



# Early Retirement Talking Points

## NAD Adventist Retirement Plans

### Introduction

Given the current shutdown of offices, schools and churches, some employees and employers may be considering early retirement as opposed to involuntary leave of absence or termination. Early retirement carries a series of policy implications to be carefully considered.

### Pre-2000 Defined Benefit Retirement Plan

The DB plan was a pension plan initiated in 1911, and frozen on 12/31/1999. Benefits are based on years of pre-2000 employment.

Eligibility: In order to qualify for benefits from the DB Plan, an employee must have at least ten full-time equivalent years of qualifying service credit,<sup>1</sup> which can include post-1999 years up until 12/31/2014<sup>2</sup>, and must be at least age 59 ½. Normal retirement is a sliding scale for those born pre-1955 to 1960.<sup>3</sup>

Retirement prior to the normal retirement age will result in a Retirement Benefits Reduction<sup>4</sup> amounting to a .5% reduction for each month the employee is short of either the normal Retirement Age or forty years of qualifying service credit, whichever calculation grants the greatest benefits.

### Post-1999 Defined Contribution Retirement Plan

The DC plan took the place of the DB plan on 1/1/2000 and is a retirement savings account. Both employer and employee contribute. At retirement the beneficiary has access to the fund balance with which to generate retirement income.

Eligibility: In order to qualify to begin making withdrawals from the DC Plan, an employee must be at least age 59 ½. A terminated employee may begin to make withdrawals after 45 days from termination.<sup>5</sup> There is no vesting requirement and no policy reduction for early retirement.

Withdrawals can be taken in several ways:

1. Structured Withdrawal: by giving instructions to Empower Retirement for monthly withdrawals. There is no life-time guarantee.
2. Commercial Annuity Purchase: There are many types of annuities. The most common requires a single premium and immediately begins to pay monthly benefits for life regardless of the life of the beneficiary. The benefit is calculated considering the age of the beneficiaries. Pre-65 purchase will usually result in an actuarially reduced benefit.
3. Secure Foundations: This is an annuity product called a Guaranteed Lifetime Withdrawal Benefit. It is within the Adventist Retirement Plan investment options and is offered by Great West. Again, Retirement prior to age 65 will result in an actuarially reduced monthly benefit.

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<sup>1</sup> NAD Working Policy Z 20 05

<sup>2</sup> NAD Working Policy Z 20 05 1a

<sup>3</sup> NAD Working Policy Z 20 05 2

<sup>4</sup> NAD Working Policy Z 35 05-1

<sup>5</sup> The Adventist Retirement Plan 9.01

Early retirement will also result in less contributions than otherwise expected, and less time for markets to grow the fund balances. The method of distribution of the funds, whether one is willing to pay for a lifetime guarantee or not, can also impact the withdrawal rate.

### One-Time Lump Sum Retirement Allowance

The RA is a legacy benefit which was designed to provide up to five months of salary in a lump sum payout at retirement. By policy the amount is divided into two parts: that which was earned pre-2000 and that which was earned after 1999.

Eligibility: In order to qualify for the lump sum RA, the beneficiary would go directly from at least half-time denominational employment into retirement, receiving benefits from retirement plans operated by the church.<sup>6</sup>

Early Retirement will result in a smaller RA. The calculation of the RA is based on total years of qualifying service credit in both the DB and DC plans and the monthly wages (including COLA but not benefits or reimbursements). Retirement with 35 years of qualifying service credit would provide an RA higher than retirement with only 32 years.

### Retirement Healthcare – Supplemental Healthcare Adventist Retirement Plan

SHARP is the umbrella plan which assists retirees with healthcare supplements. SHARP includes an annual contribution to a Health Reimbursement Arrangement account which can be used to pay for various options. SHARP assumes eligibility for Medicare by all 65+ retirees. SHARP has no solution for individuals who will not be eligible for Medicare at age 65. The provisions of SHARP include:

1. Dental/Vision/Hearing assistance offered by the plan through Adventist Risk Management
2. Pre-Medicare assistance for those not yet age 65 through ARM
3. Non-Medicare assistance for qualifying children of retirees through ARM
4. Medicare Part D for prescription drugs
5. Medicare Supplements such as Medigap or Medicare Advantage plans

Eligibility: In order to qualify for participation in SHARP, an employee must have at least fifteen years of qualifying service credit by June 30, 2020. The benefit becomes more generous for each five-year band over fifteen years up to thirty-five years.<sup>7</sup>

The table shows the amount of annual contributions to be made for a qualifying retiree and for a joint & survivor spouse.

Years of Qualified Church Service Credit	Total Annual Contribution per Member	DVH Annual Contribution Per Member	Remaining HRA Annual Contribution per Member
35+	\$2,400	\$780	\$1,620
30-34	\$2,160	\$696	\$1,464
25-29	\$1,920	\$612	\$1,308
20-24	\$1,680	\$528	\$1,152
15-19	\$1,440	\$444	\$ 996

Early retirement may impact the retiree’s healthcare plan in serious ways:

1. The Retiree may fail to reach the next five-year band. A retiree with 34 years will receive \$240 per year less than 35 years for life for both the retiree and the spouse.

<sup>6</sup> A policy exception allows an officer of an employer to request the retirement plan to allow a deferral of the RA for up to 36 months of termination. If approved by the plan, if retirement benefits begin prior to 36 months from termination, the RA would be granted. If benefits begin after 36 months, the RA would be forfeited.

<sup>7</sup> See Y 46 18 3 for phasing out of SHARP for employees with no pre-2000 qualifying service credit.

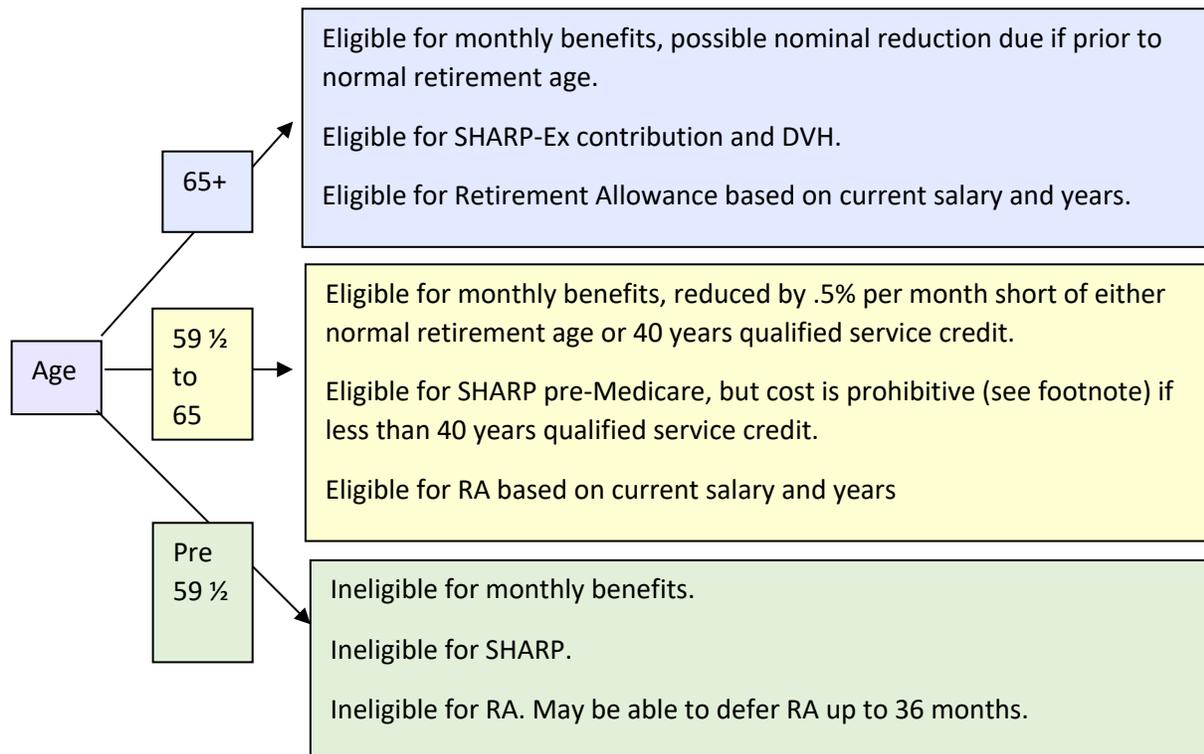
2. A retirement prior to age 65 is particularly damaging because the retiree is not eligible for Medicare and thus cannot participate in the contributions described in the table above. Such a retiree can join the pre-Medicare plan, and if he/she has at least forty years of qualifying service credit, will receive significant assistance towards the monthly cost of the pre-Medicare plan. However, if that magic number is not reached, the cost of the pre-Medicare plan becomes onerous to the retiree.<sup>8</sup> This is the most devastating part of retirement prior to age 65.

### Early Retirement Implications and Examples

Early retirement, whether voluntary or involuntary creates significant financial challenges for many retirees. This is most damaging if the church employee is less than age sixty-five with less than forty years of service credit. While the retiree may join SHARP’s Pre-Medicare plan, there will be no financial assistance. The retiree will pay the full cost of the plan, as described in the footnote below until the retiree reaches age 65 and becomes age eligible for Medicare. At that point the Retiree would become eligible for Medicare and a contribution to the Healthcare Reimbursement Arrangement (HRA) account, and the spouse would become eligible for assistance under the pre-Medicare account for an HRA contribution.

### Decision Tree for Early Retirement

Here is a simple decision tree to assist a retiree on retirement decisions.



<sup>8</sup> Pre-Medicare Medical option is \$490/mo/person for 2020. The Rx option is \$140/mo/person. The DVH option is \$95/mo/person. Total monthly costs to the early retiree with less than forty qualifying years would thus be \$725/person.

## Sample Retirement by Age

	Planned	Early	Early	Late
Retiree Age	66.5	64	65	68
Spouse Age	63	61	62	65
Monthly Wage	\$ 5,400.00	\$ 5,400.00	\$ 5,400.00	\$ 5,400.00
DB Plan Years	20	20	20	20
DC Plan Years	20	18	19	22
NAD Pension Factor, 2020	\$ 2,625.00	\$ 2,625.00	\$ 2,625.00	\$ 2,625.00
Benefit Rate Factor	1.30%	1.30%	1.30%	1.30%
Normal Retirement Age	66/6 mo's	66/6 mo's	66/6 mo's	66/6 mo's
ARP Balance	\$200,000	\$170,000.00	\$186,000.00	\$230,000.00
ARP Withdrawal Rate	4.00%	4.00%	4.00%	4.50%
Single Life Benefit	\$ 682.50	\$ 682.50	\$ 682.50	\$ 682.50
Joint & Survivor Benefit	\$ 614.25	\$ 614.25	\$ 614.25	\$ 614.25
Early Retirement Reduction %	0%	12%	9%	0%
Early Retirement Reduction	\$0.00	\$73.71	\$ 55.28	\$ -
Net Benefit	\$614.25	\$540.54	\$558.97	\$614.25
SHARP Monthly Contribution				
Retiree Pre-Medicare	\$0	\$725	\$0.00	\$0
Retiree DVH	\$95	\$0	\$95	\$95
Spouse Pre-Medicare	\$725	\$725	\$725	
Spouse DVH				\$95
Total SHARP Contribution	\$820	\$1,450	\$820	\$190
Less Earned Credit	\$705	\$0	\$705	\$130
Net SHARP Contribution	\$115	\$1,450	\$115	\$60
Net Monthly Pension <sup>9</sup>	\$499.25	(\$909.46)	\$443.97	\$554.25
ARP Monthly Withdrawal	\$666.67	\$566.67	\$620.00	\$862.50
Monthly SS	\$1,803.00	\$1,544.00	\$1,692.00	\$1,881.00
Total Monthly Benefit	\$2,968.92	\$1,201.21	\$2,755.97	\$3,297.75
Onetime RA	\$ 27,000.00	\$ 25,650.00	\$ 26,325.00	\$ 28,350.00
Annual HRA Contribution	\$1,620	\$0	\$1,620	\$3,240

*Examples are estimates only and make some assumptions.*

<sup>9</sup> If negative, SHARP monthly contributions would be paid by retiree.

### **Suggested Procedure if approached by Employee considering Early Retirement**

1. Prepare an estimate of retirement benefits for the employee, using the tools provided by the NAD Retirement Office. Employee should provide healthcare intentions and date of retirement.
2. Review implications of healthcare if employee will be less than age 65 with less than 40 years of qualifying service credit. This is the greatest hurdle to early retirement.
3. If employee wishes to proceed, begin the process of application. The Retirement Office will expedite the healthcare provision selected but will not put an immediate retiree to the head of the queue, however the benefits, when started, will backdate to the effective date.
4. In some cases, employers going through a Reduction in Force have agreed to reimburse early retirees for the Pre-Medicare contributions to bridge the Retiree to age 65. This can be rather expensive, but it is an option.