

Thinking About Retiring?

A Pre-Retirement Syllabus For the Adventist Employee

The purpose of this booklet is to provide an orientation to the application process, required decisions and calculations for an employee of the Seventh-day Adventist Church who is approaching Retirement.

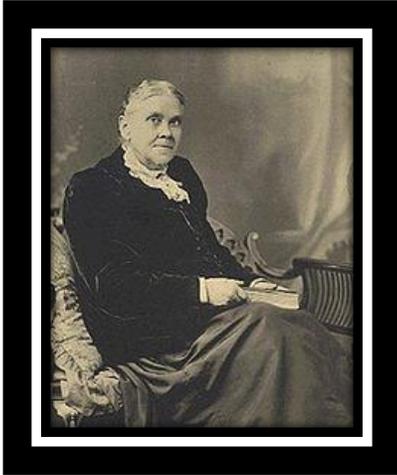
Every effort has been made to ensure that this booklet is an accurate summary of the policies governing the North American Division's various retirement provisions. Examples shown in this booklet make assumptions which may or may not apply in every situation. No example should be construed as a promise to provide specific benefits in every situation. The pre-retiree may wish to contact his current or last employer's human resources office and seek an estimate of monthly benefits.

2015

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Introduction to Retirement Issues



In 1910, with the urging of Ellen White and under the leadership of General Conference President, A G Daniels, the Seventh-day Adventist Church voted to begin a "Workers' Fund" designed to provide "sustentation" for an employee who, because of health problems was no longer able to earn a living, or for the widow and orphans of a worker who died in service. Initially this plan was not age or formula based. It required proof of disability, and benefits were granted at the discretion of a 'sustentation committee.'

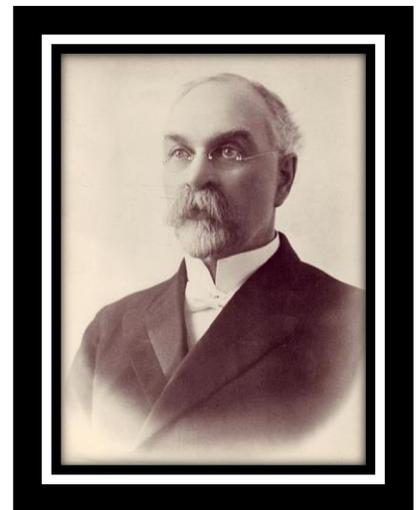
Ultimately the plan evolved into a tax-deferred earned benefit, determined by the Internal Revenue Service to be a 403(b) pension plan. As such, it is required to have a plan document

clearly stating the benefits and eligibility requirements without benefits discretion granted to Plan administration.

From the beginning, the pension plan was designed on a 'pay-as-you-go' basis. In order to avoid tying up significant church dollars, the plan pioneers determined to only fund estimated expenses as they came due, with a small cushion for year to year variances.

In 1981, the hospital portion of the plan was separated from the church plan, and due to vigorous contributions and excellent investment returns, by 1997 the hospital pension and healthcare plans were determined by independent actuaries to be fully funded.

In 1998, the North American Division took action to 'freeze' the unfunded pension plan in place effective on 12/31/1999, and to replace it with a defined contribution tax deferred retirement savings account. Service earned pre-freeze would be held until retirement, but post 1999 service would, with limited exceptions, be provided under the new plan. The current Adventist retiree usually retires with parts of two plans, including a pension from the pre-freeze career and a lump sum from the post-freeze career.



Various bridges were designed to provide smooth transition between two very different retirement models, and these are described in this book.

At various times the church has taken action to split out various portions of the plan due to convenience, expediency or legal requirements. These include:

- Retirement plans for employees of Adventist hospitals: Hospitals froze their pension plan effective 1/1/1992. Service in Adventist hospitals after that date are not a part of the church's pension plan. Service prior to that date generates a pension

operated by the church but funded by the hospitals. Individuals with mixed pension service will receive one payment, but calculations will be made according to specific years of service.

- Retirement plans for employees of the church in Canada and Bermuda: In 1993 the church took action to initiate a separate retirement plan in Canada, and in 2000 in Bermuda.
- Retirement plans for employees of Regional Conferences: In 2002 The church took action authorizing initiation of a separate pension plan for Regional Conferences.

This booklet does not deal with benefits or service credit earned in Canada, in Adventist hospitals after 1992, in Bermuda after 1999 or in a Regional Conference if employed by a Regional Conference on 12/31/1999. Information for such service can be obtained from the employers under which such service was earned. Although some of these plans enjoy reciprocal vesting accrual, actual benefits will be determined by the terms of the specific plan document.

It is my earnest desire that, upon completion of reading this book, and the seminar it is intended to accompany, you will have a good understanding of the financial and healthcare challenges and solutions for a meaningful and satisfying retirement. As I look back on thirty-eight years of denominational service, I can't help but think of a quote from Ellen White which my Academy Bible Teacher had us memorize:

“God never leads His children otherwise than they would choose to be led, if they could see the end from the beginning, and discern the glory of the purpose which they are fulfilling as co-workers with Him.” {DA 224.5}

I pray that God's abundant blessings will accompany you, and reward you for your faithful service to Him.

Regards,



Del L Johnson
Retirement Plans Administrator



The Financial Plan

We don't do retirement simply in this country or in this church. Retirement planning usually requires considering at least three sources of income, including:

- Social Security
- Frozen DB Pension
- ARP DC Accumulation



For most of reading this, much in life is set in concrete. We can't change our date of birth, or whether or not we have opted out of Social Security, or how many years we worked or what our pay levels were, or how much we saved. Most of us are limited to decisions such as:

- Determining a savings goal.
- Determining a retirement date.
- Determining a retirement location.

The Retirement Assets Curve shows the theoretical growth of a Retirement asset value during the working years, and the possible decline of the asset as the retiree may begin to 'invade the principal' in later years. The ability of the personal retirement plan to generate continuous income will depend on

retirement asset level, length of life, investment performance and speed of withdrawal. The graph shows a modest decline by age 90. A more precipitous drop in value may result in fund depletion before death.



from asset depletion. Again, the quicker the red-ink begins to flow, the quicker the asset is depleted.

How Much Retirement Income Do I Need?

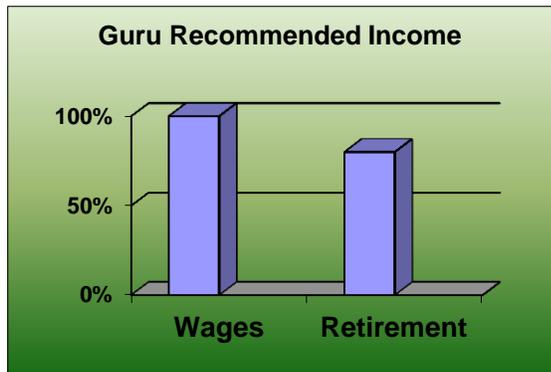
Retirement income needs depend on a number of items, not all of which you can predict.

- Where are you going to live?
 - High or Low Cost of Housing
 - High or Low Cost of Living

The "Career & Retirement Income" graph displays the growth of career annual income, and the make-up of retirement income, including Social Security, plan benefits or earnings, and ultimately income



- How Long do you plan to Live? We have retirees who don't see 70, and we've had retirees live as long as 108.



- Are you planning on working?
 - Over 80% of baby boomers say they plan to work part time in retirement.
 - Only around 30% actually find regular employment.
- How Expensive are your Retirement Activities?
 - Expenses for hobbies and other retirement activities can vary greatly. Daily golf and frequent cruises will significantly raise the expense of retirement. Gardening is cool.

- Are You Planning For Early Retirement?
 - Reduced Social Security and pension income due to early retirement penalties, coupled with longer income demands on your retirement savings could result in a reduction of your standard of living.

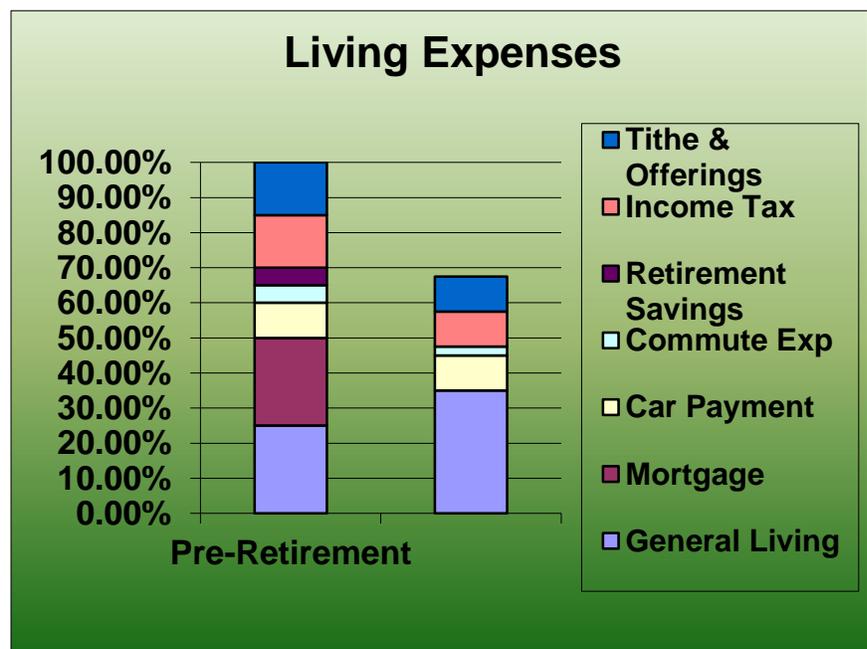
The 70% Rule

While every situation is unique, and generalities should be treated with skepticism, much of the literature suggests that you should have 70%-80% of your pre-retirement employment income in retirement in order to maintain the standard of living to which you have become accustomed. For the Adventist employee this would generally be provided by a combination of Social Security, pension from the pre-2000 frozen defined benefit plan and income from the post-1999 defined contribution plan.

Why should you be able to live on less in retirement than when you are employed? After all, you will spend more time at home, so utilities may go up. Some of the perks of employment may require personal expenditures now. And you now feel compelled to purchase a casual retiree wardrobe since you probably own all the suits and ties you'll ever need.

There are a number of expenses which might be reduced in retirement.

- Many Adventist employees have carefully targeted a debt-free retirement home and car, so mortgage and car payments are just a bad memory.
- Federal and state income tax bill will likely be significantly reduced. No FICA or SECA on your retirement income.



- Adventist retirees tend to be among the most generous contributors in their church. Many calculate their tithes and offerings on a percentage of their income. Since income is reduced, this payout may be reduced in actual dollars.
- Most retirees quit saving towards retirement when they retire. If your Salary Reduction Agreement under the defined contribution retirement plan set your savings at say 5%, you have learned to live without that money.

The Living Expenses graph may provide an example of a retiree maintaining a standard of living with reduced income. From our conversations with retirees, for the 70% rule to work, housing should be free and clear at retirement.

A Retirement Target

Most employees assume that they will be able to maintain their standard of living in retirement. This section describes three models that may best describe where most are actually headed.



- **Bequest Model:** This requires an asset large enough to generate adequate retirement income by withdrawing only 4% per year. In most years this will enable the retiree to maintain, or even increase the size of the retirement asset to protect against inflation. This model will sustain itself and will leave a sizeable bequest at death. Unfortunately few are able to reach this target.

- **Annuity Model:** This requires an asset large enough to purchase a fixed annuity designed to plug the income gap. The annuity dips into the principal of the retirement account, and at death the asset will in most cases be depleted. Since the income is fixed, there will be some loss of purchasing power due to inflation.

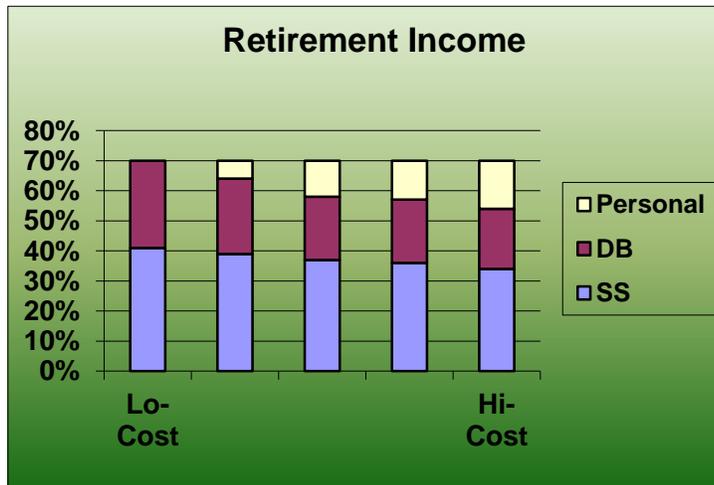


- **Lowered Expectations:** This model recognizes that the total retirement income is going to be only about 80% of what the required living allowance would be, after retirement adjustments, in order to maintain the pre-retirement standard of living. This is where some retirees are headed, particularly if the home is not paid for, or if they have few years of service credit.

Sources of Income

The typical Adventist career employee with thirty-five or more years of participation in Social Security can expect to receive between 34% and 41% of the last regular wages at

your normal retirement age. If an employee lives in a high-cost of living area, and thus receives a cost of living adjustment, the 'replacement ratio' from Social Security will be at the lower end of the range. Social Security participants should receive annual statements from Social Security which predict what your monthly SS benefits will be in retirement. Retirement prior to normal retirement age results in a penalty from Social Security.



The frozen defined benefit pension plan will provide some replacement income for qualifying employees. An employee with thirty-five years of pre-freeze service can generally expect between 20% and 25% of the last regular wages at your normal retirement age. If an employee lives in a high-cost of living area, and thus receives a cost of living adjustment, the 'replacement ratio' from the plan will be at the lower end of the range. Retirement prior to normal retirement

age results in a penalty from the plan.

The Retirement Income graph illustrates a range of replacement ratios provided by the frozen pension plan and Social Security. An Adventist pastor with thirty-five years of both pension plan and Social Security participation should expect to receive approximately a 70% combined replacement ratio of the denomination's low-cost wages. Fewer years of qualifying service, a higher replacement ratio target or higher wages will require income from personal sources in order to reach the 70% target.

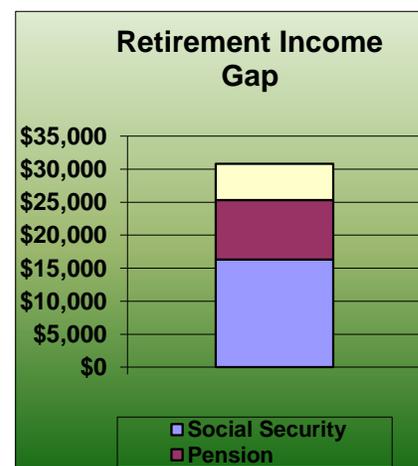
Estimating the Income Gap

The 'income gap' is the gap between your estimated income from Social Security and your income target.

If, for instance, you use 70% of your last wages as your income target, subtracting from that amount the known income will leave you with an estimated annual income gap.

Filling the Gap

Once the income gap has been estimated, a strategy for plugging the gap needs to be established. Depending on how close retirement age is, the options may be limited to:



- Delaying Retirement
This will increase the value of your DC Plan account. It will also increase your Social Security income, and may decrease any early retirement penalty under the frozen defined benefit plan.
- Reduce Target Replacement Ratio
If, for instance, the retiree moves to a lower cost of living area, she may be able to reduce her target replacement ratio. An alternate is to downsize housing, living in a

less expensive home and investing the home equity to provide additional income. Reaping \$130,000 from a house downsize may fund an income annuity of \$10,000 per year at age 65.

- **Increase Retirement Savings**
Any increases in retirement savings will result in an increased ability to plug the income gap. However this takes time, and if the employee is close to retirement, this strategy is of limited value.

Budgeting

The Retirement office has developed a Retirement Budget tool on our web site. It may be helpful in trying to figure out the difference between your current budget and your Retirement Budget, taking into consideration both the frozen pension plan and the accumulation in your Adventist Retirement Plan accounts. You can find this on our web site at AdventistRetirement.org. On the Current Employee tab, click on downloads and scroll down to the Budget link. Below is a simplification of the actual budget calculator:

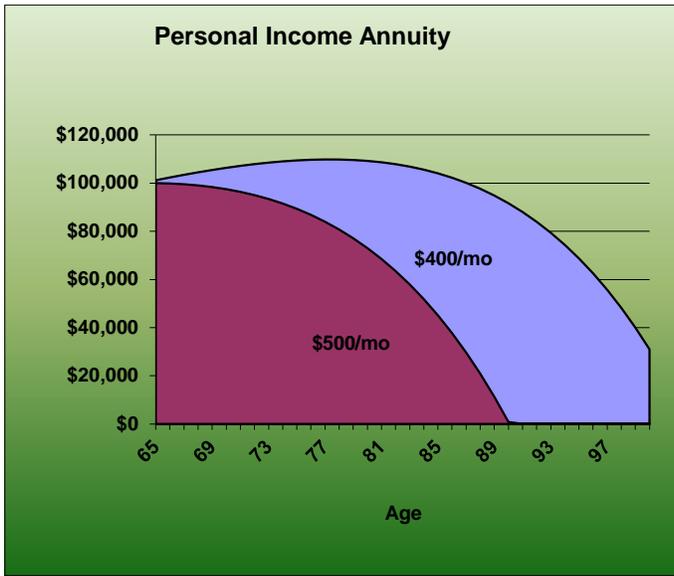
Retirement Budget	Current	Retirement
Current Wage Income	\$60,000	
Social Security Income		\$16,000
Pension Income		\$ 7,000
Withdrawal from DC Plan(s)		\$ 6,000
Total Income	\$60,000	\$29,000
Income Replacement Ratio		48%
Living Expenses		
Mortgage	\$19,200	
Auto Payments	\$ 4,320	\$ 4,320
Taxes Withheld/Estimated	\$16,000	\$ 3,600
Ret Savings Withheld	\$ 1,800	
Charitable Contributions	\$ 9,000	\$ 4,950
Property Tax & Ins	\$	\$ 4,200
Healthcare & Life Insurance	\$ 3,000	\$ 1,200
Total Living Expenses	\$53,320	\$18,270
Available for Lifestyle Expense	\$ 6,680	\$10,730
Lifestyle Replacement Ratio	100%	160%

This budget model de-emphasizes the Income Replacement Ratio and looks instead at expenses you will or won't have in Retirement. In the example a person with a low replacement ratio (48%) actually maintains the standard of living because the mortgage is paid, taxes are way down, charitable contributions are down and retirement savings cease. Your model will of course look different than this example.

Annuity – How It Works

An annuity converts a lump sum into a stream of funds. It can be a product sold by an insurance company, an offering by a trust services department or a personal method of drawing income on a regular basis. In theory, an annuity declines to a zero value when you 'reach room temperature.' While actuaries can tell you when that will happen statistically, the range we've experienced is age 65 to age 108!

The graph shows how an uninsured annuity of \$100,000, with inflated monthly withdrawals, will perform given two different withdrawal levels. The assumptions are 6% investment return, 2.5% inflation of monthly withdrawal.



The \$500 withdrawal will deplete the fund by around age 91. While that is past the statistical life expectancy for a person reaching retirement age, it is also quite likely that the retiree will out-live the fund. This is called 'Longevity Risk.'

Insurance companies and philanthropic organizations would be happy to take the 'Longevity Risk' off your shoulders

by selling you a Single Premium Immediate Annuity or a Charitable Gift Annuity. This instrument guarantees an income stream – usually a fixed amount – until you pass away, whether that be at age 66 or 108. The amount of the monthly withdrawal will depend on interest rates, age of retiree and organizational policies.

Plug the Income Gap

So how much cash do you need to fill the income gap? A rule of thumb, given current prices of commercially available Single Premium Immediate Annuities, is to multiply the annual Income Gap by fifteen. A \$5,500 annual income gap between known income and the desired 70% target $\times 15 = \$82,500$. This is the approximate asset required to purchase an annual fixed income annuity of \$5,500. This figure will change from time to time, and should be treated with respect. This rule of thumb should not be used with Charitable Gift Annuities.

Advice from a Bored Retiree!

Have something in mind to do after you retire. After 90 days of doing all the little things needed doing around the house, I needed something to do. I could wished the church had some idea of things we could of chosen from to continue to spread the message. It seems like when you retire other than your newsletter the church forgets you are alive. I have been shocked how fast the church moves on without you. The conference where retired could use some retired Pastors but no calls I think that is a waste of 40 years experience. I offered my time to the church first, no takers so I went to work for the government and never felt so appreciated. Such is life. All the best.

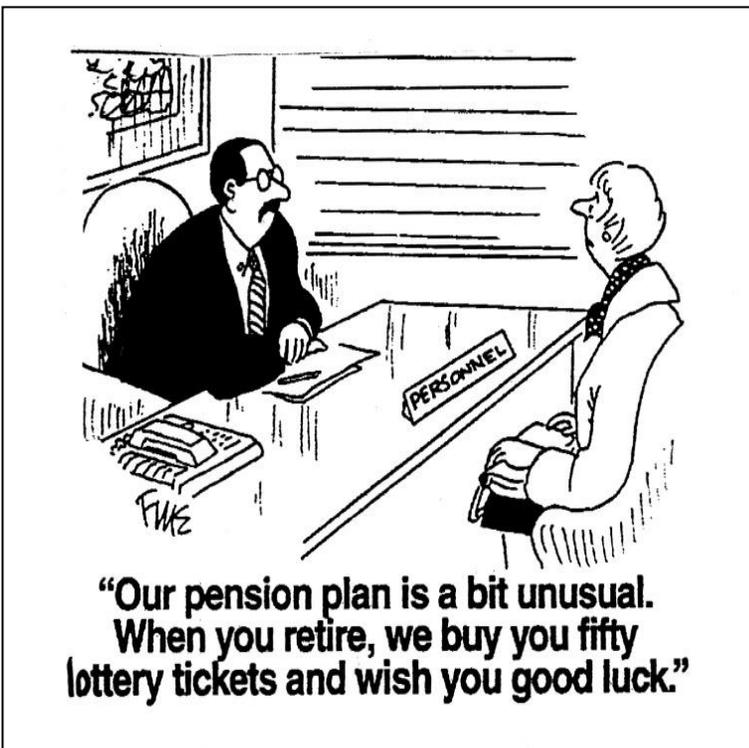
Adventist Retirement Plan

The Adventist Retirement Plan is tax-deferred retirement savings account plan. Technically it is a 403(b) non-ERISA qualified church controlled plan.

The philosophy of a defined contribution plan is to 'define the contribution' the employer makes throughout the career of the employee. The 'formula' determines how much goes into the plan.

The contribution model most participating employers are using, as a percent of wages, is:

<i>Employer Basic Contribution:</i>	<i>5.00% (Applied regardless of employee contributions.)</i>
<i>Employee Voluntary Contrib.:</i>	<i>3.00% (Recommended Minimum Voluntary)</i>
<i>Employer Match Contribution</i>	<i>3.00% (Match is 100% of voluntary up to 3%)</i>



Many Employees should contribute more than 3%, but the employer match caps out at 3% of wages.

The above contribution rates are the standard rates. However some employers have adopted a resolution which allows for an equalization mechanism, particularly where pastors and teachers work and live in the same conference with significant divergence of costs of living. Also some employers have adopted a resolution which authorizes them to use a different model for Part-Time employees. Your employer can provide information to you on what contribution model has been authorized.

Investing for Retirement

The following includes some general investment information. It should not be considered as investment advice. However it may provide some general guidance in what employees should be considering as they look at their long-term investment decisions.

Dollar Cost Averaging

If a mutual fund is trading between, say \$15 and \$25 per unit, and the total monthly combined contribution is \$200, the number of units of the mutual fund purchased will vary – more will be purchased at the lower rate, fewer at the higher rate. Since each unit has the potential for long-term growth, the more mutual fund units purchased should result in

greater long-term growth. Thus when markets are down, your \$200 is purchasing more potential growth than when markets recover. Over the long term, this natural phenomenon will result in lower average cost per unit purchased.

Two Classes of Investments

Simply stated, investment vehicles in a retirement plan are divided into two classes: Income and Equities.

Income funds are made up primarily of debt, usually referred to as a bond. You loan your money to the government or to a corporation, and that organization promises to pay interest and to repay the loan at some future date. Income investments are generally considered low risk, low return. There are of course exceptions. It is possible to buy high-return bonds which have a less than stellar promise of repayment at maturity. Retirement plans tend to have fairly stable value bond funds.

Equity funds are made up of actual ownership of shares of stock in a company. In a retirement plan these are usually set up as pools of investments referred to as mutual funds. Risk and return ranges significantly depending on the sub-class within the equity class:

- Large Domestic Companies – moderate risk
- Small Domestic Companies – higher risk
- International Companies – higher risk
- Emerging Markets – highest risk

Diversification

“Don’t put all your eggs in one basket.” Good advice from long ago. The Enron story is a good example of failure to diversify. According to news reports, one Enron employee was approaching retirement age. He had approximately \$1.3 million in his 401(k) tax deferred retirement savings account. Unfortunately, all of his investments were in Enron corporate stock. When Enron went down the tubes, the unhappy employee value dropped from \$1.3 million to essentially no value.

Adventist Retirement Plan does not allow employees to put money into individual corporate stock. The plan requires all money in this plan to go into mutual funds or equivalent instruments. This forces a certain level of diversification. For instance, if you put one dollar into the SDA Large Cap fund, you essentially are purchasing a piece of 467 of America’s largest companies.

Risk vs. Return

Investment involves risk. Investment theory says that, over time, higher risk, reasonably managed, will be rewarded by higher returns. But it may provide a wild ride. Using the funds currently offered by the Plan, our consultant has provided us with a risk cone.



The Risk Investment Cone

Aggressive Growth

- Columbia Small Cap
- SDA Small Cap
- Munder Midcap
- Invesco Mid-Cap Core Growth

Growth of Principal

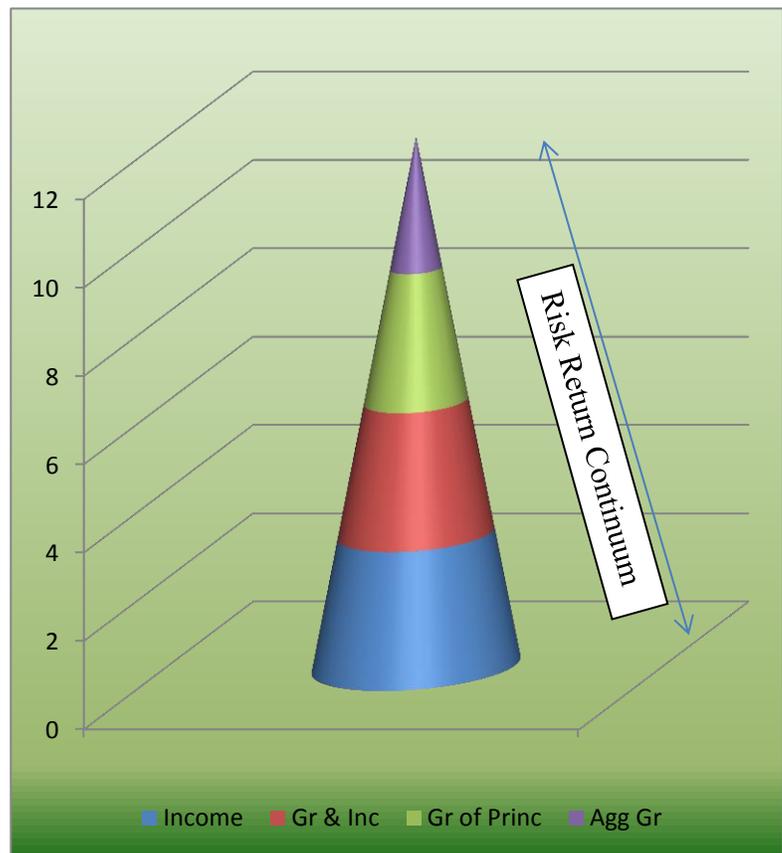
- T Rowe Price International
- Amer Funds Europac
- Dodge & Cox International
- SDA International
- SDA Large Cap
- Dreyfus Appreciation
- Vanguard REIT Index
- Dodge & Cox Stock

Growth & Income

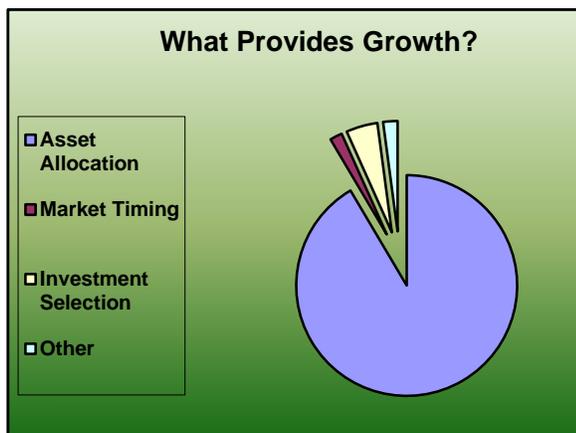
- American Century Equity Inc
- Vanguard Growth & Income
- PIMCO All Asset All Authority

Income

- Vanguard Treasury
- Vanguard Corporate
- PIMCO Real Return
- SDA Bond
- Galliard Stable Value



The colors of the funds tie directly to the level of risk or volatility shown in the Investment Cone. Most investment gurus will advise employees approaching retirement to be aware of



the potential for increased volatility in the investments in the upper part of the cone. Historically down markets have sometimes taken more time to 'ride out' than a retiree is able to wait before needing to cash out his/her investments for retirement use. We urge those approaching retirement to consult with an investment counselor in order to help determine an asset allocation model which is appropriate for age and risk tolerance.

What Provides Growth?

A study quoted in Financial Analysts Journal, May/June, 1991 by Gary Brinson, Brian Singer and Gilbert Beebower, and confirmed by updates since that time has shown that selection of a reasonable asset allocation model is far more important than market timing, investment selection or any of the other favorite tricks of investors.

Socially Screened Investments

The following funds are socially screened, in that they have blacklisted companies with significant exposure to objectionable products:

- SDA Bond
- SDA Large Cap
- SDA Small Cap
- SDA International

The objectionable products selected by the board are a set of four commonly accepted "sin stocks" and two uniquely Adventist "sin stocks".

- Pornography
- Tobacco
- Alcoholic Beverages
- Gambling
- Meat Packing
- Caffeinated Beverages

None of the other funds provided in the Plan claim to be screened.



Vesting

Prior to 2011, all employer contributions were subject to a three year vesting schedule. After 2010, vesting requirements for this defined contribution retirement plan have been eliminated.

Quarterly Statement

The quarterly statement you receive from Great-West Financial provides information as to gains and losses, quarterly and from inception. The statement can tell you if your asset allocation model has drifted from its original balance.

Target Dated Investing

ARP has put in place 'Targeted Maturity Funds.' These self-balancing funds target your expected retirement year and move incrementally towards a retirement-appropriate investment strategy as the years go by. Professional managers adjust the asset

allocations for everybody in the SDA 2015 fund as the year 2015 approaches. There is a fee for this service amounting to .08% or eight hundredths of 1% in addition to regular fees.

If you are a 'default' employee, that is if you have never told Adventist Retirement Plan where to invest your funds, we have selected an age appropriate Target Maturity Fund for you.

Investment Summary

Generally, investment advisors suggest that as you approach retirement age, you should be moving into less aggressive investment positions. Market swings can take years to ride out, and at age 62, you may not have years before you will need to draw down your funds. You may wish to discuss Your Asset Allocation Model with an Investment Guru today!

Getting Investment Help from Great-West Financial¹

- KeyTalk at 800 701-8255 No fee
- Online Investment Guidance No fee
- Online Investment Advice \$25 annual fee
- Managed Account (Similar to VALIC's GPS)
 - Less than \$100,000 .45%
 - Next \$150,000 .35%
 - Next \$150,000 .25%
 - Greater than \$400,000 .15%

Distribution

Upon reaching age 59 ½, even if still denominationally employed, you may begin to access all funds in your account. Unlike the pre-2000 church pension plan, described elsewhere, there is no prohibition for 'in-service distribution' for the defined contribution plan after age 59 ½.

Distribution of your account balances usually is done by one of the following:

- a.** Structured withdrawal – monthly or quarterly
 - i.** Easy to set up.
 - ii.** Flexible
 - iii.** Ministers keep access to Parsonage Allowance Exclusion.
 - iv.** Fees are minimized.
 - v.** No guarantee of life-long income.
 - vi.** Subject to market swings and losses
- b.** Annuitize with an Insurance Company
 - i.** Ministers may lose Parsonage Allowance Exclusion.
 - ii.** Guarantees flow of funds for specific period or until death, depending on selection.
 - iii.** There are fees.
 - iv.** Loss of control of the asset.
 - v.** Dependent upon long-term reliability of the company

¹ Great-West Financial is changing its brand name to Empower Retirement.

- c.** Rollover to alternate plan
 - i.** This might be into an IRA or an alternate 403(b) plan from another employer.
 - ii.** Ministers probably lose parsonage allowance exclusion.
 - iii.** There are fees
 - iv.** No life-long guarantee
 - v.** Subject to market swings

Decisions

1. Investing my Retirement Assets

- a.** Investment Advisor
- b.** Target Dated Funds
- c.** Guided Portfolio Services
- d.** Do it yourself

2. How much to Contribute?

- a.** Minimum, 3%, Maximum, IRS Limits
- b.** Contact employer to change contribution rate

3. Distribution

- a.** Structured withdrawal – monthly or quarterly
- b.** Annuitization
- c.** Rollover to alternate plan
- d.** Leave it to grow
- e.** Cash-out

The Healthcare Plan

The retirement plans operated by the North American Division have developed a supplemental healthcare plan for beneficiaries of those plans. SHARP stands for Supplemental Healthcare, Adventist Retirement Plan.

This is a summary of SHARP. A current SHARP booklet provides plan details.

SHARP is not a continuation of the employer’s healthcare assistance plan. It is a unique plan designed for Retirees. Deductibles, co-pays and limits differ from the employer provided plan to which an employee has become accustomed. SHARP operates on a January to December plan year.

Isn’t Medicare Enough?

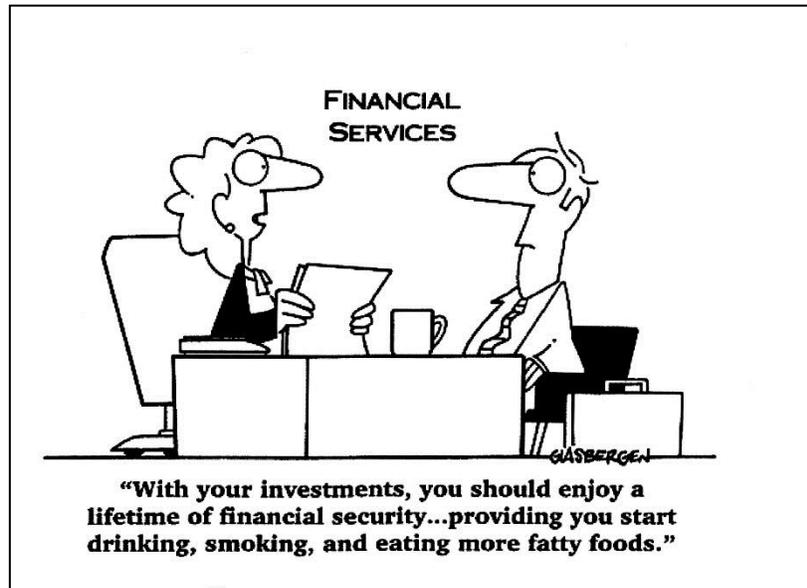
Medicare provides eligible Retirees with healthcare assistance for approved Inpatient and Outpatient services. However Retirees sometimes incur significant expenses not covered by Medicare:

- Outpatient Prescription Drugs
- Dental, Vision, Hearing
- Medicare Outpatient
 - Co-Pay
 - Deductible
- Medicare ‘B’ Premium ²
- Medicare Inpatient Deductibles & Co-Pays
 - Admission deductible
 - Days 61-90 Daily Co-Pay
 - Days 91+ Daily Co-Pay
- SNF Days 21-100 Daily Co-Pay

2015 Medicare Co-Pays/Deductibles

20%
\$147/year
\$104.90 per month
\$1,260/admission
\$315/day
\$630/day
\$157.50

Standard SHARP is designed to ‘wrap around’ the provisions of Medicare, to provide assistance in years of catastrophic medical costs, and to provide modest assistance for certain categories of healthcare expenditures not covered by Medicare.



² In 2010 & 2011 Medicare increased the monthly ‘B’ premium for new retirees only, resulting in three different premiums. At this point, it appears that Medicare has consolidated, but has also means-tested these rates. Few of our retirees have exceeded the income test which would modify the B rate.

Eligibility

In order to be eligible to participate in SHARP you must be a beneficiary of one of the retirement plans managed by the North American Division in the U.S. or the spouse of such a beneficiary under Joint and Survivor (J&S). The beneficiary must have at least fifteen years of church Service Credit.

In most cases employment with service years at an Adventist hospital receive a cash "Accrued Pension Supplement" in lieu of access to SHARP.

Medicare B Premium Reimbursement

Years	%
15-19	50%
20-24	60%
25-29	70%
30-34	80%
35+	90%

If eligible for healthcare under SHARP a retiree is also eligible to receive partial reimbursement of standard premiums paid to Social Security for Medicare Part B. Depending on years of qualifying service, reimbursement will range from 50% to 90% as shown in the table. The retiree must send a copy of the Medicare card showing eligibility for Part B.

How SHARP Works

There are options available on the SHARP 'menu' that an eligible retiree and spouse can 'order' based on perceived needs and financial resources. The plan provides an 'Earned Credit' based on years of qualifying service. If the cost of the "order" exceeds the earned credit, the retiree will pay the excess via payroll deductions. If the cost of the "order" is less than the earned credit, there is no refund. The Earned Credit is used only to offset the cost of the "order" and is not a cash benefit.

SHARP Options

Each option has a cost, to be compared with the earned credit explained later. Costs and earned credits are Per Member Per Month (PMPM).

Option	Monthly Cost
Base	\$35
MCx	\$145
DVH	\$65
Rx	\$120

Base Option:

- Provides one annual dental checkup paid at 100%.
- Provides International Travel Emergency Medical with a \$1,000 deductible and a \$50,000 maximum
- Catastrophic Medical Assistance after \$2,100 annual deductible for personal share of Medicare-approved expenses. After the annual deductible is met, this provision allows for Medicare Part B Annual Deductible and 20% Co-Pays; and provides for Medicare Part A Admission Deductible and Excess Days Charges.
- Should not be selected if MCx is selected. Choose one or the other.

MCx (Medicare Extension)

- Provides one annual dental checkup paid at 100%
- Provides for Medicare Part B Annual Deductible and 20% Co-Pays
- Provides for Medicare Part A Admission Deductible and Excess Days Charges
- Provides International Travel Emergency Medical with a \$1,000 deductible and a \$50,000 maximum
- Should not be selected with Base option. Choose one or the other.

This option essentially provides 'first dollar' healthcare coverage. It ONLY provides for Medicare approved services.

DVH (Dental, Vision, Hearing)

- Provides dental assistance up to \$2,200/yr payout with 20% coinsurance
- Provides vision assistance up to \$400/yr payout with 20% coinsurance
- Provides hearing aid assistance up to \$2,200/yr payout with 20% coinsurance. Provides for a one-year 'look-back' for hearing aid assistance not claimed in the previous year.

Rx (Prescription Drugs)

- Provides assistance on prescription drugs
- No deductible, no annual maximum payout, but subject to some formulary limits and rules
 - Pharmacy Co-Pay is \$12/\$24/\$40 for generic/brand/non-preferred up to 30-day prescription
 - Home Delivery Co-Pay is \$29/\$54/\$90 for generic/brand/non-preferred up to 90-day prescription



Effective 1/1/2014, SHARP's Rx option is a Medicare D plan under Medicare. It is called an EGWP. Along with some of the excellent provisions of the plan are a few downsides. Joining the Rx option may make it impossible for a Retiree to join a standard Medicare Advantage plan. This is not a SHARP rule, but a Medicare rule.

The Earned Credit

The Earned Credit is the amount that the Retirement Plan contributes to the retiree's healthcare options. The Earned Credit is provided as a credit, not a cash benefit and can only be spent on the options provided under SHARP. The amount of the Earned Credit depends on the years of qualifying service credit available. SHARP uses five-year steps to move from one level to another.

In order to be eligible for an Earned Credit, a retiree must be age eligible for Medicare (currently age 65) or have forty or more years of qualifying service.

Years of Church Service Credit under both DB & DC Plans:	Retiree Category	Standard Earned Credit PMPM	Pre-Medicare Earned Credit PMPM	Non-Medicare Earned Credit PMPM
15 to 19 Years	E	\$130	\$220	\$69
20 to 24 Years	D	\$155	\$275	\$86
25 to 29 Years	C	\$175	\$330	\$104
30 to 34 Years	B	\$200	\$385	\$121
35 plus Years	A	\$220	\$440	\$138

Putting It Together

SHARP Standard Application Form			
Retiree:		Joe Bozinski	
Joint & Survivor Spouse:		Tina Bozinski	
Options & Costs		Retiree	J&S Spouse
Base		\$35	\$35
Medicare Extension			
Dental, Vision, Hearing (DVH)		\$65	\$65
Prescription Drugs (Rx)		\$120	\$120
Total Cost of Selected Items		\$220	\$220
Less Your Earned Credit (If any) (25-29 Years)		\$175	\$175
Net Monthly Retiree Contribution	(Enter 0 if "Earned Credit" exceeds "Cost.")	\$45	\$45

The application form included in the SHARP booklet is where it all comes together. Our pastoral example, Joe Bozinski once again illustrates how this works. Joe has (in this example) 29 years of qualifying service credit, including pre-2000 years and post 1999 years. This qualifies him as a category "C" retiree. Joe and Tina decide to select the Base, DVH and Rx option, but to eschew the MCx option. Total cost for each is shown. Joe's Earned Credit leaves a balance per member per month to be withheld from Joe's monthly benefit.

Changing Your Mind

Insurance companies protect themselves from "Adverse Selection" in a number of ways. "Adverse Selection" is where the healthy people don't buy insurance, and the sick people do. Although SHARP is not an insurance company, it must also be protected from Adverse Selection. This protection is provided by limiting changes the retiree can make in the options selected.



SHARP Base, MCx and DVH options can be selected at the following times:

- Initial Open Enrollment – at retirement
- 3-Year Anniversary Open Enrollment – one-time 3-year anniversary of retirement effective date, regardless of date of SHARP enrollment
- Documented Loss of Coverage
- Other Discretionary Changes – such as a major SHARP change in options.

The Rx option has a mandatory annual open enrollment.

Pre-Medicare/Non-Medicare Plan

If an Employee retires prior to Medicare Eligibility (age 65), SHARP provides no Earned Credit unless the retiree had 40 or more years of qualifying service credit. However a pre-65 retiree CAN purchase bridge coverage until he/she becomes Medicare eligible.

Here is an example using Tony Bozinski and his wife, Hannah. This is an unusual case, with Tony and wife both pre-Medicare, with 40 years of qualifying service. He and his family are all eligible for earned credits based on 35+ or Category "A" service. If he didn't have 40 years, he'd not be eligible for Earned Credit until reaching age 65.

Pre or Non-Medicare Person	Relationship	Date of Birth	Social Security #	Cost/Month
Tony Bozinski	Retiree	1943	222-22-2222	\$440
Hannah Bozinski	J&S Spouse	1942	333-33-3333	\$440
Sandy	Dependent Child	1989	444-44-4444	\$138
George	Dependent Child	1990	555-55-5555	\$138
	Dependent Child			
	Dependent Child			
Total Cost per Month				\$1,156
Retiree Pre-Medicare Earned Credit (if eligible) 40 Yrs SC				\$440
Spouse Pre-Medicare Earned Credit (if eligible)				\$440
Non-Medicare Earned Credit, Dependent Children				\$276
Total Pre-Medicare & Non-Medicare Earned Credit				\$1,156
Monthly Contribution by Retiree				\$0

Since the Pre-Medicare option only cares for In-patient and Out-patient, the above coverage would not provide prescription drugs or dental/vision/hearing. The couple could purchase those options for Tony and Hannah from the Standard SHARP.

If an Employee retires and is Medicare Eligible (age 65+) but the spouse is Pre-Medicare, SHARP anchors the eligibility of the spouse based on the employee's eligibility. For instance yet another Bozinski is Medicare Eligible at retirement but his wife, Andrea is not yet 65. Andrea will sign up for the Pre-Medicare option until she reaches age 65. The Earned Credit is based on her husband's twenty-six years of qualifying service credit. The example shows the balance that will be due each month.

Note: The Pre-Medicare option is only a replacement for Medicare's Inpatient and Outpatient provisions. Andrea will want to consider enrolling in SHARP's standard options if she wants prescription drugs and/or dental/vision/hearing during the bridge period.

Pre or Non-Medicare Person	Relationship	Date of Birth	Social Security #	Cost/Month
	Retiree			
Andrea Bozinski	J&S Spouse	1953	7777-7777 7777	\$440
	Dependent Child			
Total Cost per Month				\$440
Retiree Pre-Medicare Earned Credit 26 Years SC				
Spouse Pre-Medicare Earned Credit (if eligible)				\$330
Non-Medicare Earned Credit, Dependent Children				
Total Pre-Medicare & Non-Medicare Earned Credit				\$330
Monthly Contribution by Retiree				\$110

The Pre-Medicare and Non-Medicare plans provide for a 20% co-pay. Both plans are Preferred Provider Organizations, limiting selection of physicians and hospitals to the PPO system. Non-emergency out of system healthcare assistance may be denied or paid at a lower rate.

Non-SHARP Healthcare Options

The Coordination of Benefits section in the

SHARP booklet discusses the relationship between "SHARP and Other Plans" such as Medicare Advantage, Medigap plans, Veterans Administration benefits and other commercially available plans. Any retiree considering utilization of such alternate options needs to understand the potential of overlaps and inter-relation of plans.

Summary

This has been a summary of SHARP. The complete SHARP booklets are designed to provide greater details and are available from denominational employers, or the retirement plan, or can be downloaded from www.adventistretirement.org

Decisions to be Made

Which options will you choose?

Options	Retiree	J&S Spouse
Base or		
MCx		
DVH		
Rx ³		
Pre-Medicare		
Non-Medicare		

Note: The Affordable Care Act has placed some requirements on SHARP. For instance we now provide an option for a non-J&S Spouse to join SHARP. But no Earned Credit is provided. Also a child can join SHARP for up to age 26.

³ SHARP's Rx is a Medicare D plan. As such, if you enroll in the Rx, you will be unable to enroll in a Medicare Advantage Plan.

The Legacy Pension Plan

Under the leadership of GC President A G Daniels in 1910, the original church “workers’ fund” was designed to provide discretionary benefits to an employee whose health broke, or who died in service leaving a widow and orphans. A ‘sustentation committee’ managed the benefit. It was not age based, and from the start it was deliberately funded on a ‘pay-as-you-go’ rather than ‘actuarially funded’ basis.

Today the frozen defined benefit plan has been designated by the IRS as a plan within the terms of 403(b) in the Internal Revenue code. As such, it is a plan which carefully spells out eligibility requirements and a formula by which the benefits may be granted. There is no room for discretion by the employer or the plan administration.

Monthly benefits depend on:

- Vesting – 10 Years of qualifying Service Credit
- Total number of years of service credit
- Level of earnings during ten highest years’ service credit years
- Eligibility for spousal benefits
- Specific policies in place at the time of retirement

Years of Service Credit

Years of qualifying service credit for most employees are limited to pre-2000 years. A handful of employees were eligible for and applied for the Career Completion Option, a bridge which allowed qualifying individuals to complete their careers under the frozen plan, adding up to five additional years of service credit. That bridge terminated on 12/31/2004.

In order to qualify for service credit, the employee must have been an employee of a participating organization, which would generally include any U.S. based non-hospital employer listed in the SDA Yearbook. However the following non-employee years may qualify for years of service credit:

- Approved graduate study for MDiv/PhD/EdD – maximum 2 years
- Some Military Service – maximum 2 years
- Chaplaincy of Prison etc.

The following years do **not** count for service credit:

- Years with less than 1000 hours worked⁴
--Years after 1999
- Volunteer Work
- Unvested years lost due to a break in service exceeding the pre-break unvested years, unless recovered by working a total of 25 years of full service

⁴ The initial year of service provides an exception, in that an employee who begins working say in October will get a fractional year of service credit for this initial year.

- Employment where the employee is paid directly by church or church school, which is not considered a participating employer.

Calculating the Benefits

The Single Life Benefit is the foundational benefit calculated for all retirees, whether married or not. It is the basis upon which all other calculations are made. The initial basic formula for all Retirees is:

$$\text{Service credit} \times \text{Benefit Rate Factor} \times \text{Pension Factor} = \text{Single Life Benefit}$$

The service credit is the number of qualifying years, based on the service record maintained by the employee. The Benefit Rate Factor is the average of the ten highest years of pre-2000 pay, not in dollars but in the church's remuneration percentage system, converted to a percentage using the attached table. As an example, a pastor's Benefit Rate Factor (BRF), based on ten highest years' Remuneration Percentage of 150% is 1.3%. The table uses the pre-2000 remuneration percentage system prior to the re-indexing done by the NAD in 2003.

How the Calculation Works

Meet Pastor Joe Bozinski. Joe is a fictitious character. We'll use him as an example, but fear not, he truly does not exist. Joe has pastored for the church for 25 years. The Church pension factor in 2015 is \$2,388. So the formula works like this:



$$25 \times 1.3\% \times \$2,388 = \$776.10$$

This is the monthly benefit, historically inflation protected, that Pastor Joe will receive if he selects the Single Life Benefit. However if Joe is married and has been married for at least one year before retirement, he will probably select the Joint & Survivor Benefit. This monthly benefit is smaller than the Single Life Benefit. This reduction 'purchases' the following benefits for an eligible spouse:

Rem %	Yearly Rate Factor	Rem %	Yearly Rate Factor
165% +	1.60	123	1.12
164	1.58	122, 121	1.11
163	1.56	120	1.10
162	1.54	119, 118	1.09
161	1.52	117	1.08
160	1.5	116, 115	1.07
159	1.48	114	1.06
158	1.46	113, 112	1.05
157	1.44	111	1.04
156	1.42	110, 109	1.03
155	1.40	108	1.02
154	1.38	107, 106	1.01
153	1.36	105	1.00
152	1.34	104, 103	.99
151	1.32	102	.98
150	1.30	101, 100	.97
149, 148	1.29	99	.96
147	1.28	98, 97	.95
146, 145	1.27	96	.94
144	1.26	95, 94	.93
143, 142	1.25	93	.92
141	1.24	92, 91	.91
140, 139	1.23	90	.90
138	1.22	89, 88	.89
137, 136	1.21	87	.88
135	1.20	86, 85	.87
134, 133	1.19	84	.86
132	1.18	83, 82	.85
131, 130	1.17	81	.84
129	1.16	80, 79	.83
128, 127	1.15	78	.82
126	1.14	77, 76	.81
125, 124	1.13	75 or below	.80

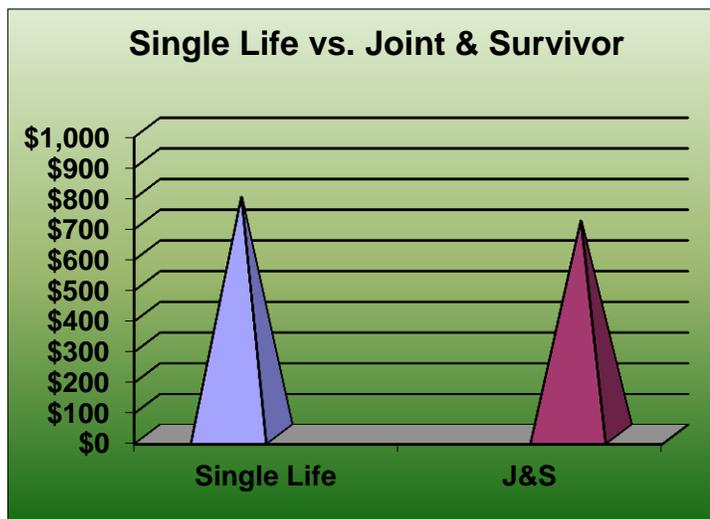
- Retirement Healthcare Assistance
- Spouse Death benefit
- Spouse Survivor benefits (1/2 J&S rate)

If Joe's wife passes away before he does, Joe's benefit does not revert to the Single Life benefit.

The amount of the permanent reduction for J&S is:
 Single Life rate less 10% per month

- Greater reduction if spouse is 5+ years younger
- Smaller reduction if spouse is 5+ years older

The married retiree may opt for higher Single Life Rate, but no spouse benefits will be provided. And the decision is irreversible.



So the formula is: $25 \times 1.3\% \times \$2,388 = \$776.10 \times 90\% = \$698.49$.

This is the amount provided to Joe Bozinski as a Joint & Survivor benefit. While not mandated by policy, the NAD usually votes annual Cost of Living Adjustments.

The Spouse Allowance

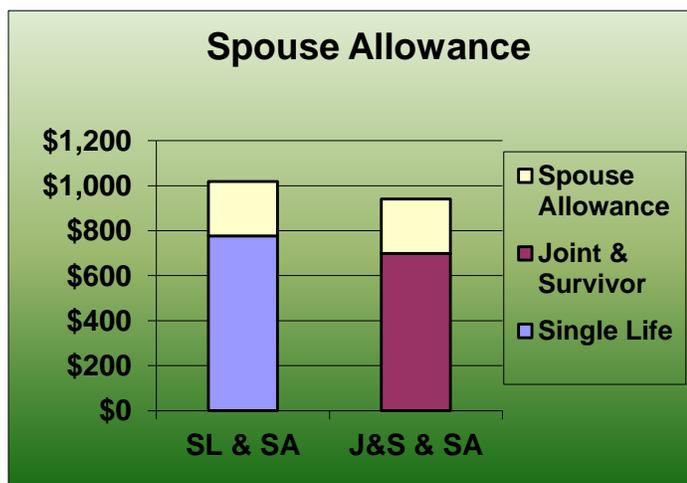
The Spouse Allowance is an additional "welfare" benefit granted to qualifying retirees. While common in the past, this benefit has become relatively rare. The Plan recognizes that the church moves its employees around, uprooting spousal careers, and that some spouses have chosen to not work in order to assist the employee in ministry. The spouse allowance is reduced by any earned spouse retirement benefits provided by an employer.

In order to be eligible for a Spouse Allowance, the following eligibility requirements apply:

- 20+ years of qualifying service credit by employee (10 of which must have been earned pre-2000.)
- Married to current spouse at least 1 yr prior to benefit effective date
- Spouse received/receives no employer-provided pension of his/her own.



- SA is reduced by the amount of any such benefit.
- Social Security does not count against SA
- Remains married—discontinued at death of spouse or divorce. The spouse allowance does NOT restart at post-retirement re-marriage.



Once again, we use Joe Bozinski as an example. Joe is married to Tina. Joe is

eligible in that he has more than 20 years and has been married to Tina for more than one year at retirement. Here is the formula: ⁵

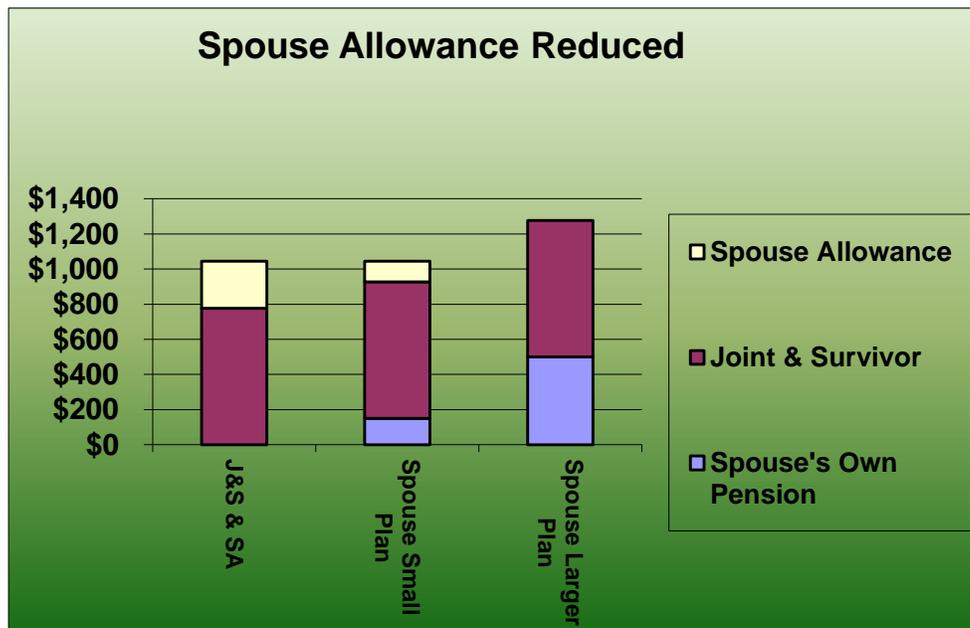
$$\begin{aligned} & \text{Total Years Service Credit} \times .0125 \times \text{Single Life benefit} \\ & \text{Or, } 25 \times .0125 \times \$776.10 = \$242.53 \end{aligned}$$

This is the amount added to Joe’s Single Life or Joint & Survivor benefit as an enhancement because Tina does not have a retirement plan of her own. If Tina worked a few years for the state educational system and is eligible for a state pension of, say, \$150 per month, the benefit would be reduced by that amount. If the spouse’s personal benefit is, say, \$500, the spouse allowance would be reduced to zero.

Coordinating Spouse Pensions

If both Spouses have church service credit, should they take their own benefits, or should the one with lower benefits waive those benefits in favor of a spouse allowance?

Generally the plan prefers to calculate benefits for each individual employee. Exception: A retiring minister may opt for benefits under his/her name in order to maximize parsonage allowance exclusion by capturing all church pension income under the minister’s retirement benefit.



⁵ This calculation is a simplification. There is an additional ‘proportionalization’ calculation which seeks to enhance this calculation modestly, the farther we get from the freeze date of the plan, 12/31/1999 by seeking to negate the double negative of reduced years of pre-freeze service.

Don't Confuse SA with J&S

Retirees often confuse the Joint & Survivor with the Spouse Allowance. They are very different policies.

Joint & Survivor

Available to all married (1 yr) retirees.

'Paid for' by monthly benefit reduction.

Provides healthcare, death benefit and survivor benefits to spouse.

Spouse Allowance

Requires 20 yrs credit (10 of which must be pre-2000)

Provides additional conditional 'welfare' benefit.

Reduced by amount of spouse's employer-provided benefit.

Belongs to Retired Employee, not spouse.

Normal Retirement Age

For retirees born in 1937 or earlier, the normal retirement age was 65. Beginning for retirees born in 1938 both Social Security and this plan began to move the normal retirement age towards age 67. For a person born in 1941, for instance, the normal retirement age is 65 and 8 months.

YofB	NRA
1938	65/2
1939	65/4
1940	65/6
1941	65/8
1942	65/10
1943-1954	66
1955	66/2
1956	66/4
1957	66/6
1958	66/8
1959	66/10
1960+	67



The following table shows the sliding normal retirement ages (years/months) based on the year of birth.

Current policy allows a church employee to retire as early as 59 ½ years of age, but there will usually be a permanent penalty. The benefits reduction for early retirement is .5% for each month the employee is short of either 40 years of service, or for each month the employee is short of normal retirement age, whichever provides the least penalty.

Using Joe and Tina as our examples, let's assume that both have 30 years of service at the same pay levels, and both choose to retire when Joe reaches his normal retirement age. However Tina is 24 months shy of her normal retirement age and 10 years short of 40 years of service credit. Thus she suffers a benefits reduction for early retirement.

Parsonage Allowance Exclusion⁶

According to the IRS, retirement benefits earned in ministry are eligible for Parsonage Allowance Exclusion. This means that actual expenses used in maintaining a retirement home, subject to limits, can be excluded from retirement income for purposes of federal income tax reporting.

The law stipulates the following limits, the lowest of which applies:

- Actual Expenses – retired minister must be able to document actually spending the money.
- Fair Rental Value – reported expenses must not exceed what it would cost to provide your home if you rented it.
- Voted Amount – each year we vote that up to 100% of church pension can be excluded.

When we report a minister's income to the IRS, we state that we have not determined the taxable amount, and provide only the total amount we provided. It is up to the minister to report the reduced income when filing, and to be able to document if questioned by the IRS.

⁶ Parsonage Allowance Exclusion for Ministers is currently facing legal attack. Legal counsel suggests that in a few years this exclusion may be gone or changed.

Our experience is that many retired ministers do not maximize this tax benefit because they do not actually spend their total pension income on housing. If the mortgage has been paid off, the annual expense is usually limited to property maintenance, property tax and utilities. The retired minister may wish to consult a qualified tax preparer.

Post-Retirement Employment

Many retirees find opportunity to continue to serve the church in retirement, working on a part-time basis. The church retirement plan prohibits full-time employment with a participating employer while receiving retirement benefits from that employer's plan. There is no prohibition for working for a non-denominational organization.

Part-time employment is defined as based on the expectation of the employer. If the employment documentation shows that the retiree is expected to work more than 75% of what the employer would normally consider full-time employment, then the employer is required to inform the plan, and retirement benefits will be suspended until such time as the employee retires again.

Retirement Denominational Employment Pitfalls

A retiree who accepts post-retirement employment from a denominational employer should be aware of some of the following red flag issues:

- Your employer retires you and offers to pay you a 'top-up' stipend if you will continue to work full time. This violates NAD policy and probably your state's wage and hour laws.
- Your employer retires you, pays you part time, but with expectation that you will work full time, 'volunteering' the time beyond your wages. This violates NAD policy and probably your state's wage and hour laws which generally prohibit 'volunteering' for your employer. Such laws are designed to avoid abuse of employees by employers who demand that they work uncompensated hours if they wish to be employed.
- Your part-time denominational employment should be negotiated without reference to your retirement income. You are not required to provide any personal pension income information to your employer.
- Some employers do not provide accidental death and dismemberment insurance for part-time employees. If your part-time employment requires travel, you may wish to negotiate that such coverage be provided.

The Death Benefit

A death benefit is provided if a retiree has at least ten years of church service credit. The Joint & Survivor spouse is also eligible for a death benefit.

The formula for calculating the death benefit is to take the current pension factor (2014, \$2,339) and pro-rate it based on years of service. A retiree who dies with 40 or more years of service credit in 2014 will receive a death benefit of \$2,339. However if the retiree has, say, 24 years of service, then $\$2,339 \times 24/40 = \$1,403.40$. The death benefit is given to the spouse if living, or to the person responsible for funeral costs only if the retiree is not married upon death.

The family member applying for the benefit must produce a copy of the death certificate. It is not necessary to provide proof of funeral expenses.

The Survivor Benefit

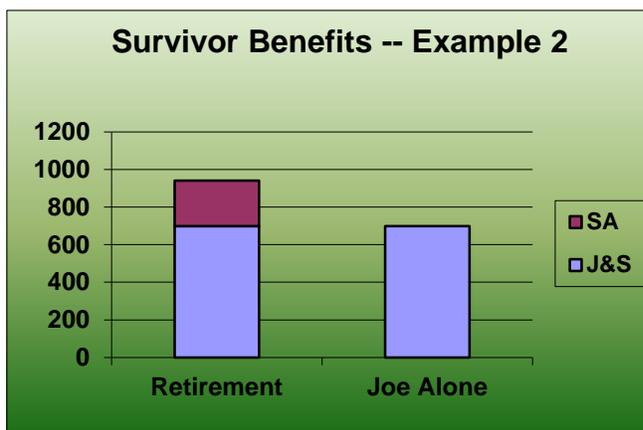
Perhaps one of the most common questions we receive from retirees is, "What happens to the benefits at death?" It depends on who died, and what selections were made at retirement. Here are several examples, again using Joe Bozinski and his wife, Tina.

Example 1. Joe Bozinski passes away a few years after retirement. Tina shared all 30 of his years of service credit, and receives no retirement benefit of her own. Thus Joe is receiving a Spouse Allowance. Tina will receive the following 'survivor benefits'.

- 1/2 of Joe's Joint & Survivor benefit
- Full continuation of Spouse Allowance.
- Continuation of Healthcare assistance at the same rate
- These benefits would not change if Tina re-marries.



If Tina had only been married to Joe for, say, twenty of his thirty years of service credit, the survivor spouse allowance would be pro-rated – $20/30 \times$ pre-death Spouse Allowance.



Tina's survivor benefits are not considered by the IRS to be eligible for parsonage allowance exclusion and are therefore fully taxable.

Example 2. Joe Bozinski's Spouse Dies, with Joe (not dead after all!) surviving her. Joe receives the following benefits:

- Full monthly Joint & Survivor benefit.
- Continuation of healthcare assistance @ same rate
- Spouse Allowance ceases

If Joe re-marries, the new spouse is NOT eligible for Joint & Survivor status, and is therefore ineligible for survivor benefits, healthcare assistance, death benefit or spouse allowance.

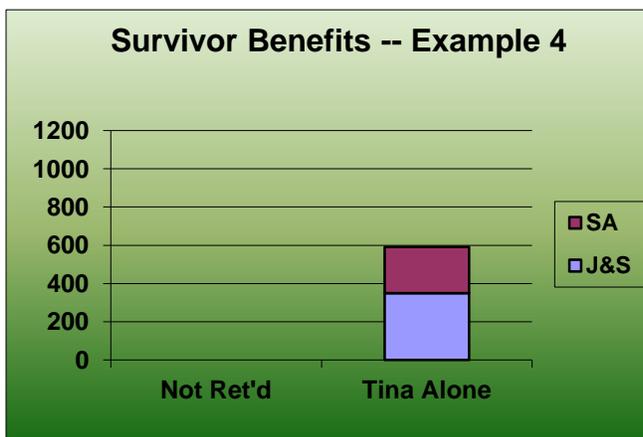
Example 3: In this example, Joe selected Single Life benefit when he retired. Joe Bozinski dies, leaving Tina as a survivor.

Upon Joe's death:

- Joe's death benefit goes to Tina.
- All Single Life Benefits Cease
- No Survivor Benefits
- Pro-rated Spouse allowance continues if there were at least ten years shared service
- No Survivor Healthcare



Example 4: Prior to retirement, Joe dies. He is 66, eligible to retire, but was an active employee, and now Tina is his survivor. Upon Joe's death:



- Joe's retirement benefits are calculated as if he was applying for J&S plus Spouse Allowance (if eligible.)
- Survivor benefits, as per example 1 above are immediately calculated.
- Tina qualifies for healthcare assistance, and death benefit.

If Joe passed away prior to Retirement eligibility, Tina would still be eligible for Survivor Benefits based on when her deceased employee spouse would have

reached age eligibility for retirement. She can wait until the spouse would have reached his normal retirement, or she can apply for his benefits prior to normal retirement eligibility after age 59 ½, with the resulting penalty for early retirement. One of the tricky issues in this case would be her eligibility for Joe's lump sum Retirement Allowance. She would be eligible for the Retirement Allowance (see following section) only if the effective retirement benefits date would be within thirty-six months of his termination from employment due to death. Thus she may be forced

to make a decision between a permanently reduced early survivor benefit with a full lump sum Retirement Allowance, or an un-reduced monthly survivor benefit without the lump sum Retirement Allowance.

The Retirement Allowance

The Retirement Allowance is a one-time lump sum benefit provided to employees who go directly from employment into retirement. It is not available to employees who cease employment with a participating employer prior to retirement application, whether that termination was voluntary or involuntary.

The Retirement Allowance is calculated based on eligibility and years of service credit, and the wages paid just prior to retirement.

In order to be eligible for the Retirement Allowance, an employee must have worked at least half-time for a participating employer for the two years prior to retirement termination.

There are exceptions to the requirement that the employee go directly into retirement from employment. If, for instance, an employee terminates because his/her spouse is retiring, and the employee is within thirty-six months of retirement, the employer can recommend that the employee's Retirement Allowance not be forfeited, but be held pending the employee's application for benefits. In all cases, however, the effective date for benefits would have to be within thirty-six months of termination, or the Retirement Allowance will be forfeited.

The calculation of the Retirement Allowance is done using the following formula:

$$\text{Full time equivalent monthly pay} \times \text{years qualifying service credit} \times 12.5\%$$



Using our sample pastor again, assuming Joe's last monthly wages at \$5,200, and service credit at 35 years, the calculation would be:

$$\begin{aligned} \$5,200 \times 35 \times 12.5\% = \\ \$22,750 \end{aligned}$$

The benefit counts years under the frozen pension plan plus years under the defined contribution plan. However due to legal constraints, the Retirement Allowance earned prior to 1/1/2000 is granted as a retirement benefit, by the retirement plan, although ultimately paid for by the



employer. As a retirement benefit, it can be tax deferred by instructing us to send it to an Individual Retirement Account set up by the retiree, or to the defined contribution plan account.

The Retirement Allowance earned after 12/31/1999 is paid directly to the employee by the employer, and is considered an employee benefit. If desired, this benefit can be tax deferred by instructing the employer to withhold it under the terms of a Salary Reduction Agreement which authorizes the employer to put the money into the tax-deferred defined contribution retirement plan. In most cases FICA will have to be paid, but income tax is deferred.

Lump Sum Retirement Allowance Pitfalls:

- RA is based on last pay. If you receive a cut in pay before retirement, your total RA will be calculated on your last lower pay.
- If you terminate prior to retirement eligibility, you will probably lose eligibility for a Retirement Allowance. Exceptions are limited by policy.
- A Pre-2000 Retirement Allowance can be rolled over – thus deferring tax
- Post 1999 RA cannot be rolled over, but can be deferred via ARP deduction if you request of your employer.

Special Pay

In 2012, a new provision was invoked, allowing employers to elect 'Special Pay.' This provision, if adopted by the employer, requires the employer to send 100% of the post-1999 employer provided Retirement Allowance directly to the employees Defined Contribution plan account. The benefit is considered a retirement benefit, and is thus not subject to employee deferral limits, and perhaps more importantly, is not subject to payroll taxes, such as FICA. Thus both the employer and the employee save money. Not all employers have adopted 'Special Pay.'⁷

⁷ See Appendix A for a list of employers who have informed us that they have adopted Special Pay as of January, 2015. If your employer is not on this list, ask if they have adopted Special Pay in the interim.

Decisions

During the retirement application process, the following decisions will be made:

1. Select an Effective Benefits Date ____/01/____
2. Annuity Type: Single Life or Joint & Survivor
3. What to do with the Lump Sum Retirement Benefit.
 - a. Cash it out (paying tax) or
 - b. Tax defer (via rollover to an IRA or DC Plan Account)

Bridges Between Plans

On December 31, 1999, the previously described pension plan was frozen in favor of the previously described defined contribution retirement savings plan. There were several bridges which were put in place to provide assistance during the transitional period between the two plans.



Transitional Enhancement

The Transitional Enhancement is a provision that recognizes transitional employees may suffer retirement losses because of two facts:

- They hadn't met all of the thresholds of the frozen pension plan on 12/31/1999
- They don't have enough time before retirement for the new defined contribution plan to maximize its potential.

The Transitional Enhancement policy 'tops-up' the frozen pension plan by an amount calculated at retirement and intended to make the retiree 'whole' for potential losses over what the benefit would have been, had there been no freeze of the pension plan.

Pastor John Bozinski is our sample employee. He's Joe's brother. Here is his situation:

- 20 Pre-2000 Years of US Service Credit
- 15 Post-1999 Years of US Service
- Retires at age 66
- In 10 post-freeze years his moderate plan would have grown to an employer provided account of say \$76,500.

John Bozinski's Transitional Enhancement Calculation		
	Actual	No-Freeze
Single Life Benefit	\$602	\$1,053
DC Estimated Annuity	\$425	
Total Combined Single Life Annuity	\$1,027	\$1,053
Transitional Enhancement	\$ 26	
Total Single Life Benefit	\$1,053	\$1,053

Had we never frozen the pension plan, John would have received a single life benefit based on 35 total years of service. However since the last 15 years were under the defined contribution tax-deferred retirement savings plan, we estimate what the annuity would be based on employer contribution account value. By combining the frozen pension, and the theoretical annuity from the employer contributions to the DC plan, we discover that John has been 'transitionally disadvantaged' by approximately \$26 per month. This amount becomes a permanent enhancement to his frozen pension plan.

Because the calculation is made based on many moving parts, we do not provide an estimate for this benefit. Many retirees have not been transitionally disadvantaged, and thus do not receive a Transitional Enhancement.

Other Bridges Between Plans

Vesting: The two plans have vesting reciprocity. Years in the pension plan count for vesting in the retirement savings plan and vice versa. As noted above, since 1/1/2011 the vesting requirement for the defined contribution retirement plan no longer exists, thus the vesting reciprocity allows post-freeze service to count towards vesting in the frozen defined benefit pension plan.

Let's use Heather Bozinski, John's wife, as an example. Heather started working for the church late in life during 1997. After only 2 ½ years of service, the pension plan under which she was working was frozen. Does she thus lose the unvested 2 ½ years of service credit?

Plan provisions allow for Heather to continue to work under the new tax-deferred retirement savings plan and complete the ten year vesting requirement for the frozen plan. She has until December 31, 2014 to complete ten years of full time equivalent employment with a participating employer in order for the 2 ½ years of pre-2000 years of service to apply.

Other Thresholds

Post-freeze years under the tax-deferred retirement savings account provision count towards meeting initial thresholds required by the DB plan

- Healthcare Eligibility – 15 years
- Spouse Allowance Eligibility – 20 years (the first 10 at least must be pre-2000)
- No-penalty Early Retirement Eligibility – 40 year

You May Need These!

Retirees should work with competent legal counsel to have in place appropriate estate planning documents and insurance.

Last Will & Testament: Many employers have a Trust Services Department able to assist a member with preparation of such a document at nominal cost or without a charge. The will ensures that the individual's wishes are carried out in the case of death as to the disposition of personal belongings and care of dependents.



Trust: Some individuals find a trust to be of value in managing sizeable estates. A trust is particularly useful when making provision for a spouse or relative who is unable to manage funds in case of death of the retiree. It has the advantage of confidentiality, probation avoidance, timeliness and a trust may be revocable.

Advance Directive: This document is "Your voice if you are alive, but not able to speak or act for yourself." Generally there are two steps: Selecting a

healthcare advocate to speak for you, and making your wishes known given various possible scenarios. The Conference Trust Office or your State's Attorney General web site can provide models. You may wish to carry a notice in your wallet for emergency situations.

ADVANCE HEALTH CARE DIRECTIVE	I HAVE AN ADVANCE DIRECTIVE.	OTHER COPIES ARE HELD BY:
	My Name: _____	Name: _____
	My Physician's Name: _____	Phone #: _____
	Physician's Phone #: _____	Name: _____
COPIES ARE HELD BY:		Phone #: _____
Name: _____	I ALSO HAVE A HEALTH CARE AGENT.	
Phone #: _____	Agent's Name: _____	
	Phone #: _____	
	<i>(over)</i>	<i>(over)</i>

Financial Power of Attorney: This document allows someone to act on your behalf financially should you become incapacitated.



Long Term Care Insurance: History suggests that almost three out of four Americans will someday need long-term care. Many think that this will be cared for by Medicare or SHARP. Unfortunately neither respond to long-term care needs. Adventist Risk Management has made provisions for LTC coverage. To explore this



option, contact LTC Financial Partners at 866 862 1457 or visit www.benefitsLTC.com.

Life Insurance: While most retirees do not maintain life insurance because of cost and declining values. However it may be prudent to consider life insurance if a retiree has a mortgage or a special needs family member. Adventist Risk Management makes provision for new retirees to convert a Basic Life coverage to an individual policy. In addition, Supplemental Life can be continued, keeping the same rate as the retiree had as an active employee. Forms are available at:
<http://www.adventistrisk.org/EmployeeBenefits/LifeDisabilityForms.aspx>.

Conversion or continuation of life insurance is available within 30 days of retirement. All forms need to be submitted within that 30 day period. The Human Resource department of the retiree's prior employer should be contacted for information and forms. The HR representative of the retiree's prior employer must sign the conversion and/or continuation forms so they should be first point of contact for assistance.

Please note, Retirement personnel are not trained in or authorized to provide advice or assistance with insurance products provided by ARM, ING or LTC.

Decisions

1. Will and Testament updated?
2. Trust needed?
3. Advance Directive
 - a. Who do you want to make medical decisions for you if you can't?
 - b. What do you want done in various situations?
4. Financial Power of Attorney
 - a. Who will make financial decisions for you if you can't make them yourself?
 - b. What are your instructions to that person?
5. What insurance products do I want to carry into retirement?
 - a. Life Insurance?
 - b. Long Term Care?

Other Stuff

Perhaps one of the most common questions employees in their late fifties ask is: When should I Retire?

- As Soon As Possible? Under both the frozen pension plan and the current defined contribution plan, the earliest retirement age is 59 ½. But there may be significant Healthcare & Pension Penalties
- At constituency?
- When forced out by health challenges?
- As part of a carefully developed plan?

Some critical issues to consider when looking at retirement are:

- NRA = Normal Retirement Age
- No Tuition Assistance in Retirement
- 40 Years Service
 - For Pre-Medicare Eligibility
 - For No-Penalty Early Retirement
- Age 59 ½ Years age Earliest Benefits Eligibility under Pension Plan
 - Early Retirement Penalty
 - No Pre-Medicare Healthcare



The following Biblical Injunction was brought to our office by an employee looking forward to retirement:

Numbers 8:24 "This is what applies to the Levites: from twenty-five years old and upward they shall enter to perform service in the work of the tent of meeting. **25** "But at the age of fifty years they shall retire from service in the work and not work any more. **26** "They may, however, assist their brothers in the tent of meeting, to keep an

obligation, but they themselves shall do no work. Thus you shall deal with the Levites concerning their obligations."

Starting the Process

There are specific steps required to begin the retirement application process. For the frozen Defined Benefit pension plan it is important to plan ahead. The Retirement Plan

requires three to four months from the time the application is received until the time that payroll distribution begins.

Initiate the process by contacting your current or last denominational employer. That organization has your service record. You will make some important decisions as you fill out the forms:

- Healthcare Options (SHARP)
- Joint and Survivor or Single Life
- One-time Lump Sum Retirement Allowance
 - Rollover
 - Cashout

Monthly benefits are paid preferably by direct deposit, on or around the 27th of each month.

For the Defined Contribution plan, the process is generally straightforward. Upon your termination at or above 59 ½, your employer will send a code to the Plan which will be forwarded to the third-party administrator. Once completed, the retiree can simply contact Great-West Financial and request a termination/withdrawal packet. Standard procedure requires a forty-five-day waiting period between termination date and release of funds if you are less than age 59 ½.

Decisions you will consider include:

- | | |
|-------------|-----------------------------|
| • Cash-out | Creates 'Tax Incident' |
| • Rollover | Protect Tax Deferred Nature |
| • Leave It | Continue to Manage |
| • Annuitize | Guaranteed Flow till Death |



The Last Three Years

Assuming that you are planning ahead, what should you be thinking about during the last three years of your employment in order to be best prepared for retirement? Many employees have more discretionary income just prior to retirement than at other times in their career. The children are gone, perhaps the house is paid for, or mortgage payments have been deflated. Retirees have suggested to us that employees should consider where they want to be in connection with:

- Consumer Debt
- Retirement Automobile
- Major Household Equipment
- Housing

Consumer Debt

The Goal: Don't Go Into Retirement With Consumer Debt

You Can't Consistently Earn Credit Card Finance Charge Rates (16% to 22%). If you can't keep up with your credit cards while employed, how will you keep up with them when on a pension? Plan to be debt free in retirement.

The Retirement Vehicle

The Goal: Don't Go Into Retirement With a worn out vehicle

2nd Goal: No vehicle payments in Retirement



An unreliable vehicle becomes a major stressor for anybody, but for retirees it can be dangerous. There are as many theories on car-buying as there are people. Many retirees have found success in buying low-mileage vehicles from super-dealers holding inventories of vehicles with less than 30,000 miles and still under

warranty.

Major Household Equipment

The Goal: Enter Retirement with New Major Appliances

The table includes examples that are mostly from Sears' Kenmore mid-range products. You can obviously spend more or less! The table can serve as a worksheet to estimate your target savings.

Appliance	Est. Mid-Range	Yours?
Washer	\$500 to \$1500	
Dryer	\$400 to \$1000	
Refrigerator	\$500 to \$1300	
Freezer	\$450 to \$1000	
Stove/Range	\$500 to \$1300	
Dishwasher	\$300 to \$1100	
Microwave	\$250 to \$750	
TV/Audio	\$400 to \$1200	
Computer	<u>\$300 to \$1200</u>	
Totals	\$3600 to \$10,350	

Three Year Savings Plan

Now it is possible to estimate a target to go into retirement without consumer debt, with new appliances and with a relatively recent-model vehicle. Again, the table provides an opportunity

Estimated Pre-Retirement Expenditures	Yours	Example
Consumer Debt	\$	\$6,000
Automobile	\$	\$14,000
Household Equipment	\$	\$6,000
Total	\$	\$26,000
Divided by 36 Pay Periods	\$	\$722
Divided by 78 Pay Periods		\$333

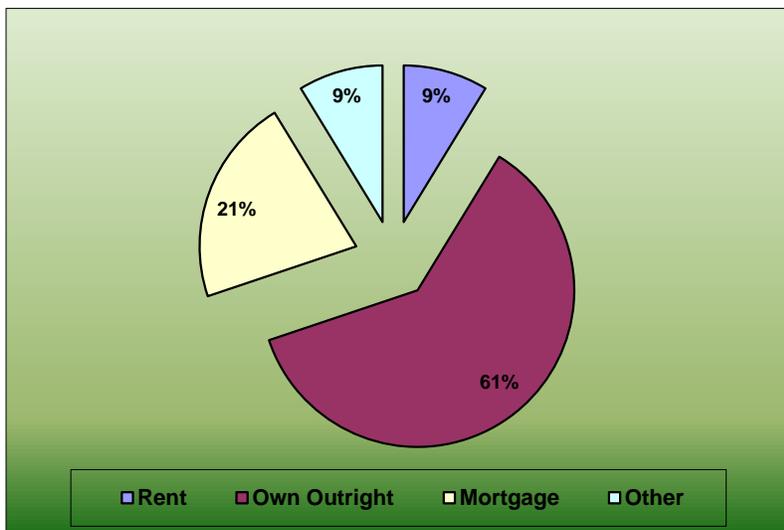
to set some personal savings goals between now and retirement.

The Dream Home

Unfortunately many retirees move out of their dream home within a few years of retirement. Reasons may include proximity to quality healthcare or children or special climate needs, or the need to downsize.

In brief, many retirement dream homes are not what the market wants. Then the Retiree takes a bath on the sale of the house. In addition to location criteria in popular books, consider roots, family, lifestyle. Some advice from Retirees:

- *Don't buy too much land around your home. In a few years it gets too much to take care of and then the need for another move.*
- *If you are moving, rent at first, and if you are moving to be with your kids, don't plan on them staying there forever!*
- *You will need to have your house paid for, car paid for and look for low cost of living areas where you want to retire.*
- *Try very hard to pay off your home mortgage before you retire. Life is comfortable in retirement when you do not have a mortgage to deal with.*



Where do Adventist Retirees live? They live everywhere! The map shows the population distribution of Adventist employees living in retirement.

Home Ownership Survey

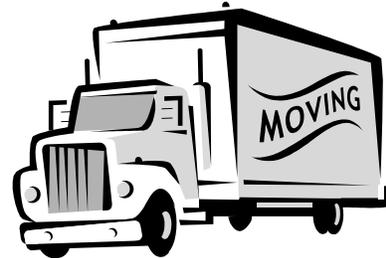
In a limited survey of Adventist retirees, most

responding retirees own outright.
Retirees repeatedly told us, "Have your home paid for!"

Retirement Move

Denominational policy makes provision for a Retirement Move, if the denomination has moved the employee during his/her career. The policy grants significant employer discretion in managing this benefit.

- If 30+ years of service credit, a full move of 'reasonable' household goods & travel expense within NAD
- If less than 30 years of service credit, employer may pro-rate
- Must be within five years of retirement and limited to one move!
- Value of move is taxable to retiree. The IRS does not consider this move to be an employment move.



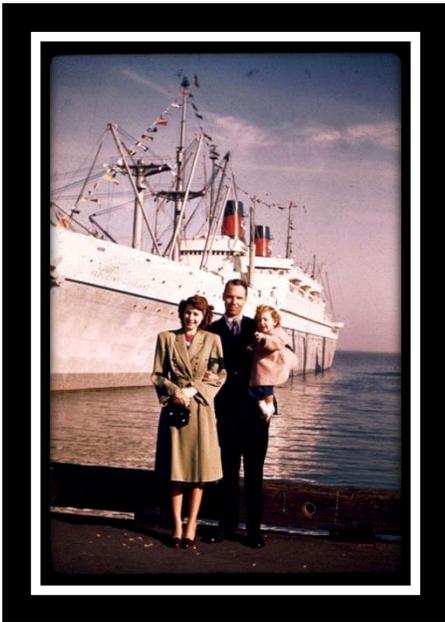
Summary

Today's employee has a complex task in planning for retirement. While there are tools and advisors aplenty, the decisions on how to prepare are the responsibility of the retiree. Major pieces of the planning puzzle include:

- Social Security
 - Medicare
 - Monthly Benefits
- Frozen Defined Benefit Plan
 - Monthly Pension
 - Healthcare & Welfare Supplement
- Defined Contribution Plan
 - Retirement Savings Plan

A Word from the Plan Administrator

Adventist employees approach retirement in different ways. Some anticipate idleness. A close friend once told me, "When I retire, I'm going to sit on this side of the table in the morning, and on that side of the table in the afternoon! I'm going to read and write articles and books I never had time for when employed."



Some are surprised: "What? 65 Already?"

Or, "When I retire, I know the brethren are going to take care of me." And "I don't need to plan for retirement. I can't believe I'll ever reach retirement age before the Lord comes."

In 1947, my dad, mom and sister⁸ shipped out to Asia as missionaries, just two years after the close of WWII. After only six months in a country which had been devastated by war, Dad concluded, "We'll never go home on furlough. Jesus will have come



by then."

Well, we did go on our first furlough. That's me on Dad's arm.

Dad worked in Asia for 23 years. Total service for the church was 40 years. He passed away in 2008 at age 92. He was always grateful that both he and the church made prudent plans for his retirement.

What is a Prudent Retirement Plan for the Christian truly looking forward to an imminent Advent and an eternity in Heaven?

Adventist employees approaching retirement have told me they want to:

- Maintain their pre-retirement standard of living
- Continue to tithe, and support their local church and other church projects
- Have access to quality and affordable healthcare
- Remain financially independent, not relying on family or church for charity.

⁸ When you write a book, you can put pictures of your family in it! How cool is that?

A Word from Ellen White



"The history of John affords a striking illustration of the way in which God can use aged workers. When John was exiled to the Isle of Patmos, there were many who thought him to be past service, an old and broken reed, ready to fall at any time. But the Lord saw fit to use him still. Though banished from the scenes of his former labor, he did not cease to bear witness to the truth...."

And it was after John had grown old in the service of his Lord that he received more communications from heaven than he had received during all the former years of his life.

*The most tender regard should be cherished for those whose life interest has been bound up with the work of God. . . .They have borne test and trial, and though they have lost some of their vigor, **the Lord does not lay them aside.** He gives them special grace and wisdom."{AA 571-572}*

A Word from Dan Jackson

It is my joy to send along greetings to you from my fellow officers of the North American Division. If you are reading this, it means that you are on the brink of another of life's transition points - retirement. You are at a point of looking back over your years of service to the Lord and to the Seventh-day Adventist Church. I hope that you can clearly see the impact that has been made through your service in the lives of people all over this division and around the world. Thank you for your commitment, dedication and sacrifice. Only in eternity will you know the full extent of your impact in service. May you be blessed as you look forward to a new phase in your life as a disciple of Jesus Christ.



*Your Brother in Christ
Dan Jackson
President, North American Division*

Appendix A

As of January, 2015, the following participating employers had taken the 'Special Pay Resolution.' This requires all Retirement Allowance paid by the employer to go into the Adventist Retirement Plan account. As a result, the employee does not have to pay payroll taxes such as FICA or SECA. Organizations who have not taken the resolution must run the employer portion of the Retirement Allowance through payroll, requiring payroll taxes to be paid. Confirm with your employer their 'Special Pay' status.

Special Pay Resolutions	
Organization	
Advent Source	Mid-America Union
Adventist Information Ministry	Milo Adventist Academy
Adventist Media Center	Minnesota Conference
Adventist Risk Mgmt	NAD
Andrews University	NADEI
Arizona Conference	New Jersey Conference
Atlantic Union Conference	North Pacific Union Conference
Carolina Conference	North Pacific Union Conference
Central California Conference	Northern New England Conference
Chesapeake Conference	Ohio Conference
Christian Record Services	Oregon Conference
Columbia Adventist Academy	Pacific Press Publishing
Dakota Conference	Pacific Union Conference
Florida Conference	Pennsylvania Conference
GC	Pine Tree Academy
Gulf States Conference	Portland Adventist Academy
Hinsdale Adventist Academy	Potomac Conference
Idaho Conference	Southern California Conference
Illinois Conference	Southern Union Conference
Indiana Conference	Southwestern Union Conference
Iowa-Missouri Conference	Spring Valley Academy
Kansas-Nebraska Conference	Texas Conference
Kentucky-Tennessee Conference	Union College
Lake Union Conference	Upper Columbia Conference
Michigan Conference	Walla Walla University
	Walla Walla Valley Academy
	Washington Adventist University
	Washington Conference
	Wisconsin Conference

Appendix B

Some Good Retirement Web Sites

- www.adventistretirement.org This is the Retirement Plan's web site. There are a number of downloads and links which might be of value. By going to the Employee link, and clicking on "Downloads" a retiree can access the Retirement Income Calculator, SHARP document and other documents.
- www.seniors.gov This is the Federal Government's consolidated web site for Seniors. It has information on various subjects including:
 - Health
 - Consumer Protection
 - Pending Legislation
 - Retirement Planning
 - Tax Assistance
 - Travel & Leisure
 - Volunteerism
- www.ssa.gov Social Security Administration
 - Apply for SS
 - Estimate your future check
 - Q&A
 - Links to Medicare
 - Replace a SS Card
 - Direct Deposit
- www.medicare.gov Senior Medicare site.
 - Q&A
 - Medicare Plan Choices
 - Locate Medigap coverage in your State
 - Find a physician who accepts Medicare
 - Prescription Drug Assistance Programs
 - Nursing Home Comparison
 - Medigap Comparison
 - Dialysis Facilities Comparison
- www.aarp.org
 - Official Web site of AARP. Huge range of subjects regarding legislation, litigation, health etc. for seniors.
- www.healthfinder.gov
 - Links to a broad range of health info