership after Feb. 1, 2021

You will receive a tiered multiplier benefit at retirement.

Tiered multiplier retirement allowance

LEOFF Plan 2 members who will receive a tiered multiplier at retirement, will have a 2% multiplier applied to their entire years of service and an additional .5% multiplier applied at 15 years and one month through 25 service credit years.

The formula is 2% x Final Average Salary (FAS) x Service Credit Years = Base Monthly Benefit plus, .5% x Final Average Salary (FAS) x Multiplier Service Credit Years = Multiplier Monthly Benefit.

For survivor option calculations, we recommend using the benefit estimator found online with DRS under your personal member access login.

Beneficiaries vs. Survivors

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

Beneficiaries receive a lump-sum payment. Beneficiaries receive a single one-time payment of any remaining contributions you made to your account. You can name as many beneficiaries as you want. If you're retired, the beneficiary will only receive money if your original account balance has not been exhausted from pension payments AND if you have no survivor (or your survivor also dies). This typically takes about 5 years after retirement.

Survivors receive a monthly lifetime payment. When you retire, you will have the option to choose a survivor. Selecting a survivor is optional and will reduce your monthly payments. You can only name one survivor, and, in most cases, your selection is permanent after 90 days, but there are certain circumstances that change eligibility. Visit the DRS website for more information.

Survivor 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 on the DRS website. 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.

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 x 0.865 = $1,730 per mo. (survivor gets $1,730)

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 x 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 x 0.905 = $1,810 per mo. (survivor gets $1,207)

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, DRS will provide you with a 1099-R form to use in preparing your tax return.

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.

Cost-of-Living Adjustments (COLAs)
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 change in the Consumer Price Index.

Federal Benefit Limits for High Income Members
If you are a highly paid member or retiree, you may encounter a federal limit on your retirement benefit. There are two federal regulations that could limit benefits for highly paid members and retirees. The salary limit (which restricts the salary used to determine your benefit) and the benefit limit (which limits the annual benefit amount you can receive). In other words, federal law limits the amount of compensation you can pay retirement system contributions on, and that can be used in your benefit calculations. The IRS can adjust the amount each year.

Salary Limits
The federal government has established salary limits. This means any salary you earn over the designated amount for any given year will not be part of your retirement contributions or your pension calculation. More information can be found on the DRS or the IRS websites.

Divorce or Legal Separation
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. As long as the order complies with applicable laws, DRS will distribute funds according to the division.

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. However, you might be able to work limited hours with no impact to your benefit.

Retirement Considerations

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 approximately 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.

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.

Deferred Compensation (aka: 401(a); MEBT; 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.

Insurance Premium Tax Benefit

Retired public safety officers may be able to reduce their taxable income by excluding up to $3,000 from their taxes each year for health, dental, vision, and long-term care insurance premium payments.

As of January 1, 2023, you can self-certify your eligibility for the program on your taxes. You no longer need to apply for this program through DRS and have your insurers approve your eligibility. Information and instructions on how to complete your tax forms for this are in the IRS Instructions for Form 1040.

Note: this is a federal income tax deduction program. Speak with your attorney or tax advisor or contact the IRS with questions. Learn more about eligibility from Title 26 USC 402(l), 26 USC 72(t)(10), and 26 USC 7702B(b).

Post-retirement Medical 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 1-800-200-1004 or visit 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.

Voluntary Employees Beneficiary Association Plans (VEBAs)

A tax-free post-retirement medical expense account is 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.

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.

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 primary users) who can't take care of themselves due to a prolonged disability, illness or cognitive impairment such as Alzheimer's disease.

Open Market Medical

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

Washington Health Plan Finder

Find and compare plans, apply for coverage, and get help along the way. All plans offered through the 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. healthplanfinder.org

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. More information can be found at insurance.wa.gov/shiba

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 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.

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). 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 employers, 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.

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. Visit ssa.gov or call 1-800-772-1213 for more information.

Retirement Application Process

Service Retirements

If you leave your employer, but you are not yet collecting a pension, you are considered separated, not retired. You are retired from LEOFF 2 when you separate from employment and begin collecting your pension.

When you are ready to retire, it is recommended that you start the application process by requesting an official benefit estimate from DRS at least 3 months prior to your separation date and return a completed retirement application at least 5 weeks from the date you intend to retire. Both of these can be done through your DRS online account. Retirement dates are always the first of the month following your separation date. For example, if you separate from employment on January 15, your retirement date is February 1.

You can apply online through your DRS online account access or request a paper application. Follow the step-by-step instructions. If you apply online, DRS requires you to receive an estimate prior to finalizing your application, so you will need to stay tuned for that in the middle of the process. Once received, you will be allowed to complete and submit the application. Changes will be saved each time you log in, so you can keep adding information to your application until it is complete.

Disability Retirements

If you are injured or have an illness that prevents you from working, either in your LEOFF 2 position or in any capacity, you may apply for a disability retirement. Options are dependent upon your individual circumstances. If the injury or illness is work-related, it is highly recommended that you establish a claim with Labor and Industries or your employer (if self-insured) prior to separating from employment.

These processes can be highly complex. It is also recommended that you reach out to the LEOFF 2 Ombudsman Office for information, resources, and options to help navigate the systems involved.

Ombudsman Program (Disability and Survivor Assistance)

Tammy Sadler, Lead Benefits Ombudsman
(360) 586-2324
tammy.sadler@leoff.wa.gov

Jessica Burkhart, Benefits Ombudsman
(360) 586-2322
jessica.burkhart@leoff.wa.gov

Contact Information

LEOFF 2 Board (General Policy Information)

(360) 586-2320 or recep@leoff.wa.gov
leoff.wa.gov

Department of Retirement Systems

1-800-547-6657 or recep@drs.wa.gov
drs.wa.gov

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.

- ❑ Establish a relationship with a financial planner and/or tax consultant
- ❑ 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 at ssa.gov
- ❑ 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.

- ❑ Establish a relationship with a certified estate planner or attorney
- ❑ 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 additional documents you may need in the event that you become incompetent.
    - Durable Power of Attorney for Financial Purposes
    - Durable Power of Attorney for Healthcare
    - Washington Health Care Directive (Living Will)
    - Other
- ❑ Review your documents regularly to keep them 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

Suggested Timelines

1- 5 years before retirement

- ❑ Review the LEOFF Plan 2 Handbook online.
- ❑ 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 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 into DRS.
- ❑ Pay any outstanding optional service credit or annuity invoices.
- ❑ Tell your employer your intended retirement date.

At and during retirement

- ❑ Make sure the retirement information in 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!

Notes