

2019



Thinking About Retiring?

A PRE-RETIREMENT SYLLABUS FOR THE ADVENTIST EMPLOYEE

Adventist Retirement

Thinking About Retiring?

Purpose

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.

2019

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History of the Plans

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 December 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.

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 January 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 December 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, employees will have a good understanding of the financial and healthcare challenges and solutions for a meaningful and satisfying retirement. As I look back on my 41 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," (The Desire of Ages, p. 224).

Regards,



Del L Johnson, Retiree

AdventistRetirement

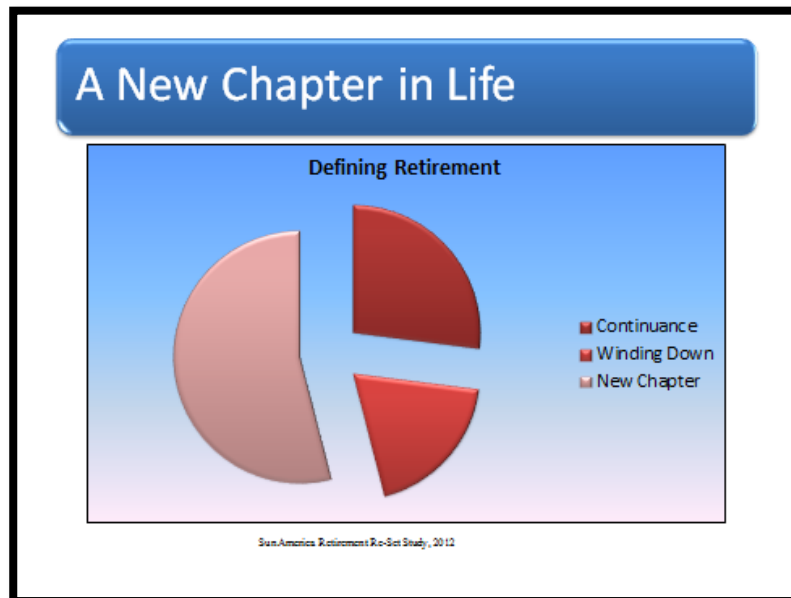


Principles of Retirement

Glossary

Annuity	An instrument to convert a lump sum, such as in a Defined Contribution Plan (DB), to a regular flow of funds.
Longevity Risk	The uncertainty of life expectancy, and the possibility of outliving retirement income.
Retirement Plan	A Plan designed to provide income and assistance after termination of full-time employment after age 59 ½.

This chapter in the *Thinking About Retiring* series is designed for those approaching retirement age and provides general thoughts about retirement planning. Essentially, successful retirement planning consists of evaluating two goals: What are you going to do in retirement, and how are you going to pay for it? Finally, we will discuss some preparation steps approaching the *golden years*.



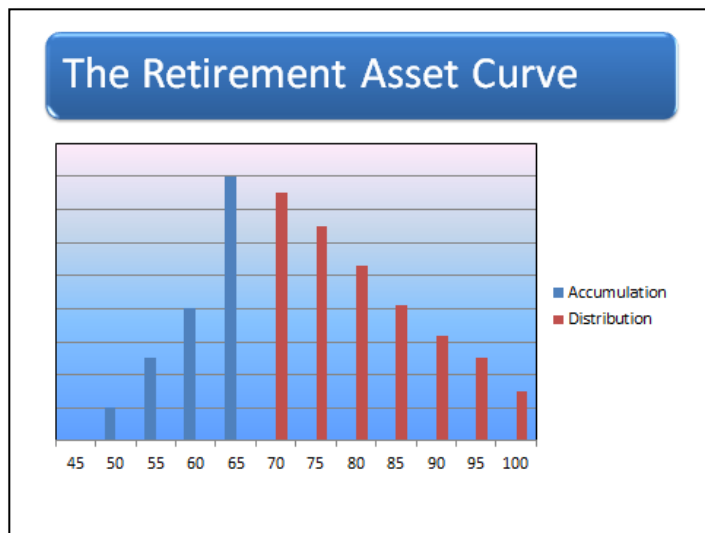
In the retirement industry, we sometimes refer to the retirement years as the “Go-go years,” the “Slow go years” and the “No go years.” Studies have indicated that today’s boomers approaching retirement are thinking differently about retirement than perhaps our parents did. While many intend to wind down their activities, many intend to reinvent themselves, finding new activities while health and energy allows it. Retirees expand hobbies such as

woodworking, develop new skills such as real estate sales, or carry out long-deferred activities such as writing a book or starting a business.

In her book, *Too Much Togetherness*, Miriam Goodman noted that Japanese researchers have come up with a clinical diagnosis called Retired Husband Syndrome. “Japanese women were showing up at doctor offices with physiological reactions like rashes, nervous tics, upset stomachs and headaches, which they were able to conclude was a result of a spouse’s recent retirement.”

According to the Holmes-Rahe Life Stress Inventory, retirement ranks as number 10 out of 43 stressors. The inventory asks individuals to list life events during their past year, add up the points associated with that stressor, and consider the probability of a major health breakdown

due to stress within the next two years. For instance, retirement plus the death of a close family member plus major illness equals 161 points. According to Holmes-Rahe, this retiree has a 50 percent probability of a major stress-related health breakdown within the next two years.

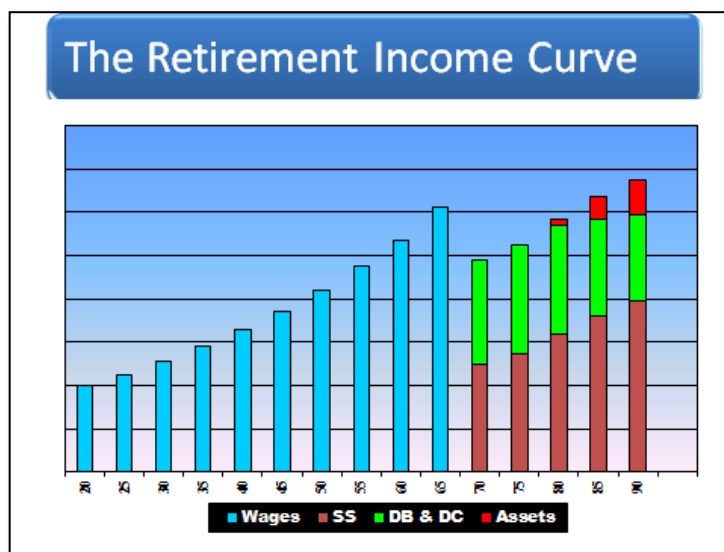


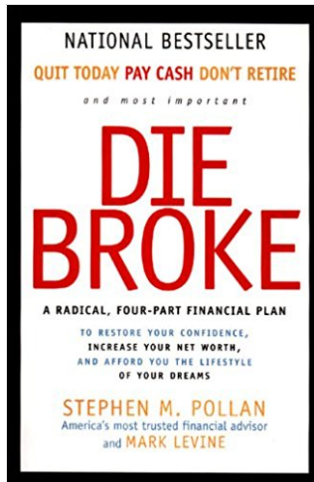
Retirement Goals

For many, a major retirement stressor is financial uncertainty. Many hope

that their retirement assets, having grown steadily through the career, will continue to climb, and then hold steady while they live off the income. While this is certainly possible, most will dip into the asset in retirement even with a modest lifestyle. Some have looked at this reality with dissatisfaction, refusing to recognize the ultimate reduction in the asset. But most have not saved enough to be able to live only on the interest income, and they will ‘invade the principal’ over time.

The reciprocal curve is the Income Curve. Upon retirement, income is generally sourced by Social Security and whatever retirement plan or plans participated in. Many advisors suggest 70-80 percent of last pay in order to maintain the standard of living in retirement. However, ultimately, most will have to dip into the asset itself in order to reach that goal. That is not a bad thing. Once you reach age 70 ½ the IRS will require you to begin to withdraw your retirement assets even if that is not necessary. This is called the Required Minimum Distribution or RMD.



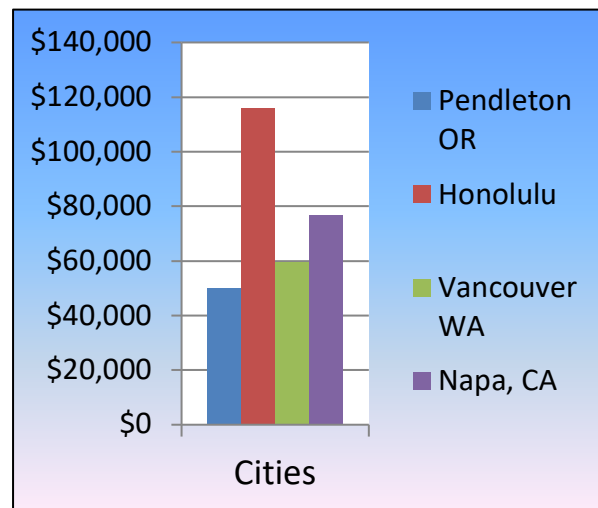


Stephen Pollan and Mark Levine’s 1997 book *Die Broke* turned the retirement planning world on its ear. Retirees may or may not agree with the general philosophy. Pollan and Levine write that your retirement planning should focus on protecting your annual income for life by purchasing an **annuity**, and then you should use the rest for the joy of giving or doing creative things in retirement. One of the primary points of the book is that the goal of passing money to kids at the end of life means the retiree didn’t enjoy the rewards of giving and sharing and doing. When retirees die in their nineties and their kids receive an inheritance in their seventies, it gives neither you nor them great joy. One of the quotes attributed to the authors says, “The last check you write should be to the undertaker, and it should bounce.”

So how much income do I need in retirement? That is not easily answered for everyone.

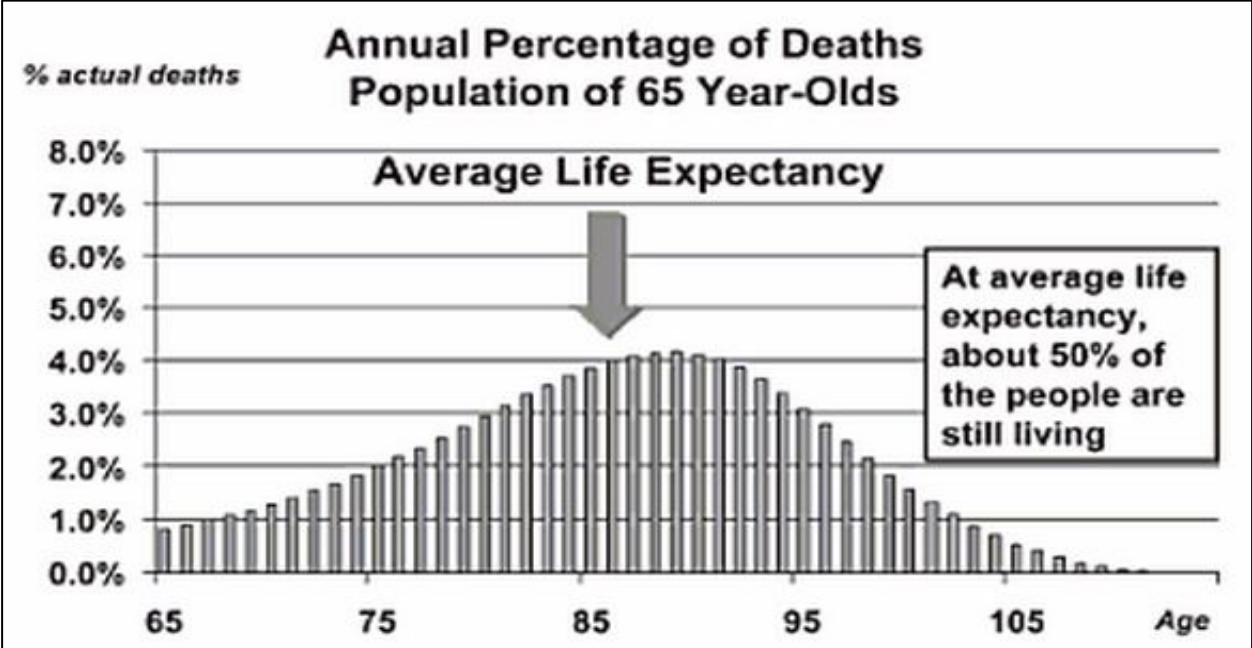
Retirement Location

Where do you plan to live? The most important financial aspect of a retirement location is the cost of providing a home including paying taxes and insurance on that home, and healthcare costs. University of Michigan has a long-term study for ‘young’ retirees and evaluated total costs in nine regions of the US. Obviously, there can be significant variances within a region. The Pacific region, for instance, includes Honolulu, Hawaii, and Pendleton, Oregon. Costs will be very different in these two cities.



Choosing a modest retirement location can make a significant difference. A \$50,000 per year standard of living in Pendleton, Oregon, would require higher numbers in other Pacific region cities. The city-data.com website is a great site to help estimate costs of living and other factors, such as climate and crime rates in various cities.

Life Expectancy?



In his book, *The Blue Zones*, Dan Buettner studies regions with traditionally above average longevity, and the large Adventist population in and around Loma Linda, California, rates its own chapter. A 30-year old Adventist male lives 7.3 years longer than the 30-year-old Californian. While this might make us feel proud of the Adventist lifestyle, unusual longevity might create pressure on the retirement assets. Having said that, our studies indicate that the average Adventist retiree does not have a significant life expectancy advantage over the general population. By the time a person reaches age 65 and retires, it seems that the playing field is leveled.

The danger of counting on an average life expectancy is clear: Average life expectancy is merely an average. By definition, at average life expectancy of 86, 50 percent of these 65-year-olds are going to still be alive. One in four will live past 90, and one in ten will live past 95. Some will live to 105! This is called **longevity risk**. It is prudent to plan to live into your nineties.

How Much Income Do I Need?

John and Jane are both 65. John has a 75% probability of living until 78. However there is a 50% probability that one or the other will live until 92! Two sites provide life expectancy estimates:

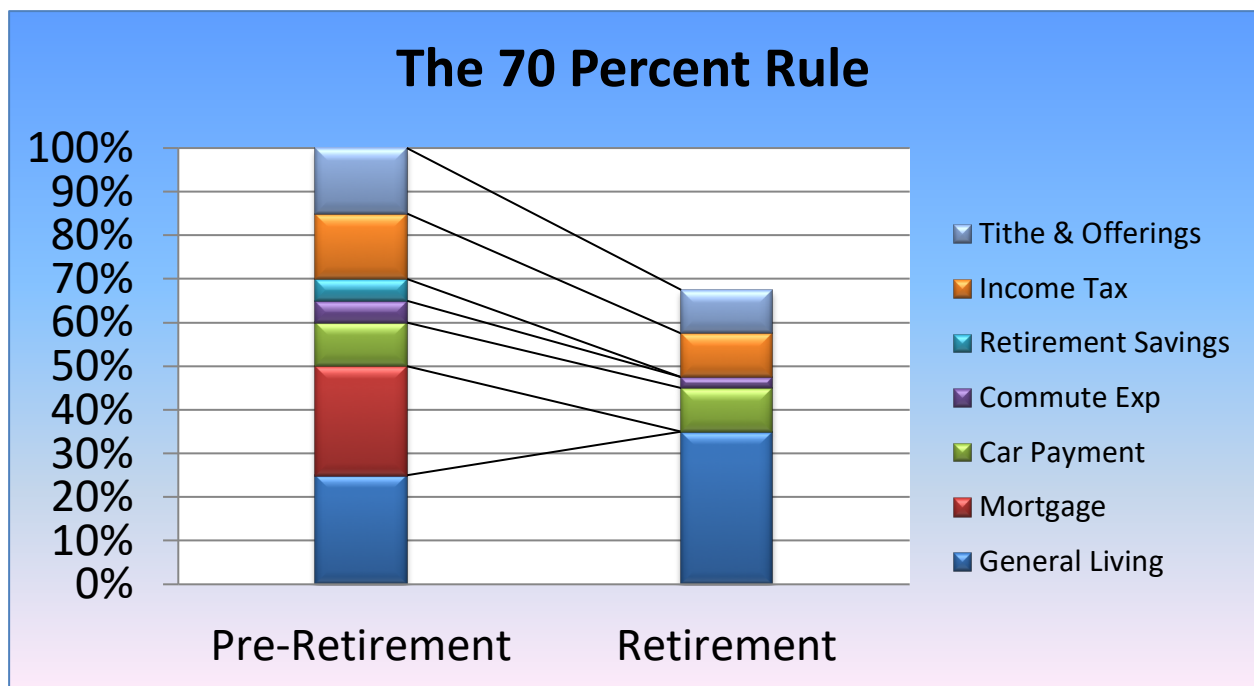
Probability	John	Jane	Either	Both
90%	71	74	82	69
75%	78	81	87	74
50%	86	88	92	81
25%	92	95	97	87
10%	97	99	101	91

There is an interesting tool drawn from Social Security’s actuarial studies allowing folks to estimate the probability of reaching a certain age. In this case Jane has a 10 percent chance of reaching age 99. The website allows you to enter your own information to statistically estimate your life expectancy. A more personally targeted estimator is provided by Blue Zones, based on the book, *The Blue Zones*, and subsequent research.

Surveys suggest that 80 percent of today’s boomers plan to have wage income in retirement. Follow-up studies have indicated not all are able to find meaningful employment. That can have an impact on the retirement budget. Retirement activities can be expensive. If annual cruises are required, retirees will need to plan ahead.

When to Retire

While many factors can determine this, retirement prior to age 65 will create a serious financial challenge in providing healthcare until Medicare eligibility is reached at age 65.



The 70 percent rule is the most commonly recited rule of thumb for those seeking to maintain their standard of living in retirement. The rule suggests that if annual retirement income including Social Security, pension and withdrawals equals or exceeds 70 percent of your last annual wages, retirees probably will be ok. The graph shows that this indeed works, but only if housing is owned free and clear. If still making mortgage payments, maintaining a standard of living at 70 percent will be a challenge.

Consider the items that make the largest difference in cost reduction in retirement.

- Housing and taxes. No more FICA or SECA on retirement income.
- Commuting expenses, car maintenance and other factors can also play a role.
- Even tithes and offerings will decline because of the decline in income.

We believe the 70 percent rule is too generalized. The Adventist Retirement website has a downloadable budget template. Retirees can enter personal pre-retirement budgetary income and hard expenses, and then retirement expectations.

Go to the Adventist Retirement website (www.adventistretirement.org), click on the Employee tab and then the Defined Benefit Plan link and scroll down to find the downloadable Excel budget file.

The first column is for a pre-retiree. This budget shows how the employee is using her money, and the amount left over for lifestyle expenses.

The second column is for a no-debt 66-year-old. At the bottom of the column, see the amount the person has in her retirement savings account. If she withdraws 4.5 percent for life, and has a modest pension and Social Security income, total income is well under 50 percent of pre-retirement income, but because of no debt, her money available for lifestyle expense money is actually higher than before she retired.

However, the third column shows that she would have to have almost \$900,000 in her account in order to support a lifestyle with a mortgage and car payments.

These are examples only and do not represent your situation. We encourage pre-retirees to download this spreadsheet and enter personal numbers to determine if retirement is affordable.

A word of caution: Standard Social Security income estimators may not be reliable for ministers, or if service credit crosses national boundaries.

Income	Monthly			BiWeekly			Annual			Monthly			Annual			Monthly			Annual		
	Active	Active	Active	Ret	Ret	Ret	Ret	Ret	Ret	Ret	Ret	Ret	Ret	Ret	Ret	Ret	Ret	Ret	Ret	Ret	
Wage Income	\$ 3,200	\$ 3,200	\$ 83,200	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Social Security Income				\$ 2,200	\$ 2,200	\$ 26,400	\$ 724	\$ 724	\$ 8,688	\$ 400	\$ 400	\$ 4,800	\$ 2,200	\$ 2,200	\$ 26,400	\$ 724	\$ 724	\$ 8,688	\$ 3,320	\$ 3,320	\$ 39,840
Pension/Annuity				\$ 400	\$ 400	\$ 4,800	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
DC Plan Withdrawal				\$ 3,324	\$ 3,324	\$ 31,200	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Income	\$ 3,200	\$ 3,200	\$ 83,200	\$ 3,324	\$ 3,324	\$ 31,200	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Income Rep Ratio						38%															80%
Expenses																					
Mortgage	\$ 2,000	\$ 2,000	\$ 24,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Auto Payments	\$ 360	\$ -	\$ 4,320	\$ -	\$ -	\$ -	\$ 360	\$ 360	\$ 4,320	\$ -	\$ -	\$ -	\$ 360	\$ 360	\$ 4,320	\$ 360	\$ 360	\$ 4,320	\$ -	\$ -	\$ -
Taxes Withheld/Estimated				\$ 499	\$ 499	\$ 5,983	\$ 937	\$ 937	\$ 11,239				\$ 937	\$ 937	\$ 11,239	\$ 937	\$ 937	\$ 11,239			
Ret Savings WH	\$ -	\$ 256	\$ 6,656	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Charitable Contributions		15%	\$ 12,480	\$ 499	\$ 499	\$ 5,983	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Property Tax & Insurance			\$ 3,600	\$ -	\$ -	\$ 3,600	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Healthcare		\$ 120	\$ 3,120	\$ 300	\$ 300	\$ 3,600	\$ 300	\$ 300	\$ 3,600	\$ -	\$ -	\$ -	\$ 300	\$ 300	\$ 3,600	\$ 300	\$ 300	\$ 3,600	\$ -	\$ -	\$ -
Hard Expenses			\$ 74,976	\$ 1,297	\$ 1,297	\$ 19,166	\$ 4,533	\$ 4,533	\$ 57,998				\$ 4,533	\$ 4,533	\$ 57,998	\$ 4,533	\$ 4,533	\$ 57,998			
Available for Lifestyle Expenses			\$ 8,224	\$ -	\$ -	\$ 12,034	\$ -	\$ -	\$ 8,242				\$ -	\$ -	\$ 8,242	\$ -	\$ -	\$ 8,242			
Baseline Lifestyle Income			100%			146%			100%						100%						
Defined Contribution Asset at Retirement:										\$ 106,666.67		\$ 885,333.33									

Retirement Models

Bequest:

This model only draws from the earnings of the retirement asset. It leaves the retirement asset intact for your children and favorite charities. This is probably not the model that most denominational employees will experience.

Annuity:

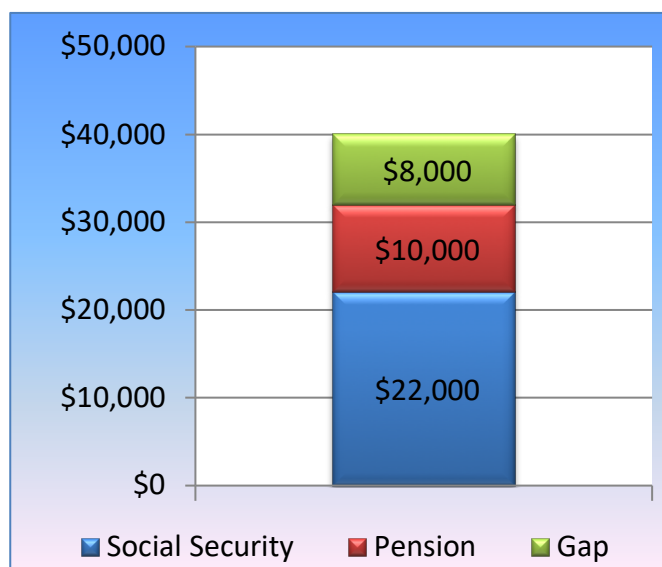
This is a more common model. It seeks to maintain the standard of living during the retirement years, but in doing so will steadily deplete the retirement asset. This can be accomplished by the purchase of an **annuity** or simply by a structured monthly withdrawal. Depending on several factors, the asset may be depleted upon death.

Lowered Expectations:

Unfortunately, not all retirees will enjoy the maintenance of their standard of living once they no longer have wage income. The primary causes of such a situation seem to be either low years of service, and/or inadequate homeowners' equity at retirement. Employees such as missionaries or boarding school faculty may spend many years living in denominationally owned housing, thus not accruing any equity with which to acquire a retirement home. While many employees retire with 35 or more years of Qualified Service Credit, others may end their careers with 15-25 years. Whether these are years in the pre-2000 defined benefit pension plan, or in the current defined contribution plan, 15-25 years likely will not support the same standard of living enjoyed during the employee's career.

Plugging the Income Gap

If a retiree has determined that there will be an income gap in retirement, how does he or she fill that gap? There is a fairly useful rule of thumb that can assist in determining how to plug the income gap: We call it the 4.5 Percent Rule. In this example, the pre-retiree has determined a retirement annual income goal of \$40,000. Between Social Security, and a pre-2000 pension, he estimates an \$8,000 annual income gap. There are products that enable the retiree to safely withdraw 4.5 percent for life, even if he or she outlives normal life expectancy. This will probably deplete the asset over time, but provides a



lifetime income guarantee. Dividing the annual income gap by 4.5 percent suggests the value of the asset in the DC Plan which will plug the income gap, in this sample, \$177,778.

Solutions for an income gap may include:

1. Working longer. We have many employees working well into their seventies. Working longer increases the value of the defined contribution plan and up to a point increases your monthly Social Security benefits.
2. Careful selection of a retirement location may significantly reduce your cost of living, particularly in the purchase of a retirement home and taxes.
3. While increasing your rate of savings may have a positive impact, it will be of limited value for those approaching retirement age because there just isn't enough time for increased savings to multiply through investment growth.

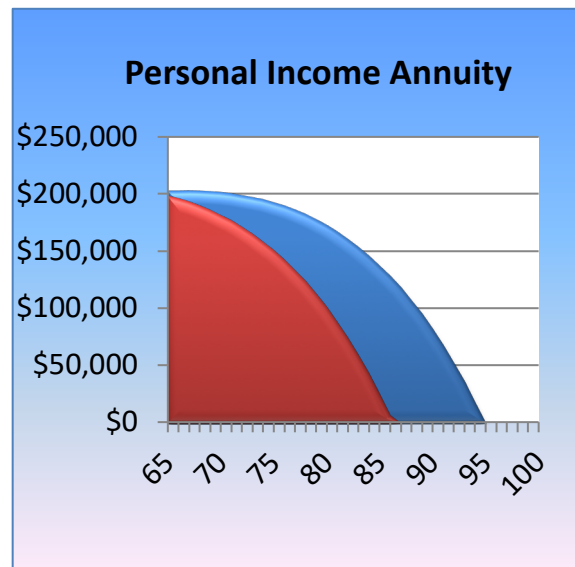
An annuity is a tool by which earnings grow your asset, while withdrawals decrease the asset over the retirement years. A do it yourself annuity sets up a structured withdrawal from your account.

Cash Flow

In retirement, the need is for a monthly flow of cash with which to pay monthly bills. An annuity is a tool by which earnings grow your asset, while withdrawals decrease the asset over the retirement years. A do it yourself annuity sets up a structured withdrawal from your account.

In the first example, the retiree has \$200,000 in her account and sets up a structured withdrawal of \$800 per month. Each year she increases by 2.5 percent, so the \$800 becomes \$820 in the second year and \$840.50 in the third year, etc. When she crosses her average death age, there is still money in the account, but it is rapidly depleting.

In the second example, she determines she needs to take \$1,000 per month, also with a 2.5 percent cost of living adjustment (COLA) each year. In this case, her funds will be depleted at around age 88. While both of these models take her beyond her normal life expectancy, what if good genes and a healthy lifestyle result in her living into her late nineties? This is what we call 'Longevity Risk', the uncertainty of life expectancy. Early death may result in leaving money for your offspring. Late death may result in your offspring having to care for final years.



The good news: There are companies that would gladly accept longevity risk and promise to pay an annuity for life. They sell certificates of annuity. In the most basic type of annuity, the

retiree pays his or her \$200,000, and the company gives a promise to pay monthly benefits regardless of length of life.

The bad news: Fees can be quite high, monthly benefits are modest, and if death is before normal life expectancy, the kids get nothing.

There are many types of annuities and retirees may wish to consider one that meets the goal of guaranteeing life-long income. While annuities can certainly solve the longevity risk issue, they are not for everyone.

Estate Plan

Employees should already have estate plan documents in place prior to retirement. However, preparation for retirement should include the review and perhaps updating of general estate planning and end of life instructions.



A *will & testament*, often simply referred to as a will, should be updated. Generally, it is best to have a will that was drafted in your retirement state. State property laws vary, and portions of a will may be declared invalid if not drafted in the state of retirement residence.

An *advance directive*, sometimes referred to by different state specific titles, consists of instructions to care givers if a retiree is alive but unable to speak. This definition is also state specific. An advance directive usually names a *health care representative*, sometimes called a health care agent or patient advocate, giving that individual authority to make certain specified care decisions. Sometimes this person is named in a separate document called a *health care power of attorney*.

States have preapproved forms online. At the end of this section we've included a link to one site which provides access to state specific forms. Alternately, simply search online for advance directive forms along with your state, such as "Georgia Advance Directive Forms."

Two important points:

1. Properly witness and execute state approved forms.
2. Have the talk. Retiree's kids and the agent should understand the instructions and agree to honor them.

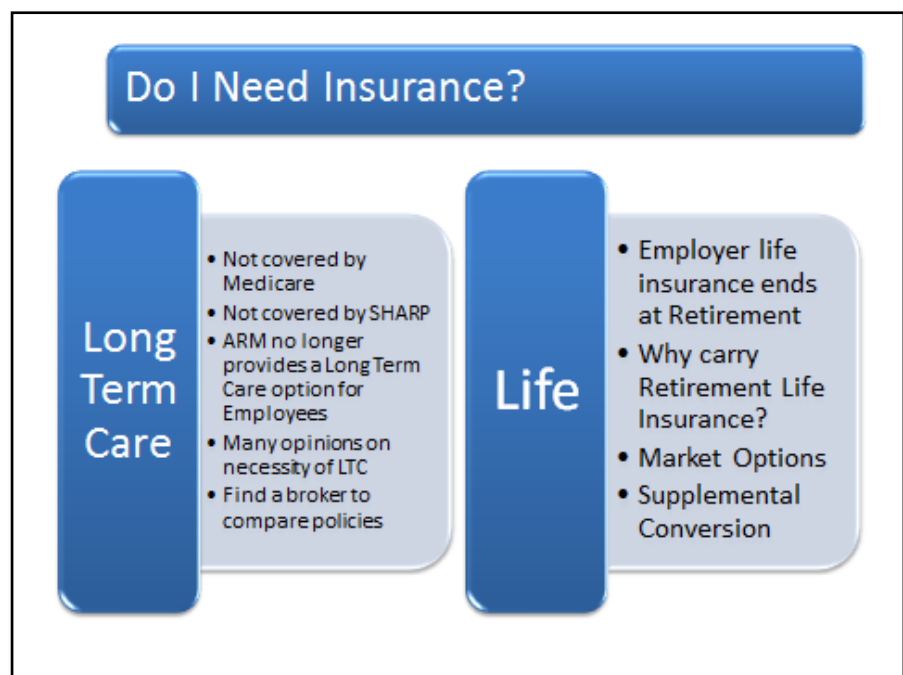
Some may need a power of attorney. An estate planning attorney can provide advice. Some may also need a *Trust* document. Although this can be expensive, it may be of value in the case of a special needs child who will need continued care during the probate process, or retirees don't want the estate to become public information, or specific assets such as a business are to be transferred to a specific person or persons. An estate-planner attorney can assist with this document. Most Adventist conferences and some other denominational employers maintain a Trust Services department to assist in the preparation of important legal documents.

Insurance in Retirement

There are two insurance products retirees may wish to consider: Long Term Care and Life Insurance.

Long Term Care: A long term care product used to be offered by a vendor with Adventist Risk Management. However, that product has now been withdrawn. Nursing home care is not covered by Medicare or SHARP. There is limited assistance for rehabilitation in a skilled nursing facility under Medicare, but not for custodial care in a nursing home. There are products available in the insurance market.

There are many opinions on the need for long term care. In the Learning Exercise section, we've included several links that speak to this subject. If you determine that you should consider long term care, the literature suggests that you find an independent insurance broker who can assist you in comparing products from multiple companies. Recent spikes in premiums have been surprisingly high as insurers seek to correct actuarial missteps.



Life Insurance: During employment, denominational employers carry life insurance of usually \$100,000 on full-time employees. Many employees choose to purchase Supplemental Life Insurance through the employer's connection with Adventist Risk Management. At retirement both of these coverages are terminated.

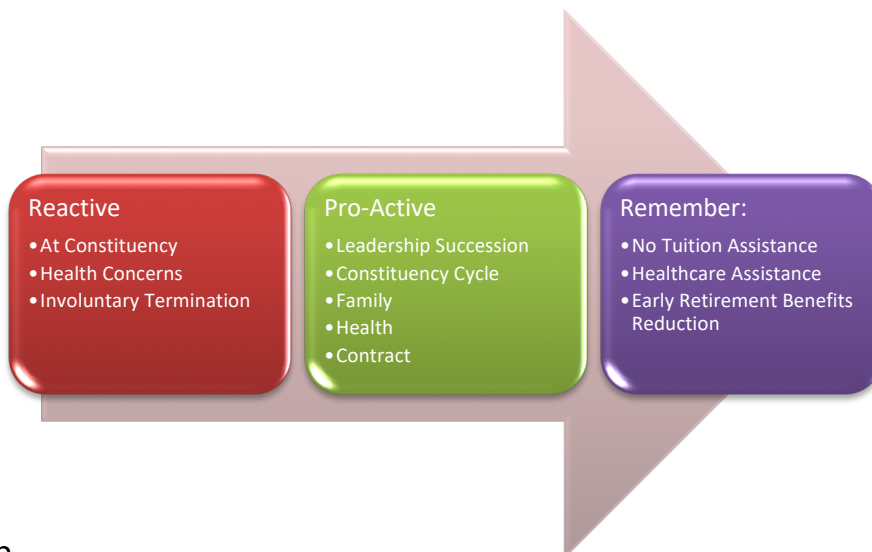
Retirees ask: "Why do I want life insurance in retirement? The kids are grown and gone, and I have a will which will deal with the distribution of my assets at death." We believe few of our retirees carry life insurance. However, in some cases life insurance for retirees might be useful. If you have a special needs family member you care for, or if you continue to carry a mortgage into retirement, life insurance can be a huge blessing to those who carry on for you after your death, some of whom would find awaiting probate to be financially challenging.

There are certainly options available on the open market for retirees. But for those with pre-existing health conditions such insurance becomes prohibitively expensive or even unavailable. Adventist Risk Management has arranged with a vendor to provide Retiree Supplemental Life Insurance. This product is available to employees who, at retirement, were already carrying supplemental life insurance through their employer. At retirement, the retiring employee can purchase life insurance up to the amount of the supplemental life insurance carried prior to retirement. If you are not carrying supplemental life insurance through the denomination's program, this option is unavailable to you.

On the Learning Exercise at the end of this section, there is a link to an Adventist Risk Management application for conversion of existing supplemental life insurance to retirement life insurance. Retirement personnel are not trained or authorized to provide advice on long term care or life insurance.

Retirement Timing

Employees may give no thought to an effective retirement date, saying they plan to "never retire." These employees often find their retirement to be a reaction to events outside of their control, such as a constituency vote, health concerns or involuntary termination. A few create a plan considering leadership succession, family, constituency cycle, general health and any employment contract cycle.



Remember:

- 1) There is no policy for tuition assistance for children of retirees.
- 2) Healthcare assistance in retirement is challenging before age 65 as spelled out in the Retirement Healthcare module.
- 3) Early retirement also may generate a benefits reduction from the pre-

2000 defined benefit Plan.

Surviving in Retirement

Retirees tell us that living on denominational retirement income works if there is no debt. Consumer debt management should be a habit by retirement. Paying credit card interest is something retirees should learn to avoid.

Retirees suggest owning a paid-for car that is relatively young. An unreliable car can be a danger to anybody, but particularly to a retiree. Some traditional two-car families have been able to get by with one car. Savings can be \$6-8,000 per year. You can fit several rentals into that savings for the occasional need of a second vehicle.

The retirement residence ideally should be mortgage free, senior-friendly with relatively new major equipment such as appliances. A home warranty should be considered. There are some ideas for a senior-friendly house in the Learning Exercises at the end of this section. Essentially avoiding steps and throw rugs and including wide doorways can help you age gracefully in place.

The Retirement Move

Many retirees choose to remain where they've put down roots during the last years of the career. Others choose to move for various reasons. Usually the move is related to family. "I want to be near my kids and my grandkids." Sometimes it is to find a less expensive location. Selling a home in a high cost of living area may mean you have enough to be mortgage free with some left over if you move to a low cost of living area.

Eligibility:

- If the church has moved you during career
- If 30+ years of Qualified Service Credit

The Benefit:

- Move Within NAD
- Within 5 years of retirement
- Reasonable Household Goods & Travel expense
- Taxable to retiree

Unfortunately, moves are expensive. For denominational employees, most church employers provide a retirement move of "reasonable household goods" at employer expense if the retiree

has been moved by the church at one time or another during the career. The *NAD Working Policy* leaves a fair amount of discretion in how employers manage the retirement move. While there is a 30-year qualified service credit threshold written into the policy, many employers have provided partial or full assistance to employees with fewer years. Generally, the retirement move assistance by the employer is provided within five years of the retirement date. Delaying the retirement move beyond the five years will generally forfeit the assistance. Employees considering a retirement move should discuss how the employer manages such moves with the Human Resources office.

The cost of the move provided by the employer is considered by the IRS to be a taxable benefit to the retiree. This can be a major tax hit in the year of retirement, particularly if the move takes place in a year with significant wage income.

Learning Exercises

The following provide interesting opinions and information regarding subjects covered in this section:

The Retirement Office retirement budgeting tool

<http://www.adventistretirement.org/employee/defined-benefit-plan/>

An online longevity illustrator

<http://www.longevityillustrator.org/Profile?m=1>

A Blue Zones Life Expectancy estimator

<https://www.bluezones.com/live-longer-better/#section-3>

Enter retirement location candidates in this website to learn about housing costs, climate, crime, healthcare and other valuable information.

<http://www.city-data.com/>

This is AARP's site providing state-specific advance directives

<https://www.aarp.org/caregiving/financial-legal/free-printable-advance-directives/>

Thinking about a senior-friendly retirement home? Check these two sites from *This Old House* and AARP:

<https://www.thisoldhouse.com/ideas/6-ideas-elder-friendly-design>

<https://www.aarp.org/livable-communities/info-2014/what-is-universal-design.html>

A *Morningstar* article about long term care

<https://www.morningstar.com/articles/823957/75-mustknow-statistics-about-longterm-care.html>

A Dave Ramsey article about long term care

<https://www.daveramsey.com/askdave/insurance/when-is-long-term-care-insurance-necessary>

A *Counterpoint* article regarding need for long term care

<http://texaslongtermcareinsuranceexpert.com/dave-ramsey-long-term-care-insurance/>

Health & Human Services counsel on long term care

<https://longtermcare.acl.gov/costs-how-to-pay/what-is-long-term-care-insurance/where-to-look-for-long-term-care-insurance.html>

A *US News* article on alternatives to long term care

<https://money.usnews.com/money/personal-finance/articles/2016-03-10/why-no-one-can-afford-long-term-care-insurance-and-what-to-use-instead>

Adventist Risk Management's Retiree Life Insurance Enrollment Form
<https://tinyurl.com/ARM-LifeIns-Form>

List five activities you wish to pursue in retirement.

List common obstacles to a Stable Financial Retirement. (Select the ones that may apply to you.)

- Low Years of qualified service credit
- Pre-65 Retirement
- Debt in retirement
- High cost of living area

Consider how you will deal with each of these.

Learning Evaluation (answers follow)

1. A simple annuity's value is that it:

- Provides a low fee high return investment opportunity
- Provides a guaranteed lifetime income
- Is a 'one-size fits all' retirement income solution
- Is insured by the federal government

2. Maintaining a financially secure standard of living in retirement can come from (select all that apply):

- Debt elimination
- Eligibility for Medicare
- Tax reduction
- Modest cost of living location

3. "Longevity Risk" refers to:

- The belief that tall people tend to suffer from debilitating diseases in retirement.
- The increasing risk of job loss the longer you serve in that position.
- The uncertainty of life expectancy, and the risk of outliving your retirement income.
- The risk of dying early and leaving money to your offspring.

Question 1.

1. Incorrect: Annuities are not known for providing excellent returns with low fees.
2. Correct: Standard annuities are designed to provide a stream of funds as long as you live.
3. Incorrect: Annuities are not for everyone.
4. Incorrect: States provide limited guarantees under a State Guaranty Association (SGA). The Federal Government does not guarantee annuities.

Question 2.

1. Correct: Retirees tell us that debt elimination is perhaps the single most important tool in a financially satisfying retirement.
2. Correct: Ineligibility for Medicare is a major problem for some retirees.
3. Correct: Most retirees will see significant tax reduction due to elimination of payroll taxes and reduction of income taxes.
4. Correct: Retiring in a low cost of living area enables many retirees with modest homeowners' equity to eliminate housing debt.

Question 3.

1. Incorrect. Interestingly, many studies have shown that tall people do suffer from greater risk of cancer, heart disease and other health challenges. However, Longevity Risk is not a term used for that risk.
2. Incorrect.
3. Correct. If you plan for income which will deplete your retirement asset at your average life expectancy, and then live beyond the average, you have a problem.
4. Incorrect.

The Service Record

Glossary

North American Division (NAD)	One of the SDA World Divisions, which includes Canada, Bermuda and the United States.
Participant	An employee of a participating employer who is eligible to earn service credit in the Plan, or a former employee who is receiving benefits from the Plan.
Service Record	The documentation of denominational employment.
Participating Employer	An employer that participates in the NAD Retirement Plans.
Pension Factor	A dollar amount voted each year by the NAD to calculate the Retirement Benefit for the DB Plan. This provides for the annual Cost of Living Adjustment (COLA).
Pre-Certification	The process of requesting the Plan for certification of Qualified Service Credit.
Vesting	Employee has reached a service requirement which grants unconditional entitlement to future retirement benefits.

Welcome to the **Service Record** section. This section is designed to assist those who are approaching retirement under either the **North American Division's** pre-2000 defined benefit (DB) pension plan or defined contribution (DC) retirement savings account plan, or both. For those with at least 10 years of **Qualified Service Credit**, this module will assist the employee in understanding how the church provides a modest pension under the pre-2000 plan and healthcare assistance in retirement. We will discuss how to read it, the importance of the employment documentation at retirement, and how to get pre-certification.

On page 28 is a fictitious service record. Donald Duck has worked for several denominational entities and has some church and hospital service. He also straddled the pre-2000 Defined Benefit Plan and post-1999 Defined Contribution Plan.

The service record is originally opened by the first denominational employer, and then is maintained by that and subsequent employers over the career. The employer has custody of the Record. If Donald changes employers, the record is transferred, and the new employer keeps it going.

The image on page 28 is of a digital record hosted on the NAD's Service Record server. However, there is another hard copy, or manually created record held by the employer. For

service prior to 2000, the hard copy document is the legal document. It will be what the NAD Retirement Office receives and reviews for accuracy and policy correctness for pre-2000 service. The digital document becomes the legal document for service after 1999. Employee service was all transcribed from the hard copy paper document into the digital format. However, if there is an inconsistency between the two, the original hard copy paper document is considered the more reliable copy for pre-2000 qualified service credit.

Employer human resources maintains demographic information. The software then calculates a Service Summary and **Vesting** Record. In the top right service credit for each Plan is summarized.

For example, Donald has only 1.50 years of pre-2000 service record under the Defined Benefit Retirement Plan. He shows to be vested in that plan. He has no years of qualified service credit in the Hospital Plan because his hospital service, not shown here, was after the hospital defined benefit plan froze in 1991. He is not vested in the hospital plan. He has no Canada service.

However, Donald worked for multiple years after the termination of the Defined Benefit Plan in 1999. The record shows that he has 11.42 defined contribution years of service.

The service record thus maintains documentation of employment within several distinct NAD Plans: the Defined Benefit Plan, the Defined Contribution Plan, the pre-1992 Hospital Plan, the Regional Conference Retirement Plan, and the Retirement Plan for Canadian Employees, each of which has its own vesting and service rules.

Each year of service is documented. It shows that in the last half of 1998, Donald worked as a groundskeeper for Southern Adventist University. He worked for six months at 100 percent of full time at a remuneration percentage rate of 114 percent on the denomination's proprietary Remuneration Percentage Scale. He earned half of a year of qualified service credit under the US Defined Benefit Plan. The end of the line shows what his yearly rate factor was, which is simply a table correlation of the remuneration percentage. In the Plan policy, 114 percent remuneration equals 1.06 yearly rate factor shown at the end of the year.

The service record shows accumulation columns on the right of the record. The example here is Donald's brief record. In the first year he earned half a year of qualified service credit. The first column shows what was earned in that year. The second column is the DB Plan accumulator. The subsequent year he earned a full year, so the accumulator column went to 1.5. However, the third year was the year the DB Plan froze, so he no longer accumulates benefits under this pension plan, instead earning service in the Defined Contribution Plan, not shown on the accumulators.

North American Division Service Record

Employee	Employment	Service Summary	Canada Only
Donald Duck Phone: Fax: Email: ID: 407388	Hired on: 1998-07-01 Terminated on: SSN: *** - ** - 7023 SIN: Yrs of Service: 17.0 Benefit Rate Factor: 1.06 Personal Marital Status: Married Gender: M Born on: 1950-05-01	US: Hospital: Canada: Canada Suppl: Foreign: Total Scr: US > 1999: Hospital > 1991: Berm & Kett > 1999: Regional: ServCred ¹ Vested ²	DORE: Adjusted: Plan Entry: Comm Value Pay Date: Comm Value Yrs Paid: PreRetDeath Pay Date: PreRetDeath Yrs Paid: Eligible Credited Service:
		1.50 Y 0.00 N 0.00 N 0.00 0.00 1.50 11.42 3.43 0.00 0.00	0.00 0.00 0.00 0.00 0.00 0.00 0.00 0.00

Begin date	Job Description	WorkType	Work Location	Hours	Months	%FT	%Rem	AveRem	Plan	Service Credit Accumulated
End Date	Employer			Hourly Pay						Rec USA Hsp Can Sup Reg YRF
1998-07-01	Groundskeeper	I-Reg Salary with %remun	Southern Adventist University	0	6.0	100	114	0	USDB	0.50 0.50 0.00 0.00 0.00 0.00 1.06
1998-12-31	Southern Adventist University	I-Reg Salary with %remun	Southern Adventist University	0.00						
1999-01-01	Groundskeeper	I-Reg Salary with %remun	Southern Adventist University	0	12.0	100	114	0	USDB	1.00 1.50 0.00 0.00 0.00 0.00 1.06
1999-12-31	Southern Adventist University	I-Reg Salary with %remun	Southern Adventist University	0.00						
2000-01-01	Groundskeeper	I-Reg Salary with %remun	Southern Adventist University	0	12.0	100	114	0	USDC	1.00 1.50 0.00 0.00 0.00 0.00 1.00
2000-12-31	Southern Adventist University	I-Reg Salary with %remun	Southern Adventist University	0.00						Vesting
2001-01-01	Machinist	I-Reg Salary with %remun	Southern Adventist University	0	12.0	100	118	0	USDC	1.00 1.50 0.00 0.00 0.00 0.00 1.00
2001-12-31	Southern Adventist University	I-Reg Salary with %remun	Southern Adventist University	0.00						

Service Issues

There are a number of policy issues which can confuse employees as to qualified service credit.

1000 Hour Rule: If Donald worked less than the equivalent of 1,000 hours in a calendar year, the proportion that he worked does not count. One thousand hours is determined by the Plan to be considered half-time employment.

Educators: The Adventist church has determined that educators are full-time employees with a half-year of qualified service credit if they teach a full load for one semester. So, some teachers may appear to have less than a half-year at the end of December when the school year begins in August. However, the record should correct this to show that the teacher worked for a semester and thus earns a half year. This is an error which sometimes understates teachers' qualified service credit.

Participating Employers: If Donald worked for a non-participating employer, qualified service credit is not earned. For instance, there are academies operated by Adventists but not owned by the church, and do not contribute to the Retirement Plan. Local churches and church schools are not considered participating employers. Most church and church school employees are employees of the local conference, and therefore their employment does indeed count if it otherwise qualifies.

There are three exceptions to the Participating Employer rule: graduate study, military service and chaplaincy.

An employee who took graduate study and was employed within one year of graduation will be credited with one year of qualified service credit for an M.Div. degree, or two years for a doctoral degree. The career maximum is two years of graduate study qualified service credit, even if multiple degrees are earned.

For those with military service, an employee who served in the military and became denominationally employed within a year of *separation from active duty* may earn up to two years of qualified service credit.

For those with chaplaincy employment, a chaplain who has been certified by the General Conference Office of Chaplaincy may earn qualified service credit even though the employer is not a participating employer.

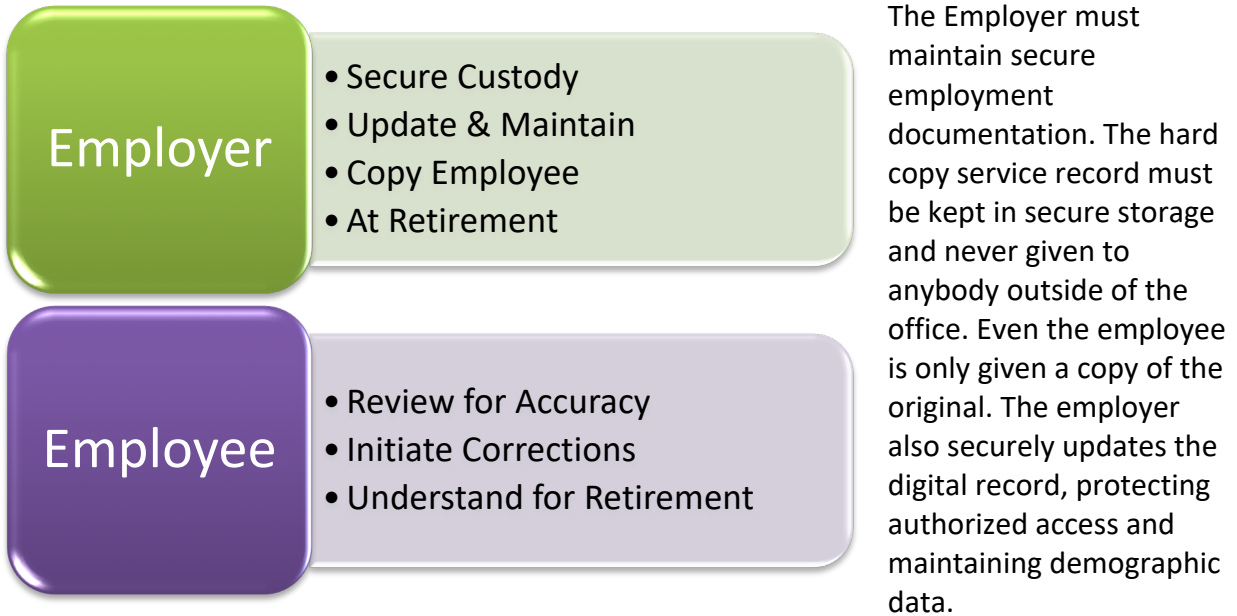
Break In Service: One of the most challenging issues is the Break In Service policy. This policy says that if an employee left denominational employment without reaching the 10-year vesting requirement and is out longer than he or she was in, the unvested initial service is lost.

Let's say that Minnie was hired at age 22, but at age 28, after six years of qualified service credit, she terminates and is out of denominational employment for 10 years. If she comes

back, her service record accumulators will disregard the first six years. Her unvested years were lost due to her lengthy break in service.

The Plan Policy has a recovery mechanism, however. If, at retirement, Minnie had earned a total of 25 years of qualified service credit, including the lost years, the lost years will be recovered.

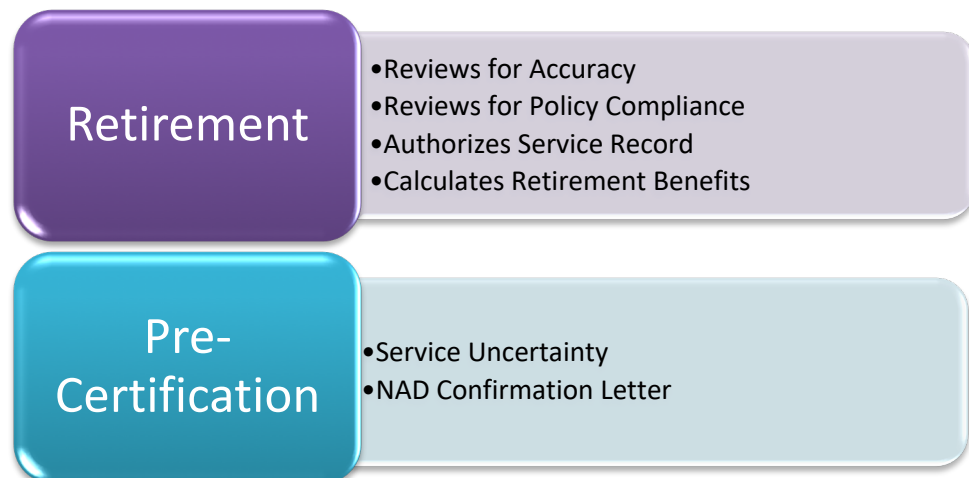
Service Record Role



Denominational policy requires the employer to provide the employee with a copy of the combined digital service record every other year. If the employee moves to another denominational employer, the record is securely transferred to the new employer. The employer is NOT required to update the hard copy for service after 1999, as the digital record became the legal document at that time.

The employee is expected to review the document for accuracy, initiate any corrections with the employer, and understand the implications of qualified service credit towards retirement benefits.

Both employer and employee need to



understand the vital nature of the service record. Reconstructing destroyed service records is difficult and time consuming. Without appropriate documentation of employment, retirement benefits cannot be granted.

Upon retirement, the record is sent to the NAD Retirement Office along with other documentation and the application forms signed by the retiree. NAD Retirement reviews the document for accuracy and policy compliance. Once satisfied that the record has been properly documented, the Plan authorizes the record and calculates retirement benefits.

Although NAD Retirement has provided employers with estimate tools, they are only estimates, and not until NAD Retirement signs off is the service record authorized to generate retirement benefits. This can sometimes lead to disappointment. An individual who believes he or she has reached an eligibility threshold may discover it is not the case.

Pre-Certification

Because of some sad stories, NAD Retirement has developed a **pre-certification** process and shared that process with employers. If an employee is approaching retirement, but uncertain about his or her service record and exactly how many years will ultimately be awarded, the employee may ask the employer for a pre-certification. Documentation is sent by the employer to NAD Retirement. The service record is carefully reviewed, and a letter is issued from the Retirement Office certifying years of qualified service credit through the previous year. This process can give the employee assurance in planning a retirement date. Actual retirement applications take precedent, so this pre-certification process can take several months.

Learning Exercises

Learning Evaluation (answers follow)

- 1. The NAD Service Record:
 - Documents denominational employment for retirement purposes.
 - Is a comprehensive employment record.
 - Is in the custody of the North American Division.
 - Is not shared with the employee until retirement.
- 2. The signed hard copy service record:
 - Is obsolete and should be shredded to protect the privacy of the employee.
 - Must be updated each year in order to provide record redundancy.
 - Can be used for current service as an optional alternative to the digital service record.
 - Is vitally important for employees with pre-2000 employment and must be securely stored and protected.
- 3. The current digital NAD Service Record:
 - Provides documentation of consolidated denominational employment.
 - Includes pre-2000 and post-1999 qualified service credit.
 - Is used by multiple retirement plans operated within the NAD.
 - Is the official legal documentation of post-1999 employment.
 - All of the above

Question 1

Correct: This is the primary purpose of the NAD Service Record.
 Incorrect: The Human Resources Office will have other employment files unrelated to the service record.
 Incorrect: While the NAD Retirement Office has access to the digital service record and may have a copy of the original hard copy, the employer is the official custodian of the original hard copy paper service record.
 Incorrect: Each employer is required to share a copy of the service record at least every other year.

Question 2

Incorrect: This document is the legal record of employment years prior to 2000.
 Incorrect: While some employers have chosen to continue to update the hard copy, service after 1999 is recorded on the digital record and need not be updated on the hard copy.
 Incorrect: Employers are required to document service on the digital record.
 Correct: This is the legal record of pre-2000 employment.

Question 3

Correct: However, although the full record should be recorded on the digital record, the hard copy is the official record for pre-2000 employment.
 Correct: The hard copy record was transcribed into the digital record.
 Correct: Canada, Regional, pre-1992 Hospital and other plans all use the digital record for documentation of employment within their Plans.
 Correct: Although it is a full career record, the post-1999 portion represents the official record.
 Correct: All are true.

Adventist Retirement Plan

Glossary

Adventist Retirement Plan (ARP)	The US Church Defined Contribution Retirement Savings Account Plan.
Asset Allocation Model	An investment model which distributes assets across various classes of equities and fixed income options.
Auto Enroll/Escalate	Automatically enrolls new employees with a 3 percent voluntary contribution, and then annually increases that by 1 percent to reach 7 percent. The employee can decline.
Basic Contribution	The employer's initial contribution to the employee's DC account. Usually 5 percent.
Defined Contribution Retirement Plan (DC Plan)	The US Church Retirement Plan in the form of a retirement savings account accumulated post-1999. Also referred to as Adventist Retirement Plan, or ARP.
Empower Retirement	The retirement brand name of Great West, the company currently contracted to provide DC Plan administration for ARP.
Leakage	Assets lost due to unpaid loans, withdrawals, tax penalties, contribution delays or failures and excessive fees.
Match Contribution	The employer's contribution which matches the voluntary contribution up to 3 percent.
Housing Allowance Exclusion or Parsonage Allowance Exclusion	Tax law, currently under legal review, which allows clergy to reduce taxable income by the cost of providing a home.
Qualified Service Credit	A measure of time, expressed in years and percentage of years used to determine the retirement benefit under the DB Plan and the Healthcare Plan.
Secure Foundation	A variable annuity provided by Great West to ARP employees and retirees.
Voluntary Contribution	The employee's voluntary contribution. Recommended 3 percent to 7 percent.
Retirement Allowance	The one-time lump sum payment made to a retiree upon going directly from employment into retirement.

On December 31, 1999, the **Defined Benefit Retirement Plan (DB Plan)** which had been in place in various forms since 1911, was ‘frozen’ in favor of the **Adventist Retirement Plan (ARP)**, a **Defined Contribution Retirement Savings Account Plan (DC Plan)**. Service earned in the previous plan was locked into place and the new plan began. We divide this section into two parts, the accumulation years and the distribution years.

ARP – The Accumulation Years

In this lesson, we discuss the importance of long-term consistent contributions to the Defined Contribution Retirement Plan. We also discuss a few investment principles and touch on tools to assist in meeting retirement income goals.

Contributions

For years the plan has modeled contributions with:

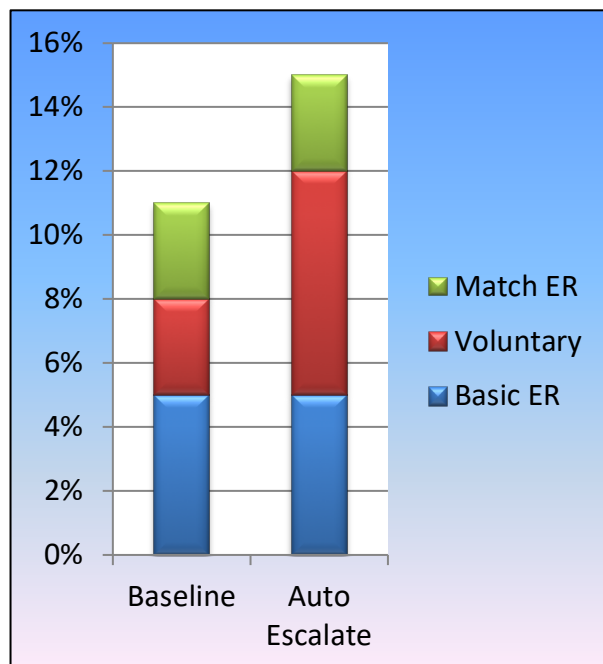
Employer Basic =5 percent

Employee Voluntary=3 percent

Employer Match=3 percent

Total = 11 percent

This is a valid goal for somebody contributing for 35 to 40 years.



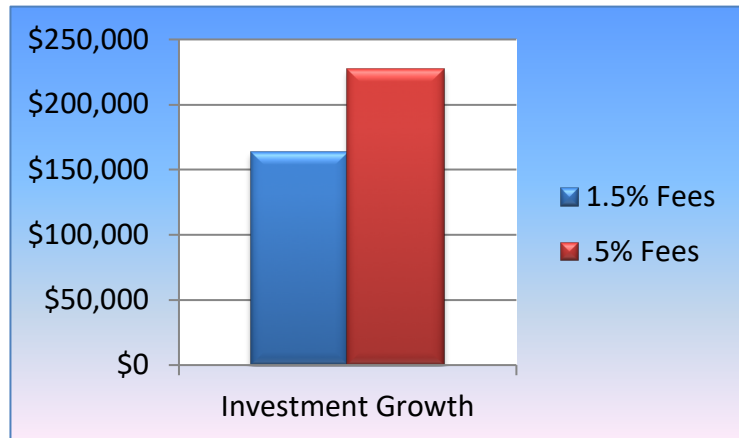
However, the Plan has determined that many employees will not accumulate enough with this contribution model due to delay in contribution, career breaks and withdrawals or loans, and has adopted an **auto-enroll** and **auto-escalate** model for all employees. This means that all new employees will automatically be enrolled with a three percent contribution, and all employees will be annually ‘escalated’ by one percent until each reaches a seven percent voluntary contribution rate, or a total of fifteen percent. While this happens automatically, employees have the option of declining either the auto-enroll or the auto-escalate.

Leakage:

Happily, most of our denominational employees participate regularly in their Defined Contribution Retirement Plan. Sadly, some allow **leakage** to occur. Leakage refers to assets being siphoned out of the Plan. Leakage can include many factors.

The four major areas are:

- Loans taken against retirement assets and not repaid before retirement. They are thus 'deemed' or declared to be a withdrawal.
- Withdrawals prior to retirement for purposes not related to retirement. The Plan and the IRS allow for hardship withdrawals under certain severe and immediate financial difficulties. While a valuable emergency measure, the result will be a reduction of retirement income. And unfortunately, some employees withdraw when they make a change in employment. Again, there are tax penalties and a reduction in retirement income as a result. Leakage.
- Fees are an insidious source of leakage. All plans will have management fees. But commissions and other fees can end up quietly siphoning assets from the account over time. The graph shows investing \$25,000 earning 7 percent per year with fees of .5 percent and 1.5 percent. A one percent difference creates a 28 percent difference in the balance over 35 years.
- Failure to contribute has an enormous impact on future retirement income.



Diversification

Some employees participating in the Adventist Retirement Plan have asked why they could not invest in individual companies such as General Electric or Ford Motor Company.

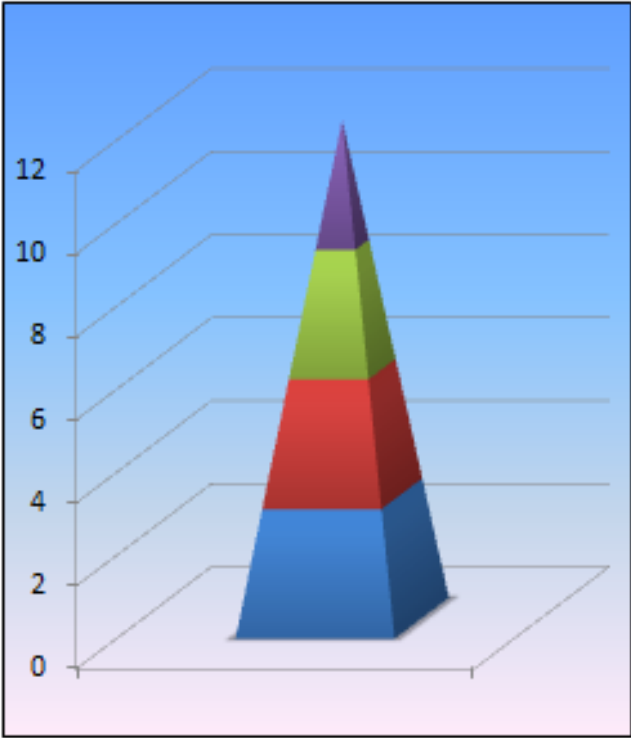
Enron Corporation was an energy, commodities and services company based in Houston, Texas, founded in 1985 as a merger. Before its bankruptcy on December 2, 2001, the company claimed annual revenues of over \$100 billion. However, it was discovered that Enron participated in "institutionalized, systematic and creatively planned accounting fraud." Approximately 20,000 employees lost their jobs as a result of the failure.

According to one news report, one officer had built up a 401(k) retirement balance of a little over \$1 million. Unfortunately, it was all invested in Enron. When the company went down, that employee essentially lost his whole retirement plan.

As a result of risk associated with narrow investments, retirement plans generally today require participants to invest using mutual funds or similar vehicles, thus spreading their investment risk across hundreds of companies. The Adventist Retirement Plan follows that model and encourages employees to spread funds broadly.

The Risk Investment Pyramid

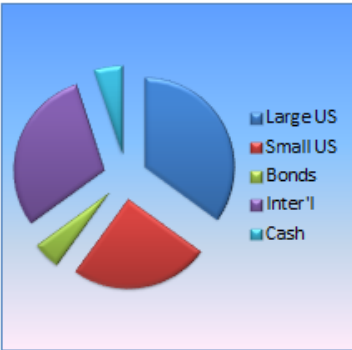
- The Risk Investment Pyramid**
- Aggressive Growth*
 - Columbia Small Cap
 - SDA Small Cap
 - Munder Midcap
 - Invesco Mid-Cap Core Growth
 - Growth of Principal*
 - T Rowe Price International
 - Risk Return Continuum
 - Amer Funds Europac Dodge & Cox
 - International*
 - SDA International
 - SDA Large 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



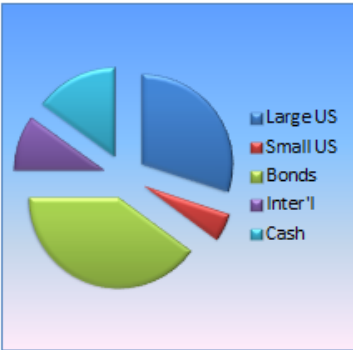
The investments offered by ARP include more than 20 funds. Several are quite aggressive, and several are very conservative. The pyramid describes the risk curve of investments. Most investment advisors will recognize that the low-risk options at the bottom of the pyramid will certainly reduce the ups and downs of the market, but over the long haul will probably not meet the return needs of participants. History says that the most aggressive investments reward the participant, but the roller-coaster ride will be intense. Thus, advisors will usually encourage participants to

Asset Allocation Models

Young Employee

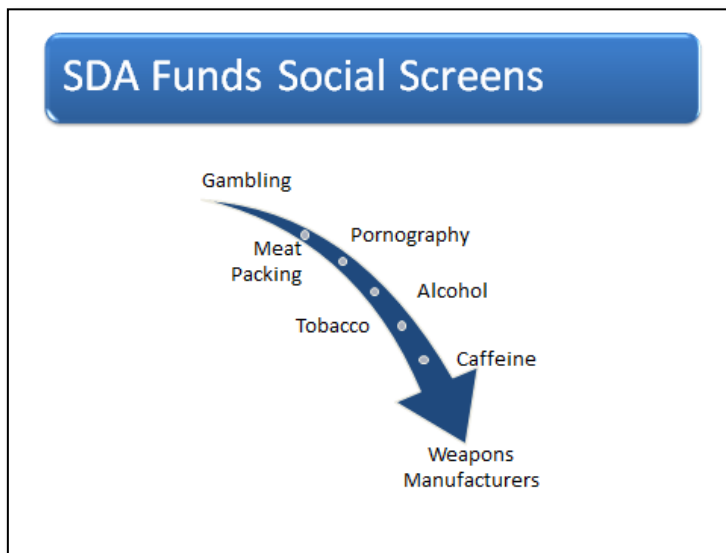


Seasoned Employee



spread across the range of investments with funds in each of the categories. Younger employees will generally be able to move the ‘center of gravity’ of their investments up, while those approaching retirement will generally want to move the center of gravity lower. Older employees don’t have as much time to ride out a market downturn.

On the previous page is an example of two different asset allocation models. A young employee would be more into equities, while the older employee would have more of his/her money in bonds and fixed income. This is merely an example and should not be considered a recommended investment model.



Investing for Good

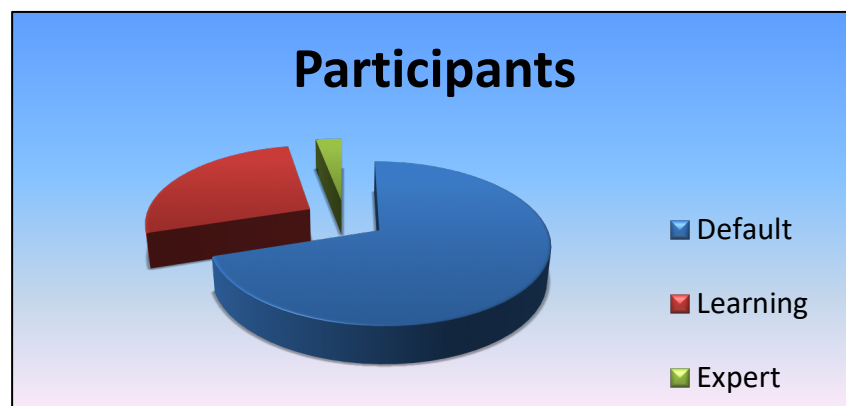
The Adventist church has published teachings regarding products which are seen as harmful or objectionable. Of the 20 plus funds offered in the pyramid above, the ones with the “SDA” prefix use these “screens” to avoid investments in objectionable products. Other investments, though listed in the Adventist Retirement Plan, do not. The choice whether to screen or not is up to the participant.

Default Model

Close to 70 percent of ARP participants are “default employees,” meaning that they have not informed either VALIC or Empower Retirement of their investment strategy. The ARP Board has established a default investment strategy which is age appropriate, uses the SDA Social Screens and makes use of Target Dated strategies. This essentially means that the investments move incrementally down the risk curve, quarter by quarter as a participant ages, so that when he or she reaches normal retirement age, the investments strategy is appropriate for a retiree.

Current Strategies

Plan participants come in three uneven groups. The largest group by far is the default group. These employees have dropped into the default investment model. Our review of



investment success of this group shows that they generally do quite well. Fees are low, and passive investing—not trying to time the market—generally has provided satisfying results.

The second group seeks to model their own investments, using online tools from Empower including modeling, advisors and Managed Funds.

The third group consider themselves to be knowledgeable investors and avoid the vetted mutual funds offered by the Plan, instead using the available brokerage window. This opens hundreds of available investment options to be researched by the participant.

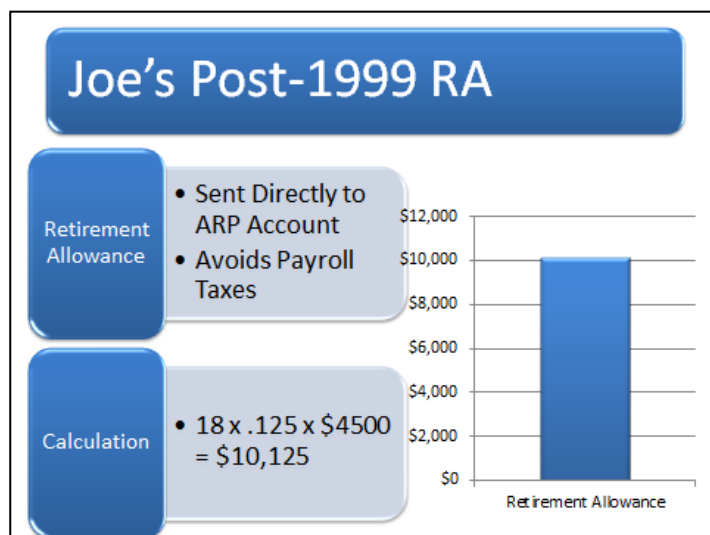
ARP – The Distribution Years

In this section we consider how best to make sure retirement income lasts for life, is efficient and makes sense. We discuss the **Retirement Allowance** that was earned during post-1999 employment. We also discuss options for distribution models.

The Retirement Allowance

The **Retirement Allowance (RA)** is a lump sum payment made to employees working half-time or more who go directly from employment to retirement. It comes in two portions. In this section we deal only with the post-1999 portion of the RA. There is another Retirement Allowance based on the pre-2000 years dealt with in the Defined Benefit module. While the allowance will not make anyone wealthy, it is a large enough amount that it should be protected.

The word “Retirement” is defined in this section as denominational termination at or after age 59 ½. There are some limited exceptions to the rule of going directly from employment to post-59 ½ termination. The most common is that the employer requests the Retirement Plan to protect the RA for a period of up to 36 months from termination until retirement benefits begin. This request might be made if the termination is involuntary and just prior to age 59 ½.



The Plan will honor the request of the employer and will record the protection of a deferred Retirement Allowance. But the deferral will never be more than 36 months. If retirement benefits do not begin within 36 months of employment termination, the RA is forfeited.

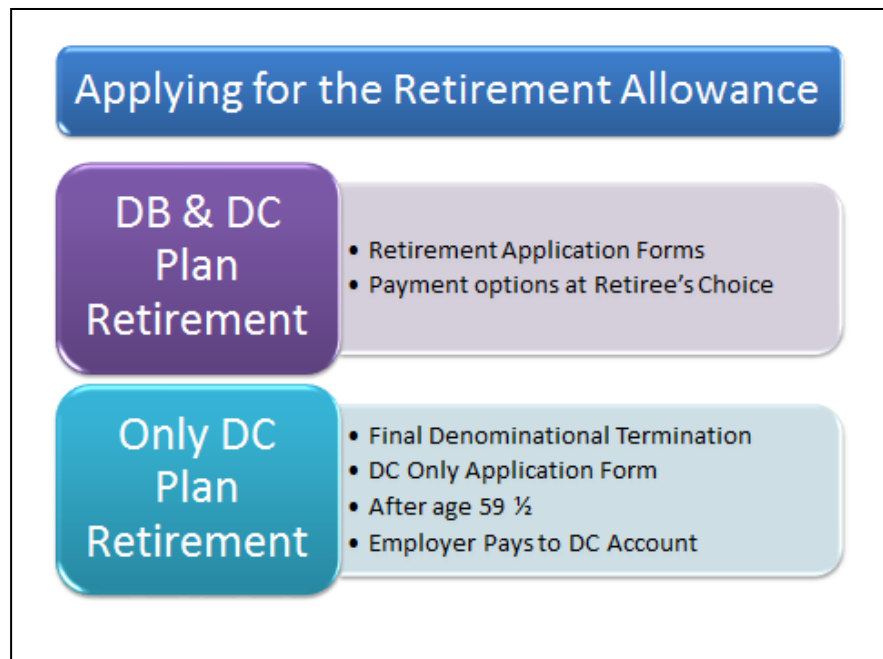
The post-1999 RA is paid by the employer to the employee. In almost all cases, this portion of the RA is required to be sent directly to the Defined Contribution Account. A few

employers have declined to accept this mechanism, and as a result, the payment is made directly to the retiree through payroll, resulting in payroll tax such as FICA and Medicare, and income tax withholding. Check with your human resources office to find out if your employer has adopted the Special Pay Resolution which allows tax deferral and avoidance of payroll taxes for your RA.

In this example, Joe’s RA is calculated by multiplying his years of post-1999 **qualified service credit** by the number .125 and then by his monthly wages. Joe has 18 years of full-time employment after 1999 and retires. His monthly pay at retirement was \$4,500, including the area Cost of Living Allowance but not including benefits or reimbursements such as auto insurance, area travel allowance or tuition assistance. The calculation is shown.

Employees with both pre-2000 and post-1999 qualified service credit, at retirement, will file for retirement benefits through their employer’s human resources office using the lengthy standard retirement application forms.

If the employee reaches retirement age with only NAD denominational service after 1999, which means they will have no pension from the pre-2000 Plan, the retirement benefits from the denomination will be primarily from the Defined Contribution Plan. There is a separate enrollment form for such DC-only retirees which includes application for healthcare assistance and the retirement allowance. The employer will provide access to that form to the retiree. The employer pays this directly to the employee’s Defined Contribution account.



Distribution Options

The accumulation years are the years prior to retirement. At retirement, the distribution phase begins, providing monthly income to pay the retiree’s bills. This can happen in several ways.

Note: For ministers, we have inserted whether each of these options is generally considered to be eligible for the parsonage allowance exclusion by using the term “minister-friendly.”

1. Structured withdrawal is where the retiree simply instructs **Empower Retirement** to send a monthly direct deposit from his or her retirement account to his or her bank account. Since the money is coming from a church plan, under current law it is considered to be eligible for **Parsonage Allowance Exclusion**. Unfortunately, there is no lifetime guarantee. Once the funds have been distributed, the monthly deposit ceases.
2. The purchase of an annuity solves the lifetime guarantee problem, but fees and commissions can be quite high. It is not minister friendly.
3. The Retirement Plan has an investment option called Secure Foundation, offered by Empower Retirement. We will describe that option shortly.
4. Other options can include transfer of assets to an IRA, to another employer plan, cashing out, or other options. Fees, flexibility and taxes would need to be considered.

Distribution Options			
Structured Withdrawal	Purchase Annuity	Secure Foundation	Other
<ul style="list-style-type: none"> • Easy & Flexible • Minister Friendly • Low Fees • No Lifetime Guarantee 	<ul style="list-style-type: none"> • Trouble Free • Life-time Guarantee • Minister Unfriendly • Moderate to High Fees • Not Flexible • ~6.8%* withdrawal rate 	<ul style="list-style-type: none"> • Minister Friendly • Moderate Fees • Flexible • Life-time Guarantee • ~5%* withdrawal rate 	<ul style="list-style-type: none"> • Rollover to Alternate Plan • Cash Out • Minister Unfriendly • Fees and Flexibility depend on Plan • No Lifetime Guarantee
* Single Life Male @65			

Secure Foundation

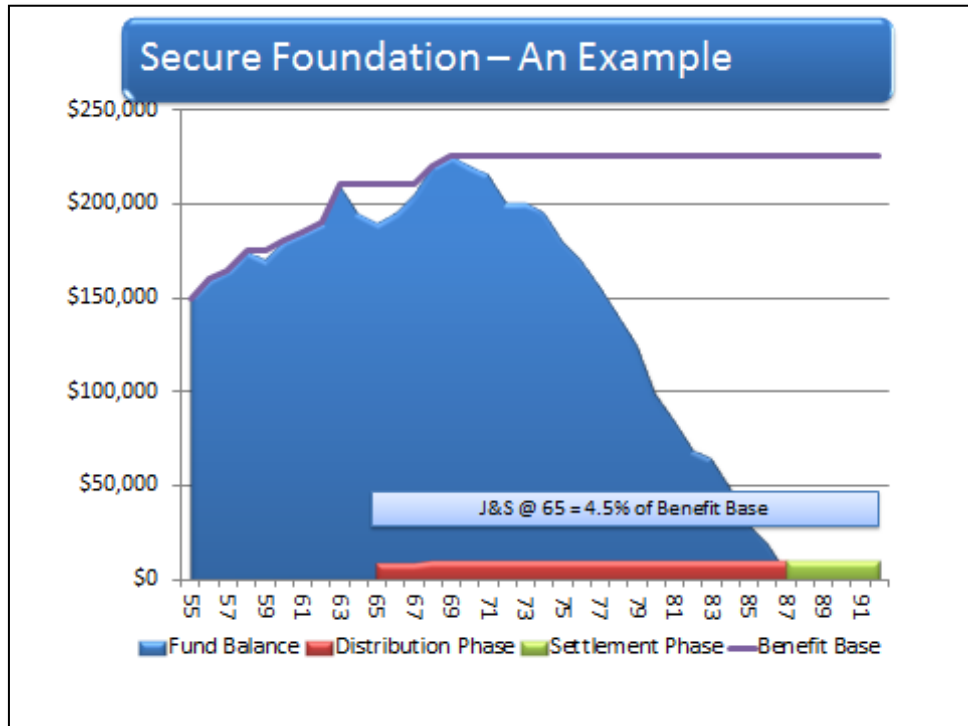
Secure Foundation or SF is a Guaranteed Lifetime Withdrawal Benefit product. In this example, an employee moves \$150,000 into the Secure Foundation investment option at age 55. He could have waited until later, but he didn't. There are two numbers to follow.

The Fund Balance is the actual market value of the asset, starting at \$150,000 and growing because of earnings and because he continues to add to it during his or her last 10 years of employment.

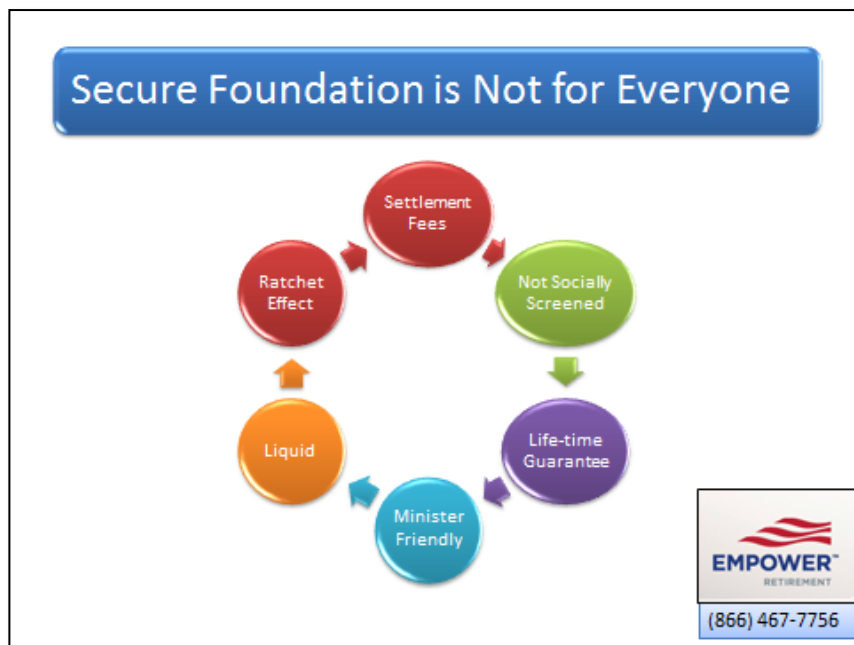
The Benefit Base is the purple line. Initially it tracks the fund balance. However, the benefit base has a unique "ratchet effect" which provides upside opportunity, but downside protection. Annually, the benefit base is compared with the fund balance. If the fund balance is higher than the benefit base, the benefit base goes up to match the fund balance. But if the fund balance is lower than the benefit base, the benefit base holds steady. In this example, at

age 59 and at age 64-67 the fund balance drops and recovers. While the actual fund balance declines, the benefit base does not.

Why is this important? Because the benefit base is the number which drives the Guaranteed Annual Withdrawal amount. The rate of withdrawal depends on the age of the youngest of a married couple. Because both are age 65, the withdrawal rate



is 4.5 percent of the benefit base, not the fund balance. If the fund balance declines due to market downturns, fees, and normal withdrawals, the benefit base remains at the highest level.



This will continue to put pressure on the fund balance, and in this case, the fund balance depletes at age 87. At that time SF enters the Settlement Phase which is the insured guaranteed lifetime part of the policy. As long as the retiree or spouse still lives, the 4.5% percent of the Benefit Base continues to flow.

Unlike most annuities, if the retiree and spouse both die prior to the depletion of the fund balance, the asset

remaining is distributed to named beneficiaries without having to go through the probate process, the distribution of assets under a will. Also, unlike most annuities, if the retiree faces a financial emergency, he or she can withdraw from the fund balance, although doing so will definitely also reduce the benefit base and reduce monthly retirement income.

We think that all pre-retirees should consider Secure Foundation. But it is not for everybody. Pros and cons should be thoughtfully reviewed.

1. There are fees. The lifetime guarantee costs just under one percent of the fund balance each year. So, including modest management fees, the fund has to earn about 1.3 percent in order to just break even. That's a fairly high requirement.
2. The SF investments do not comply with the church's social screens. There will be investments in companies considered by many to be objectionable.
3. The lifetime guarantee.
4. Withdrawals are currently eligible for Parsonage Allowance Exclusion.
5. The fund balance is available for withdrawal in the case of an emergency or can be switched to another investment class.
6. The ratchet effect provides upside opportunity and downside protection.
7. The 4.5 percent guaranteed annual withdrawal rate is lower than a Single Premium Immediate Annuity which, as this is written, runs above six percent.

The Adventist Retirement personnel are not trained or authorized to give more than general information regarding Secure Foundation. We refer interested participants to Empower Retirement. Tell them you are interested in Secure Foundation and they will put you in touch with the appropriate advisor.

Learning Exercises

This link will take you to Empower Retirement's website for further information regarding Secure Foundation.

<http://greatwestfunds.com/secure-foundation-lifetime-funds.html>

Learning Evaluation (answers follow)

1. The calculation of the Retirement Allowance bases the benefit on:
 - Ten highest years of pay in career using the denominational Remuneration Percentage Scale.
 - Ten highest years of pre-2000 pay using indexed pay in dollars.
 - Current pre-retirement monthly pay in dollars.
 - Five months of current pre-retirement wages.

2. The Retirement Allowance destination is:
 - The DC Plan account.
 - A charity chosen by the retiree.
 - Direct purchase of a commercial tax-deferred annuity.
 - Direct payment by check to the retiree for both employer and plan portions.

3. Options for receiving benefits for post-1999 years of NAD qualified service credit include the following (choose as many as apply)
 - Monthly pension from NAD Retirement Plan based on years of post-1999 service credit.
 - Monthly withdrawal from retirement asset.
 - Invest in Secure Foundation II for Lifetime Guaranteed Benefit.
 - Purchase of a commercial annuity.
 - Cash withdrawal from retirement asset.

4. Eligibility for withdrawal of benefits from my retirement asset includes (select as many as are correct.)
 - Any time after Age 59 ½ but only if terminated.
 - Any time after Age 59 ½ regardless of employment status.
 - 45 days after termination regardless of age.
 - Only after Normal Retirement Age as defined by Social Security (age 66-67).

5. Secure Foundation is:
 - A one-size fits all option for retirement.
 - A product within ARP that guarantees lifetime income.
 - A free way to guarantee lifetime income.
 - A method for tax avoidance.

6. Leakage refers to reduction in retirement asset due to:
 - IRS penalties because of a pre-59 ½ age withdrawal.
 - Unpaid loans from retirement assets.

- Withdrawals after a job termination prior to retirement.
- "Hardship Withdrawals" due to an "immediate and heavy financial need."
- All of the above

7. Asset Allocation is:

- The strategy of dividing your investments across various asset classes in an organized and efficient way.
- A method that guarantees never losing assets in a down market.
- A process of withdrawing assets in an efficient way.
- A practice of moving money quickly as market conditions change.

Question 1

Incorrect: The RA policy does not use 10 highest years of pay.

Incorrect: The RA policy does not use 10 highest years of pay, either pre-2000 or career.

Correct: Current monthly pay is used in the calculation. In addition, if a wage COLA would have been granted during the first month of retirement, the RA calculation will use the adjusted wage figure in the calculation. Also, an employee's part-time pay is adjusted to full-time equivalent pay for purposes of the calculation.

Incorrect: However, this is the foundation of the calculation for a 40-year employee. Most employees do not have 40 years, and the RA is reduced accordingly.

Question 2

Correct: Note that a handful of denominational employers have declined to take the required "Special Pay Resolution" which enables the automatic deposit into the DC Plan account and would be required to pay the RA directly to the employee, subject to income tax withholding and payroll taxes such as FICA and Medicare.

Incorrect: This is not allowed.

Incorrect: This is not an available option.

Incorrect: However, in the handful of cases that the employer has not adopted the Special Pay Resolution, this is actually required, subject to payroll taxes and income tax withholding.

Question 3

Incorrect: The Defined Contribution Plan does NOT provide a pension from the Retirement Plan.

Correct: This is an option that many choose. But it has no lifetime guarantee.

Correct: This is a recently added option.

Correct: Empower Retirement and other insurance companies offer annuities.

Correct: This is not recommended because it will be immediately taxable.

Question 4

Incorrect: Withdrawal after age 59 ½ does not require termination.

Correct: This is the normal withdrawal model.

Correct: We hope that pre-retirement termination does not result in withdrawal, but it is possible.

Incorrect: The Plan has defined 59 ½ as an age eligible withdrawal date.

Question 5

Incorrect: There is no one-size fits all option. This is an option that should be considered but is not right for everyone.

Correct: Because it is within ARP, it is currently eligible for Parsonage Allowance Exclusion.

Incorrect: Withdrawals will be taxable.

Question 6

Correct: Early withdrawals incur extra IRS penalties to discourage withdrawals before 59 ½.

Correct: Unpaid loans reduce the retirement asset and therefore retirement income.

Correct: Early withdrawal using the termination + 45 days rule will reduce the retirement income.

Correct: Although valuable as an emergency tool, Hardship Withdrawal reduces the asset and limits contributions in the short term.

Correct: All of these can result in "Leakage."

Question 7

Correct: This is the recommended approach for long-term retirement investing.

Incorrect: Asset allocation may reduce downturns through diversification, but cannot eliminate risk.

Incorrect: Asset allocation is not a withdrawal method.

Incorrect: This would be called market timing, not asset allocation.

Healthcare In Retirement

Glossary

Adventist Risk Management (ARM)	The Adventist agency which assists the Plan in managing Dental/Vision/Hearing and Pre-Medicare options.
Dental/Vision/Hearing (DVH)	The SHARP option dealing specifically with Dental, Vision and Hearing assistance.
Earned Credit	The amount of financial assistance based on Qualified Service Credit provided for DVH and Pre-Medicare.
Joint & Survivor Spouse (J&S Spouse)	The spouse of a retiree designated at retirement as a Joint & Survivor Spouse, and thus may be eligible for Survivor Benefits and Healthcare Assistance.
Pre-Medicare Plan	The healthcare plan offered to eligible retirees and spouses who meet eligibility requirements for Healthcare Assistance but are not yet age 65.
Preferred Provider Organization	A health insurance network within which subscribers receive discounts for a range of medical services. Services outside of a broadly defined network may be at higher personal cost.
SHARP	A healthcare plan provided by the NAD Retirement Plan for retirees, J&S Spouse, and in rare cases, for children.
Plan Year	The calendar year
Rx Option	The prescription drug coverage options.
Tier	Categories of prescription drugs from low-copay tier 1 to high coinsurance tiers 4 or 5.

This section is designed to assist those who are approaching retirement under either the NAD's pre-2000 Defined Benefit Plan or Defined Contribution Plan, or both. If you have at least 15 years of qualified service credit, this section will assist you in understanding how the church provides Healthcare Assistance in retirement. Here we focus on those healthcare assistance needs not addressed by original Medicare including pre-Medicare provisions for early retirement. A subsequent module will focus on SHARP-Exchange, the Healthcare Assistance Plan for those who are over age 65. We divide this section into three lessons.

The High Level Review

This section is designed to assist those considering retirement in understanding at an overall level, the role of various participants in providing healthcare assistance to qualifying retirees. Subsequent lessons will provide detailed information as we will drill down into the actual decisions retirees will make, and selections available to them.

The High Level Review is an effort to show the various puzzle pieces which when put together provide opportunity for a comprehensive Healthcare Assistance Plan.

Original Medicare begins for most at age 65, and cares for inpatient hospitalization under Medicare Part A and outpatient medical under Medicare Part B.

Original Medicare does not cover prescription drugs or Rx. However, Medicare Part D is designed to provide such assistance, as prescription drugs become a more important and

expensive part of the practice of medicine.



•Healthcare Needs & Provisions	
•In Patient	Medicare A
•Out Patient	Medicare B
•Prescription Drugs (Rx)	Medicare D
•Assistance with Medical	SHARP-Ex
•Dental/Vision/Hearing	SHARP DVH
•Pre-Medicare	SHARP

Supplemental assistance is designed to assist retirees with the sometimes substantial costs that Parts A, B and D leave to the retiree. This is provided by the SHARP-Exchange, or what we refer to

as **SHARP-Ex**. This will be described in a subsequent section entitled SHARP-Exchange.

Dental, vision and hearing are not covered by Medicare. But a **Dental/Vision/Hearing Plan**, referred to as DVH, is available from SHARP.

Finally, for qualifying spouses, children and the occasional pre-Medicare retiree, SHARP provides a Pre-Medicare Plan.

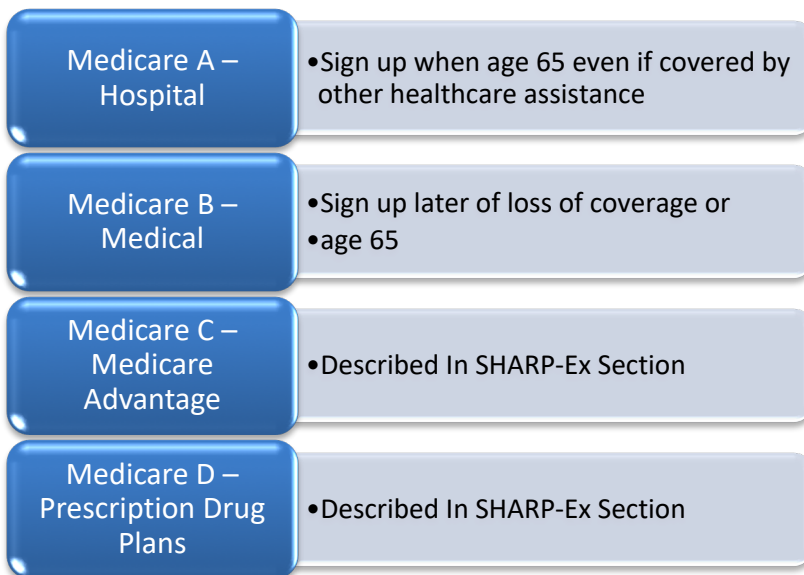
Eligibility

The NAD Retirement Plan operates an employer sponsored Healthcare Assistance Plan for qualifying retirees under a general umbrella referred to as **SHARP, or Supplemental Healthcare, Adventist Retirement Plan**. SHARP, in and of itself, is not an insurance product for general sale. In order to participate in SHARP, a person must have at least 15 years of NAD

qualified service credit, including both pre-2000 and post-1999 qualified service credit, and must be a NAD Retirement Plan beneficiary. A qualifying retiree's spouse is also eligible to participate as a **Joint & Survivor Spouse** which requires marriage for at least one year prior to retirement. In rare cases, children of eligible retirees under age 26 may be eligible to participate. If the retiree is eligible for healthcare assistance under SHARP, a spouse too young to be a Medicare participant may enroll in SHARP's pre-Medicare option and will receive significant assistance towards this plan which is designed to bridge healthcare until the individual reaches age 65 when he or she will become eligible for Medicare. There is no age requirement for this provision. We have had retirees and spouses with an age difference of 30 years.

Medicare is Essential

Medicare is the foundation upon which healthcare assistance is based. Generally speaking, SHARP does not "do" Medical. Medicare is the payer for inpatient and outpatient healthcare for



retirees. There is bridge assistance for those under age eligibility for Medicare which is described later. The four Medicare models are:

Medicare Part A; this is for hospitalization. Medicare suggests that you sign up for A to begin when you reach age 65, even if you are still employed and covered under an active plan. Your

employer's healthcare plan will be primary, but Medicare may assist you if hospitalized. Most people pay no monthly premium for Medicare A.

Medicare Part B; this is for outpatient services such as doctor visits, radiology and lab. Medicare says you should sign up for this effective at age 65, or when you lose your plan coverage due to termination, whichever is LATER. There is a monthly premium retirees pay for this coverage. Medicare C; also called Medicare Advantage is a special type of Medicare supplement, which will be described later in the SHARP-Exchange module.

As an aside, part of this Medicare B premium is reimbursable to those who are receiving a pension from the pre-2000 NAD defined benefit pension plan.

Medicare D; this is plan which provides prescription drug coverage for retirees, which will be described later in the SHARP-Exchange module.

SHARP assumes that you will sign up for Medicare A, B and D. SHARP *supplements* Medicare, but does not *replace* Medicare.

Healthcare expenses that Medicare does not cover include:

1. Outpatient prescription drugs; Almost every year the plan has 10 to 15 retirees who incur Rx expenses exceeding \$100,000.

Retirees
Incur
Expenditures
Not Covered
by Medicare
such as:

- Outpatient Prescription Drugs
- Dental, Vision, Hearing
- Medicare co-pays and deductibles
- **Inpatient Admission Deductible (2018 = \$1,340)**
- Outpatient annual deductible and co-pay
- Daily co-pays for lengthy hospitalizations
- Other significant personal exposure for lengthy hospital stays

2. Dental, Vision, Hearing; these expenses are not covered by Medicare.

3. Deductibles & Copays; retirees under Medicare are responsible for fairly significant copays. Perhaps the most important of these is the Inpatient deductible. The hospitalized participant is responsible for this expense before Medicare kicks in. This is not an annual deductible. If you have multiple hospitalizations in a year, you may have to pay this deductible for each admission.

4. Other significant expenses are incurred if you are hospitalized for a lengthy stay.

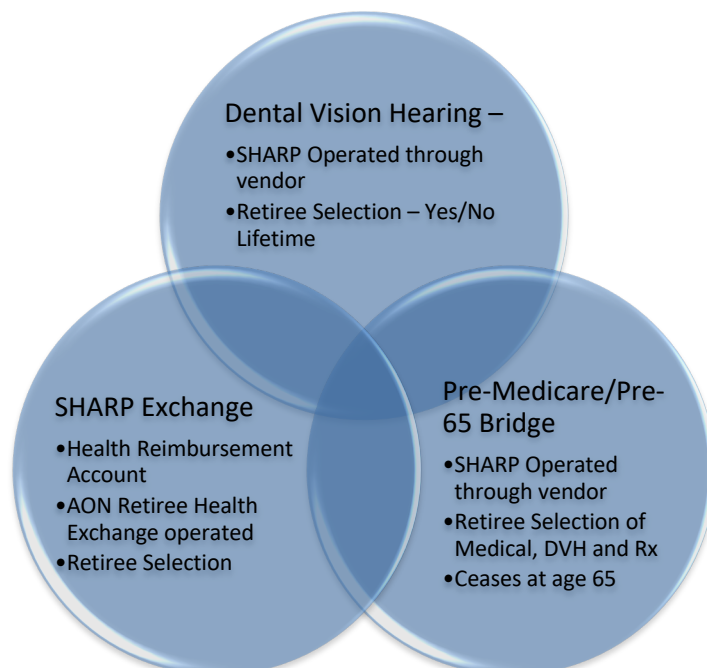
Supplemental Healthcare, Adventist Retirement Plan (SHARP)

The three basic components of SHARP include:

Dental/Vision/Hearing

- Funding is shared by SHARP and the retiree.
- SHARP operates this plan through **Adventist Risk Management** and a vendor.
- The retiree decides whether to adopt this option at retirement. In most cases this is a one-time lifelong decision.

Pre-Medicare Bridge; This option gives the younger spouse of a retiree, or in some cases an early retiree



an option to bridge the time gap between retirement and age 65 with a healthcare plan which somewhat replicates the provisions of the employer's active healthcare plan. The plan options include dental, vision, hearing, medical and prescription drugs. Costs are shared by SHARP and the retiree. However, if the retiree is less than age 65 and has less than 40 years of qualified service credit, the costs for the pre-Medicare option are born solely by the retiree. The pre-Medicare bridge ceases at age 65.

SHARP Exchange; The most common benefit is for beneficiaries who are age 65 and older and wraps around or supplements Medicare. The Plan provides an annual tax-free contribution to an account with the beneficiary's name on it, called a **Health Reimbursement Account, or HRA**, which can then be used to reimburse the beneficiary for premium expenditures and other qualifying expenses. The plan is operated by AON Retiree Health Exchange under contract to the NAD Retirement Plan. It provides the beneficiary with many options to provide various levels of Medicare supplement. This component is also known as SHARP-Ex and will be described in a subsequent section.

Dental/Vision/Hearing (DVH)

This section is designed to assist those who are approaching retirement under either the NAD's pre-2000 defined benefit pension plan or defined contribution retirement savings account plan, or both. If you have at least 15 years of qualified service credit, this lesson will assist you in understanding how the church provides a plan to cover non-Medicare expenses under Dental, Vision and Hearing. This is an important decision you will make at your retirement. In most cases it is a one-time lifetime decision.

DVH Eligibility

There are two tiers or levels of DVH eligibility. A retiree may be eligible to participate with or without a subsidy.

In order to be eligible for the DVH option, a retiree must meet the same qualification requirements as other SHARP provisions:

1. At least 15 years of NAD church qualified service credit
2. At least age 59 ½
3. Has applied for retirement benefits.

In order to be eligible for subsidized participation,

1. At least age 65 or
2. Have 40 or more years of NAD church qualified service credit.

In order for a spouse to be eligible for DVH option:

1. Married to a SHARP eligible retiree for at least one year prior to retirement, and be
2. Designated by the retiree as a Joint & Survivor Spouse

In order for a spouse to be eligible for subsidized participation, the retiree must be eligible for subsidized participation.

DVH Enrollment

SHARP provides only limited opportunity to enroll in its DVH option.

1. At application for retirement benefits.
2. If pre-Medicare, in the month the retiree and/or spouse reaches age 65.
3. If deferred enrollment due to existing coverage, when existing coverage is terminated.
4. A DVH participant may request in writing that DVH be dropped at year end. No open enrollment provision is available to re-enroll in DVH once declined or terminated.

DVH is an all or nothing option. For instance, a retiree may not enroll in only the Dental portion.

DVH Provisions

Since 2002, SHARP has provided a DVH plan for qualifying beneficiaries which is simply not available in the open market. Because of this, outside of the AON Retiree Health Exchange brokerage window described in other modules, SHARP continues to offer beneficiaries with this provision. New retirees are given a one-time opportunity to select DVH.

SHARP pays 80 percent of qualifying costs subject to the plan annual maximums. Note that the Hearing provision includes a one-year lookback. This means that a person who didn't use the hearing benefit in 2019 could use both 2019 and 2020 maximums in 2020. This lookback is not available for dental or vision.

There are annual maximums for each component of DVH. This is the maximum within a calendar year that SHARP will pay as its 80 percent of actual costs.

The net charge for DVH is shown in five-year bands based on years of qualified service credit. For pension beneficiaries one twelfth would be withheld from the monthly pension. Retirees not receiving a pension will make payments for their contributions.

As an example, Jane is a 66-year-old retiree with 28 years of qualified service credit. She will pay \$528 for 2019 as her subsidized contribution to DVH, or \$44 per month. The maximum that

Cost-Sharing	<ul style="list-style-type: none"> •Plan: 80% •Participant: 20% 												
2019 Plan Maximums	<ul style="list-style-type: none"> •Dental Assistance: \$2,200 •Vision Assistance: \$400 •Hearing Assistance: \$2,200 												
Net Annual Charge to Beneficiary based on Qualified Service Credit	<table border="1" style="width: 100%; border-collapse: collapse;"> <tbody> <tr> <td style="padding: 2px 10px;">•35+ Years</td> <td style="padding: 2px 10px;">\$360</td> <td style="padding: 2px 10px;">30-34 Years</td> <td style="padding: 2px 10px;">\$444</td> </tr> <tr> <td style="padding: 2px 10px;">•25-29 Years</td> <td style="padding: 2px 10px;">\$528</td> <td style="padding: 2px 10px;">20-24 Years</td> <td style="padding: 2px 10px;">\$612</td> </tr> <tr> <td style="padding: 2px 10px;">•15-19 Years</td> <td style="padding: 2px 10px;">\$696</td> <td></td> <td></td> </tr> </tbody> </table>	•35+ Years	\$360	30-34 Years	\$444	•25-29 Years	\$528	20-24 Years	\$612	•15-19 Years	\$696		
•35+ Years	\$360	30-34 Years	\$444										
•25-29 Years	\$528	20-24 Years	\$612										
•15-19 Years	\$696												

SHARP would pay towards any dental costs during 2019 would be \$2,200 against total costs of \$2,750. If her dental costs for the year exceed \$2,750, she would be responsible for 100 percent of the excess.

Is DVH a Good Deal?

It is very easy to look at the annual charge for your years of qualified service credit and determine that SHARP is very modestly priced for the value it delivers. However, there are two ways to look at DVH.

- I pay the net. DVH is cheap. Take your annual charge on the last graphic and divide it by 12. This is a modest amount to pay given the generosity of the Plan maximums.
- I actually pay the gross, because if I enroll for DVH, my HRA contribution (see other discussions of HRA) will be reduced by the amount of the DVH subsidy. The next table illustrates this.
- Enrollment is generally a lifetime decision.

SHARP Contributions to your Healthcare Assistance

Years of Qualified Church Service	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

This table describes the annual contributions to the HRA, and shows the impact of enrolling in DVH. The total contribution based on years of qualified service credit is shown in the second column. For the DVH enrollee, part of the Total Annual Contribution will go towards subsidizing DVH.

Find your five-year band of service you expect to achieve at retirement, including pre-2000 and post-1999 NAD years of church qualified service credit.

The second column shows the annual contribution SHARP will make towards your supplemental healthcare plans. The third column then shows the portion of that amount that will be taken to pay a subsidy towards your Dental/Vision/Hearing costs.

The fourth column shows the residual amount which will be contributed towards your HRA each year. If you do NOT enroll in DVH, there is no third column amount, and the fourth column will equal the second column.

So, should I buy SHARP’s DVH? By far most of our retirees do enroll in DVH. One simply doesn’t know what the future holds, and caring for one’s own dental expenses, hearing aids and glasses can be costly.

Some Medicare supplemental plans offer some assistance in these areas as an alternative to DVH. If you choose to find an alternate plan, perhaps as an add-on to a Medicare Advantage plan, many have a specific and narrowly defined network. Some have a sizeable deductible, or a delay before coverage begins. Most have a modest annual maximum, and some limit the scope of dental work to preventive such as annual exams and cleaning. Any restorative work may be entirely at the retiree’s expense.

SUPPLEMENTAL HEALTHCARE, ADVENTIST RETIREMENT PLAN					
2018 Enrollment Form					
Church Service Only					
Retiree	Tony		35+ Yrs	DOB 6/30/1952	SS# 000-00-0000
Spouse	Hannah			1/15/1951	000-00-0000
65+ Only	Retiree	Spouse	Monthly Cost	Retiree Cost	Spouse Cost
DVH	✓	✓	\$95	\$95	\$95
Less Earned Credit				\$65	\$65
Personal DVH Cost				\$30	\$30

Total Contribution	Retiree	Spouse
Annual HRA Plan Contribution	\$2,400	\$2,400
Less DVH Earned Credit	\$780	\$780
Net Annual HRA Contribution	\$1,620	\$1,620

This is an example of an enrollment form for DVH. Tony and Hannah, both fictitious individuals, are over age 65 when Tony retires. Both he and his eligible Joint & Survivor Spouse decide to enroll in DVH. Since Tony has over 35 years of qualified service credit, they will receive the maximum healthcare assistance contribution. However, a portion (\$65 x 12 = \$780) will go to

the DVH subsidy, leaving a less generous annual HRA contribution for both. If they chose to not participate in DVH, they would see the full contribution put into their Health Reimbursement Account.

Pre-Medicare

This pre-Medicare section should be reviewed within the larger context of healthcare assistance in retirement. We discuss eligibility for Pre-Medicare Plan. We describe briefly the actual benefits provided, and the cost structure. You will understand the temporary “bridge” nature of the Plan, and finally we discuss the pitfalls of early retirement. Plan details can be obtained by downloading the Pre-Medicare SHARP booklet from the Plan website at <https://www.adventistretirement.org/retiree/sharp/>. Scroll down to the appropriate downloadable booklet.

Pre-Medicare Eligibility

Adventist Retirement Healthcare Assistance assumes that the retiree and spouse are eligible for Medicare. However, a Pre-Medicare Plan is available for pre-65 retirees and spouses as a courtesy to bridge the retiree and/or spouse from termination to Medicare eligibility at age 65. There is a difference between being a participant or being able to join the Pre-Medicare Plan and receiving financial assistance within the Pre-Medicare Plan.

There are two **tiers** or levels of DVH eligibility. A retiree may be eligible to participate with or without a subsidy.

Eligibility for the Pre-Medicare option requires that the retiree must:

1. Have at least 15 years of NAD church qualified service credit
2. Be at least age 59 ½
3. Be less than age 65
4. Have applied for retirement benefits

In order to be eligible for subsidized participation the retiree must have 40 or more years of NAD church qualified service credit.

Eligibility for the pre-Medicare option requires that the spouse must:

1. Be married to a SHARP eligible retiree for at least one year prior to retirement, and
2. Be designated by the retiree as a Joint & Survivor Spouse

In order for a spouse to be eligible for subsidized participation, the retiree must be eligible for subsidized participation.

Pre-Medicare Provisions

The Pre-Medicare Plan is a healthcare assistance plan modelled on the pre-2018 NAD Standard healthcare assistance plan for employees. There are some differences.

There are three components which are selected and priced separately:

- The Medical makes use of a **Preferred Provider Organization**, or a network. Care outside of the network will usually cost the participant more. There are copays.
- The Dental/Vision/Hearing component is the same as the previously described SHARP DVH Plan with 80/20 sharing and annual maximums for each of the Dental/Vision/Hearing services.
- The Prescription Drug component is a three-tier Rx Plan with copays. This means that drugs are categorized by cost. Copays for tier three drugs are higher than copays for tier one drugs.

The Pre-Medicare retiree and spouse can select from among the three components. Most pre-Medicare retirees select all three options.

The Earned Credit

The financial subsidy for eligible retirees and spouses is called an **Earned Credit**. This is the monthly amount provided to offset the actual cost of the **Pre-Medicare Plan**. It is based on years of qualified service credit in both the church’s pre-2000 Defined Benefit Plan, and the post-1999 Defined Contribution Plan.

A pre-retiree can find his or her row by estimating years of qualified service credit at retirement. This benefit is not paid to the retiree but is a non-taxed credit against the actual cost of SHARP Pre-Medicare options selected.

Earned Credit Amounts	
Years of Qualified Church Service Credit	Monthly Earned Credit per Participant
35+	\$640
30-34	\$565
25-29	\$490
20-24	\$415
15-19	\$340

Pre-Medicare Enrollment

In the lengthy retirement application form there is provision for enrollment in any of SHARP’s options. This is the time to apply for pre-Medicare for the retiree and/or the spouse. If the pre-Medicare option is deferred because of continued healthcare assistance (perhaps under a spouse’s employer’s plan,) upon loss of coverage an open enrollment occurs for SHARP’s provisions, including pre-Medicare options. There are no other opportunities to enroll in SHARP. As stated previously, at age 65 the Pre-Medicare Plan terminates without exceptions. Here is where we start to put it together. Three enrollment forms for three different age and service scenarios are shown on the next page.

65 Plus Pre-65:

Tony and Hannah (fictitious employee and spouse) apply for retirement benefits. Tony is over age 65 and has earned 35+ years of qualified service credit. He applies for the 65+ DVH Plan.

The cost, earned credit, and net monthly charge have been previously described in the DVH section.

SUPPLEMENTAL HEALTHCARE, ADVENTIST RETIREMENT PLAN					2019
2018 Enrollment Form					
Church Service Only					
Retiree	Tony		35+ Yrs	DOB	SS#
Spouse	Hannah			6/30/1952	000-00-0000
				1/15/1956	000-00-0000
65+ Only	Retiree	Spouse	Monthly Cost	Retiree Cost	Spouse Cost
DVH	✓		\$95	\$95	
Less Earned Credit				\$65	
Personal DVH Cost				\$30	
Pre-Medicare					
Medical		✓	\$490		\$490
Rx		✓	\$140		\$140
DVH		✓	\$95		\$95
Total Pre-Medicare					\$725
Less Earned Credit					\$640
Net Cost				\$30	\$85
Combined Monthly Charge					\$115

SUPPLEMENTAL HEALTHCARE, ADVENTIST RETIREMENT PLAN					2019
Enrollment Form					
Church Service Only					
Retiree	Tony		40+ Yrs	DOB	SS#
Spouse	Hannah			6/30/1955	000-00-0000
				1/15/1956	000-00-0000
65+ Only	Retiree	Spouse	Monthly Cost	Retiree Cost	Spouse Cost
DVH			\$95		
Less Earned Credit					
Personal DVH Cost					
Pre-Medicare					
Medical	✓	✓	\$490	\$490	\$490
Rx	✓	✓	\$140	\$140	\$140
DVH	✓	✓	\$95	\$95	\$95
Total Pre-Medicare				\$725	\$725
Less Earned Credit				\$640	\$640
Net Cost				\$85	\$85
Combined Monthly Charge					\$170

SUPPLEMENTAL HEALTHCARE, ADVENTIST RETIREMENT PLAN					2019
Enrollment Form					
Church Service Only					
Retiree	Tony		39 Yrs	DOB	SS#
Spouse	Hannah			6/30/1955	000-00-0000
				1/15/1956	000-00-0000
65+ Only	Retiree	Spouse	Monthly Cost	Retiree Cost	Spouse Cost
DVH			\$95		
Less Earned Credit					
Personal DVH Cost					
Pre-Medicare					
Medical	✓	✓	\$490	\$490	\$490
Rx	✓	✓	\$140	\$140	\$140
DVH	✓	✓	\$95	\$95	\$95
Total Pre-Medicare				\$725	\$725
Less Earned Credit				\$0	\$0
Net Cost				\$725	\$725
Combined Monthly Charge					\$1,450

Hannah is not yet Medicare eligible. She applies for the Pre-Medicare Medical, Rx and DVH. The charges are shown with a total. But because Tony had 35+ years of qualified service credit, he receives the maximum earned credit for Hannah's Pre-Medicare Plan. Thus, the combined monthly charge for Tony's DVH and Hannah's pre-Medicare is manageable.

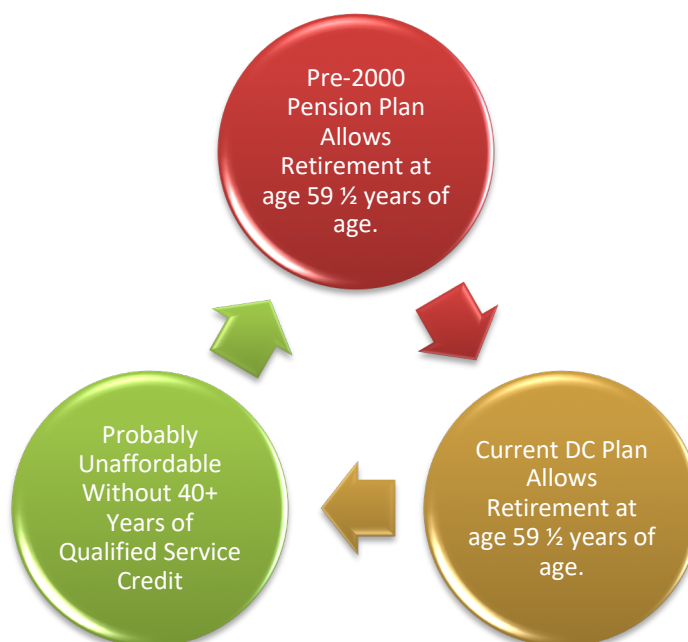
Both Pre-65 with 40 Years: In the second form, we change Tony's age to less than 65. We also give him the magic 40 years of qualified service credit, so he is eligible for the Pre-Medicare Earned Credit. Both Tony and Hannah sign up for the full pre-Medicare option. The combined monthly charge is again quite manageable.

Both Pre-65 with 39 Years: Now we are going to give the bad news. Let's change Tony's years of qualified service credit from 40 to 39. Tony and Hannah can participate in the Pre-Medicare Plan, but they will not receive any financial assistance in paying for the cost of participation. The earned credit is zero. The monthly charge is substantial. It is temporary. When Tony reaches age 65, he drops the Pre-Medicare Plan and becomes eligible for Medicare and SHARP-Ex. At that time, his still pre-65 spouse Hannah also becomes eligible for an earned credit on her Pre-Medicare Plan.

This is a brief illustration of the cost structure of the Pre-Medicare Plan. This Plan will terminate for each of them upon reaching age 65 regardless of any situation they may find themselves in.

Early Retirement Dangers

The dangers of early retirement are clear. For most people, retirement prior to age 65 when Medicare begins will result in either going without healthcare assistance or buying healthcare without any financial assistance at an age when this is difficult to find. If, however, the retiree has 40 or more years of qualified service credit, the Pre-Medicare Plan becomes available with subsidies.



SHARP-Exchange

Glossary

Plan Year	The calendar year
Rx Option	The prescription drug coverage options.
AON Retiree Health Exchange	Aon Retiree Health Exchange, a company with which the Plan has contracted to manage SHARP-Ex.
Health Reimbursement Account (HRA)	An account opened for Eligible Retirees and/or Spouses. The account receives annual contributions from SHARP to reimburse the retiree for qualifying healthcare expenses.
Joint & Survivor Spouse (J&S Spouse)	The Spouse of a Retiree designated at retirement as a Joint & Survivor Spouse, and thus may be eligible for Survivor Benefits and Healthcare Assistance.
SHARP-Ex	The specific portion of SHARP dealing with retiree and spouse age 65 and over.
Preferred Provider Organization	A health insurance network within which subscribers receive discounts for a range of medical services. Services outside of a broadly defined network may be at higher cost.
Health Maintenance Organization (HMO)	A health insurance network to which subscribers pay a pre-determined fee in return for a range of medical services. Services outside of a narrowly defined network may be at personal cost.
Tier	Categories of prescription drugs from low-copay tier 1 to high co-insurance tiers 4 or 5.

SHARP-Exchange (SHARP-Ex) is a Healthcare Assistance provision for retirees and J&S spouses who are age 65+ and eligible for Medicare and should be reviewed within the larger context of healthcare assistance in retirement including the Dental/Vision/Hearing option described elsewhere.

We will discuss eligibility for SHARP-Ex. We will introduce you to the Plan Broker, AON Retiree Health Exchange, and the workings of the Health Reimbursement Account. We will discuss the three Medicare supplemental provisions and describe the applications process and change options.

The SHARP-Ex Puzzle

In this lesson, we discuss how the pieces of the healthcare assistance puzzle fit together, eligibility rules and the roles of the primary players. Finally, we will share some strategies adopted by various retirees in seeking to meet their financial capacity and healthcare needs.

SHARP-Ex Eligibility

A retiree under the NAD Defined Benefit Retirement Plan and/or the NAD Defined Contribution Retirement Plan is eligible to participate in SHARP-Ex if he or she is at least age 65 and has at least 15 years of qualified service credit.

A retiree's spouse is eligible to participate in SHARP-Ex if he or she is designated at retirement as a Joint & Survivor Spouse, which requires marriage at least one year prior to retirement. The spouse must also be at least age 65.

The Plan Broker

AON Retiree Health Exchange is a brokerage company with contracts with approximately 90 different Medicare supplemental providers across the country. AON Retiree Health Exchange record-keeps your HRA, provides you with a benefits advisor and files retiree enrollment applications with a carrier of your choice.

AON Health Exchange is a broker, not a carrier. There are no specific AON Retiree Health Exchange insurance products in SHARP-Ex. AON Retiree Health Exchange essentially introduces retirees to the marketplace of Medicare supplement carriers.

A Health Reimbursement Account (HRA) is opened for each qualifying participant. SHARP contributes to that account an amount based on years of qualified service credit. Those funds become available to reimburse participants for premiums paid and other healthcare costs. In order to receive a contribution to your HRA, retirees must purchase a Medicare D prescription drug plan and/or a Medicare Supplement plan such as a Medigap plan or a Medicare Advantage Plan from the AON Retiree Health Exchange. Purchases of supplemental plans from another broker will jeopardize the HRA contribution from SHARP.

Medicare

In the High Level Look at SHARP lesson, we described the parts of Medicare and how the healthcare assistance market place is used in SHARP-Ex. We reiterate:

Medicare A – Hospital	<ul style="list-style-type: none"> • Sign up when age 65 even if covered
Medicare B – Medical	<ul style="list-style-type: none"> • Sign up later of loss of coverage or • age 65
Medicare C – Medicare Advantage	<ul style="list-style-type: none"> • Optional Commercial product which replaces Original Medicare
Medicare D – Rx	<ul style="list-style-type: none"> • Prescription Drug Plans which complement Medicare

Medicare is the foundation upon which healthcare assistance is based. SHARP does not pay for medical expenses for those 65 or over. Medicare is the payer for inpatient and out-patient healthcare for retirees.

The four Medicare models are: Medicare A; this is for hospitalization. Medicare suggests that you sign up for A to begin when you reach age 65, even if you are still employed and covered

under an active plan. Your active plan will be primary, but Medicare may assist you if hospitalized. Most people pay no premium for Medicare A.

Medicare B; this is for outpatient services such as doctor visits, radiology and lab. Medicare says you should sign up for this effective at age 65 or when you lose your plan coverage due to termination, whichever is *later*. There is a premium you will pay for this coverage. As an aside, part of this premium is reimbursable to those who are beneficiaries of the NAD defined benefit plan.

Medicare C; also called Medicare Advantage, is a special type of Medicare supplement which replaces original Medicare, providing all of the Medicare A and B provisions as well as an embedded Prescription Drug Plan.

Medicare D; this is a plan which provides prescription drug coverage for retirees. SHARP assumes that you will sign up for Medicare A, B and D. C is a special option. Important! SHARP supplements Medicare but does not replace Medicare.

Is Medicare enough?

Medicare provides the baseline coverage for retirees. However, there are significant healthcare expenses incurred by retirees which are not provided by original Medicare.

Outpatient Prescription Drugs; Almost every year, the plan has 10 to 15 retirees who incur Rx expenses exceeding \$100,000.

Dental, Vision, Hearing; these expenses are not covered by Medicare.

Deductibles & Copays; retirees under Medicare are responsible for fairly significant copays. Perhaps the most important of these is the inpatient deductible which in 2018 was \$1,340. The hospitalized participant is responsible for this expense before Medicare kicks in. This is not an annual deductible. Multiple hospitalizations in a year may result in multiple deductibles. Other significant expenses are incurred if you are hospitalized for a lengthy stay.

Medicare Strategies

Before we dive into the details, let's look at the various strategies retirees consider at retirement.

Medicare, Medigap & Rx:

This is probably the most common approach. Medicare pays hospitalization and doctor visits, Medigap plugs some Medicare copays and deductibles and Rx (Medicare D) pays part of prescription drugs. While usually the most expensive strategy from a premium perspective, it protects the retiree from most unpleasant surprises.

Medicare & Rx:

In this strategy, retirees determine they can pay for the occasional hospital admissions deductible and the doctor visit copays, and opt not to purchase a supplemental plan. They do, however, recognize the danger of going without a prescription drug plan and purchase an Rx plan.

Medicare Only:

A third strategy is the Medicare Only Strategy. Some retirees have said, "I don't take any drugs. Why buy an Rx plan?" Well I'm glad you asked. Basic Rx plans are modestly priced, and if you delay in signing up for one, Medicare demands a lifetime penalty. Finally, some diagnoses may result in your having to take specialty drugs that can cost big dollars. We have over a dozen retirees each year who spend more than \$100,000 in one calendar year on outpatient prescription drugs. If the new expensive prescription is written in, say February, you generally won't be able to begin a new coverage until the following January. We strongly discourage this strategy.

Medicare Advantage:

Medicare Advantage essentially replaces Medicare with a commercial product. It covers all of the Medicare A and B mandated coverages and usually adds an Rx plan and may include limited dental and vision provisions. It is network based. More on this later.

Dental/Vision/Hearing:

In addition to the above strategies retirees will decide whether to enroll in the Dental/Vision/Hearing Plan which can be used alongside any of the Medicare strategies.

Contribution Structure

On the next page is the same table we showed in the Dental/Vision/Hearing module to describe the annual contributions to the Health Reimbursement Account, net of participation in the DVH Plan. The total contribution based on years of qualified service credit, less the DVH subsidy, yields the remaining annual contribution to the HRA. Find your five-year band of service you expect to achieve at retirement, including pre-2000 and post-1999 NAD years of church qualified service credit. The second column shows the annual contribution SHARP will make

towards your supplemental healthcare plans. The third column then shows the portion of that amount that will be taken to pay a subsidy towards your Dental/Vision/Hearing costs.

SHARP Contributions to Healthcare Assistance			
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

The fourth column shows the residual amount which will be contributed towards your Health Reimbursement Account each year. If you do NOT enroll in DVH, there is no third column amount, and the fourth column will equal the second column. So now let's put this together.

Medigap

Let's look at Medicare supplements, often known

as 'Medigap Plans.' The chart below is a busy but useful tool in explaining Medigap Plans. At the top of the chart are the Medigap Plans offered through the Aon Retiree Health Exchange. On the left side are the healthcare costs not covered by Medicare Parts A and B. These are the gaps in coverage that are either paid personally or can be filled by a Medigap Plan. A check mark under the C, F, G or N Plans means that personal expense is covered by the Plan.

Medicare Supplements (Medigap)				
Retiree Cost Exposure Under Medicare A & B	C*	F*	G	N
Hospital Costs (up to 365 days after Medicare Benefits are used up)	✓	✓	✓	✓
Hospital Admissions Deductible (2018 = \$1,340)	✓	✓	✓	✓
Skilled Nursing Facility Care Copay/Coinsurance	✓	✓	✓	✓
Hospice Care Coinsurance or Copayments	✓	✓	✓	✓
Medicare Part B Annual Deductible (2018= \$183)	✓	✓		
Medicare Part B Coinsurance (Generally 20%)	✓	✓	✓	✓#
Medicare Part B Excess Charges		✓	✓	
Blood (First 3 Pints not covered by Medicare)	✓	✓	✓	✓
Foreign Travel Medical Emergencies (80%/20%)	✓	✓	✓	✓

* Current C and F will no longer be available for new Retirees in 2020.

#N requires Retiree to pay 'up to' \$20 per Dr. Visit

Gaps:

- Medicare Part A Coinsurance is covered by all plans and provides up to 365 days of coverage once Medicare benefits are used up.
- Medicare Part A Deductible is the admissions deductible charged by the hospital to the patient before Medicare kicks in. This is not an annual deductible. Retirees with multiple admissions in one year may incur multiple deductibles.
- Skilled Nursing Facility care is not custodial or nursing home care. It is essentially inpatient rehab. Medicare pays the first 20 days. For the next 80 days the retiree pays a daily charge. Beyond that you are on your own. A plan with a check mark in the skilled nursing facility row pays the daily personal charge for the 80 days. It does not pay beyond the initial 20 plus 80 = 100 days.
- Medicare Part A Hospice Care is generous, but in some cases includes some copays for prescription medication and other treatments to manage pain, or respite care, in which you may be required to pay five percent of the cost, could add up quickly. All four Medigap plans cover these costs.
- Medicare Part B Deductible. This is the annual deductible for which you are responsible when you require outpatient medical care during the year.
- Medicare Part B Coinsurance. Once you have met the Part B deductible you will be responsible for 20 percent of the Medicare approved charge for outpatient doctor visits. All four plans cover part or all of this cost.
- Medicare Part B Excess Charges: In many states, doctors are allowed to charge the patient up to 15 percent over what Medicare pays. The retiree is responsible for the excess under original Medicare. However, plans "F" and "G" will pay this excess on your behalf.
- Blood: Original Medicare will not pay for the first three pints of blood. All four plans cover this.
- Foreign Travel Emergencies: With rare exceptions, Medicare provides no assistance for medical emergencies outside of the US. However, all four of these plans have modest assistance for medical emergencies. Generally, such plans provide a lifetime benefit maximum of \$50,000. You pay a 20 percent coinsurance, and a \$250 deductible.

Plan "F" has the highest level of coverage and is the most popular Medicare supplement plan. It is the one Medigap plan where you simply pay a premium at the beginning of the month, and as long as the service is Medicare approved, there is no additional cost out of your pocket, no deductibles, and no co-pays. "C" is similarly rich but does not pay the Part B excess charges.

While the benefits are rich for Plans "F" and "C", the monthly premiums are also on the higher end and may not be the right fit for you. You may determine that your needs are not that broad and you don't want to over-insure, and you may find that another option would work.

Recently, the Federal Government modified the rules for Medigap plans. For those born after 1954, no retirees are allowed to purchase a Medigap plan which covers the Medicare Part B

Deductible. Plans “C” and “F” will no longer be available as written. If you already have “C” or “F” on that date, you can keep it.

The standardized lettered plans have the same core benefits. An “N” plan from Kaiser will provide essentially the same coverage as an “N” plan from United Healthcare. But the costs will vary, and some plans provide non-mandatory add-ons.

Not all available Medigap plans are offered by AON Retiree Health Exchange. There are some lower cost lower benefit plans which have not been popular with our retirees which AON Retiree Health Exchange does not offer.

Sample Plans

We will describe the process of selection of options later. For now, we are using an example of three Medigap options: An “F” plan from Anthem, a “G” plan from Blue Shield and an “N” plan from Transamerica.

Sample: Medigap Plans			
	Anthem “F”	Blue Shield “G”	Transamerica “N”
Annual Premium*	\$1,949	\$2,100	\$1,578
Prescription Drug (Rx) Premium#	\$675	\$675	\$675
Retiree Premium Costs	\$2,624	\$2,775	\$2,253
Plan HRA Contribution	\$1,620	\$1,620	\$1,620
Net Annual Premium	\$1,004	\$1,135	\$633
Net Monthly Premium	\$84	\$95	\$53

*Premium Only. Does not include medical copays or deductibles.

#Coventry \$0 deductible Rx Plan

“F” is going to cover all Medicare deductibles and copays. It doesn’t cover prescription drugs; no Medigap plan does. For this example, we’ve selected a sample Prescription Drug Plan (Rx plan) and added the premium. We’ll discuss Rx plans in another lesson in more detail. The total premium is shown for the “F” Plan. Now how does this fit together?

In a previous table, we showed how much the Plan would provide as an HRA contribution if the retiree has 35+ years and enrolls in the DVH Plan. That contribution is shown on this table, leaving an annual balance for which the retiree is responsible. Divide this cost by 12 to get the monthly charge for the premiums for a very rich plan. The retiree's healthcare costs in this scenario would generally be limited to his/her Rx copays. Remember that the "F" plan as currently written goes away in 2020 for new retirees.

Let's look at the "G" plan. The only substantial difference between "G" and "F" is that "F" pays the Medicare B Deductible, while "G" does not. You may wish to go back to the Medigap table to review and compare these plans. Surprisingly, this "G" Plan costs more than the richer "F" plan.

The "N" plan provides some savings, but leaves the retiree exposed for the Medicare B deductible and excess charges. Also, the "N" plan requires the retiree to pay up to \$20 per doctor visit.

Not all retirees will have the same HRA contribution because of varying years of qualified service credit. If this retiree had opted out of Dental/Vision/Hearing, the HRA contribution would have been higher. This is simply an example to show how the math works. Retirees will use tools and advice to search among many options to find the one that best meets their budgetary and risk tolerance needs.

Learning Exercises

Helpful Links

Medicare's website is helpful in understanding various supplemental tools.

www.medicare.gov Pre-retirees may wish to explore the "Supplements and Other Insurance" tab.

This *Retirement Living Information Center* article provides a helpful review of some of the best options available:

<https://www.retirementliving.com/best-medicare-supplement-plans-companies>

The *Motley Fool* has an interesting article on buying Medicare supplemental products:

<https://www.fool.com/retirement/general/2016/05/30/should-you-get-a-medigap-plan.aspx>

Learning Evaluation (Answers follow)

1. Which statement correctly describes the relationship between SHARP and Medicare?

SHARP replaces Medicare A, B and D.

SHARP supplements Medicare A, B and D.

SHARP provides assistance for age 65+ who are ineligible for Medicare due to migration or clergy opting out of Social Security.

SHARP only cares for non-medical assistance such as over the counter purchases of non-prescription healthcare items.

2. SHARP's Healthcare Assistance options are available to:

Any retiree, including all extended family members

Active employees only

Only educators and clergy

Retirees with at least 15 years of church qualified service credit

3. The Pre-Medicare option is available until:

End of life

Remarriage

Age 65 unless you are a retired minister who opted out of Social Security and are thus not eligible for Medicare

Age 65

4. Is my spouse eligible for healthcare assistance?

If eligible based on his/her own years of qualified service credit.

If retiree is eligible for healthcare assistance and selects Joint & Survivor at retirement.

If married for full years of qualified service credit.

Any spouse is automatically eligible for healthcare assistance.

5. A Pre-Medicare retiree receives an earned credit if he/she

Is at least age 65

Is a minister and ineligible for Medicare

Has 40+ years of qualified service credit

Has 15+ Years of qualified service credit

6. I'm 66 and eligible for SHARP if I retire. My spouse of more than one year is only 60. When can I retire with healthcare for my spouse?

Now. SHARP provides a Pre-Medicare plan for both of you because of the retiree's eligibility.

When your spouse turns 65

You should appeal to Medicare for early medical for your spouse and retire if appeal is granted.

Your age difference disqualifies your spouse from assistance.

7. A Pre-Medicare J&S Spouse is eligible for an earned credit:

If the retiree is personally SHARP eligible

If the J&S Spouse has 15+ years of personal qualified service credit

If the retiree has held an officer position in the church

If they were married before January 1, 2000.

8. The Pre-Medicare Plan terminates at age 65:

If the participant is eligible for Medicare

Unless an extension is requested

If the participant has remarried

For all participants

9. Pre-65 Retirement Healthcare Assistance:

Is encouraged at age 59 ½

Is economical if retiree has 15+ years of qualified service credit

Is economical if retiree has 40+ years of qualified service credit

Is not available if less than 40 years of qualified service credit

10. Subject to annual maximums, DVH is designed to cover:

Dental exams & cleaning

General dental restorative

Eye glasses or contacts

Eye exams

Hearing exams

Hearing aids

11. True or False: I can maximize my assistance for DVH benefits by straddling the plan year, say getting the left hearing aid in December and the right hearing aid in January.

True

False

12. The Relationship between DVH and my HRA is best described as follows:

The two are unrelated. Each has its own subsidy structure.

The two are administered separately but selecting DVH will reduce your HRA contribution.

The two are administered together under the HRA plan.

13. Market alternatives to the DVH option:

Are a scam.

Are sometimes available as riders in Medicare Advantage plans.

Are simply unavailable.

Only include vision.

14. Open Enrollment for Dental/Vision/Hearing Occurs (mark all that apply):

At retirement

At loss of coverage after retirement

At age 65 in cases of pre-65 retirement

Annually from October to December

When a Special Open Enrollment is declared by SHARP

Question 1
 Incorrect: Medicare is the foundation of healthcare assistance for retirees.
 Correct: SHARP assists the retiree with personal exposures for supplemental insurance premiums and other qualifying out of pocket costs.
 Incorrect: SHARP does not provide a solution for those ineligible for Medicare even though they are age 65+.
 Incorrect: SHARP is designed to assist retirees with personal expenses under Medicare and with Dental/Vision/Hearing expenses.

Question 2
 Incorrect: There are specific eligibility requirements.
 Incorrect: Active employees are generally not eligible.
 Incorrect: There is no such exclusion in SHARP.
 Correct: A Joint & Survivor Spouse is also eligible.

Question 3
 Incorrect: The Pre-Medicare option is designed to bridge the early retiree until age eligibility for Medicare.
 Incorrect: Remarriage does not terminate the Pre-Medicare option.
 Incorrect: SHARP does not have a solution for the retired minister who is ineligible for Medicare.
 Correct: At age 65, the Pre-Medicare option ceases except for DVH option which can continue.

Question 4
 Incorrect: The Joint & Survivor Spouse will generally be eligible for assistance if the retiree is eligible.
 Correct: The spouse's eligibility is anchored on the retiree's eligibility for assistance.
 Incorrect: If married for at least one year prior to retirement, a Joint & Survivor Spouse is eligible for assistance under one or more of SHARP's options.
 Incorrect: Spouses of retirees who waived the Joint & Survivor option at retirement or have not been married for at least one year at retirement are not eligible for healthcare assistance.

Question 5
 Incorrect: A 65-year-old is not eligible for the Pre-Medicare Plan.
 Incorrect: SHARP has no solution for those who are ineligible for Medicare.
 Correct: The Pre-Medicare spouse on the other hand, is eligible for an earned credit if the retiree is 65+ and SHARP eligible.
 Incorrect: The 15+ rule is for participation in the Medicare Supplemental Plan.

Question 6
 Correct: Eligibility for the pre-Medicare-aged spouse is anchored on the eligibility of the retiree for assistance. But there will be a cost, depending on years of qualified service credit.
 Incorrect: If the retiree is eligible for assistance, the pre-Medicare spouse is eligible if he or she meets other requirements, such as having been married for at least one year.
 Incorrect: Medicare is unlikely to grant such an appeal.
 Incorrect: We have no such disqualification.

Question 7
 Correct: The retiree's eligibility drives the J&S Spouse's eligibility for assistance. The retiree will be eligible by earning 15+ years of qualified service credit and being age 65+, or by earning 40+ years of qualified service credit. Incorrect: The J&S Spouse does not have to have any personal qualified service credit in order to receive the assistance.
 Incorrect: The church provides the same coverage for qualifying officers, secretaries, janitors, teachers and ministers. Incorrect: In order to be eligible for Joint & Survivor, the marriage must have occurred at least one year prior to retirement.

Question 8
 Incorrect: Age 65 is a hard stop for the Pre-Medicare Plan regardless of Medicare eligibility.
 Incorrect: Age 65 terminates Pre-Medicare and gives future options to the participant. There is no provision for extension.
 Incorrect: Remarriage has no impact on the participant's status.
 Correct: Pre-Medicare terminates at age 65 for all participants.

Question 9
 Incorrect: The Plan does NOT encourage retirement prior to Medicare eligibility.
 Incorrect: Anything less than 40 years of qualified service credit will result in significant monthly costs for the retiree's healthcare assistance.
 Correct: 40+ years of qualified service credit provides the retiree with an economical Healthcare Assistance Plan to bridge to age 65.
 Incorrect: Pre-65 retirement healthcare assistance is available but is probably unaffordable.

Question 10
 Correct
 Correct
 Correct
 Correct
 Correct
 Correct
 Correct
 Correct
 Correct
 Correct: Note that the annual maximum for hearing aids may include unused hearing aid benefit from the previous membership year.

Question 11
 Correct: In most cases this will work. Be cautious. There are, for instance, some dental procedures which require a return visit, but the procedure is considered a one-time code. Talk to your provider about straddling the plan year.
 Incorrect: The Plan has no objection to this strategy.

Question 12
 Incorrect: While each has its own structure, enrollment in DVH impacts the contribution to HRA.
 Correct:

Question 13
 Incorrect: AON Retiree Health Exchange manages the HRA provision, while Adventist Risk Management manages the DVH option.
 Incorrect: Available options should be reviewed and considered. For those with limited budgets, these plans may be right.
 Correct: For instance, in some markets AARP's Medicare Advantage has limited dental, vision and hearing provisions.
 Incorrect: There are some markets where similar plans are available.
 Incorrect: Limited dental plans are available in most markets.

Question 14
 Correct: This is the normal time for enrollment in DVH.
 Correct, if a person defers DVH at retirement because of other coverage, say through a spouse's employer plan. Correct, a pre-65 participant is given an open enrollment in the month he/she reaches age 65.
 Incorrect: There is no annual open enrollment for DVH.
 Correct. This is extremely rare.

Medicare D Plans

Now we dive into Medicare D, the Prescription Drug Plan. Before looking at the market, we will describe the Stages designed by our government at work. We will describe the stage, how the stage is exited and how cost sharing works during that stage. Numbers shown change annually. We show the published numbers for 2019.

Medicare D Stages		
Coverage Stage	Stage Exit when	Cost Sharing
Annual Deductible	\$415 paid by Retiree. Some Plans reduce deductibles.	Retiree Pays 100%
Initial Coverage	\$3,820 paid by Retiree and Plan including Deductible	Retiree Pays Copays
Coverage Gap	\$5,100 paid by Retiree and Manufacturer 70% Discounts Brand Name Rx	Retiree Pays 25% of Brand Name, 37% of Generics
Catastrophic Coverage	Calendar Year Ends	Retiree Pays greater of a \$3.40/\$8.50 generic/brand copay or 5% of drug cost.

Deductible Stage

The initial stage at the beginning of each calendar year is the **Annual Deductible**. Some plans reduce or eliminate it entirely. Some plans have no deductible for tier 1 and 2 drugs. In most plans, the retiree pays the cost of the drugs each year until the deductible is met.

Initial Coverage

Once the deductible has been met, the retiree enters the **Initial Coverage** where he or she pays a published copay. The amount depends on how the plan specifies drug tiers. For instance, a tier one 90-day supply may cost only one dollar. A tier two may be \$28. A tier three may be \$73. A tier four drug is probably going to be a specialty drug and the copay will be 25-33 percent of the actual drug cost. Some plans charge nothing for tiers one and two, and more for higher tiers. Government goals are for the retirees to pay about 25 percent of the drug costs.

Coverage Gap

If the total costs of drugs including the copays and amounts paid by the plan reach the top of the initial coverage level, the retiree exits initial coverage and enters the dreaded **Coverage Gap**. Most will not enter the coverage gap, but for those who do, costs will now increase considerably. Instead of paying the published copay, the retiree now starts paying a percentage of the cost of the drug. Beginning in 2019, this is 25 percent for brand name drugs, 37 percent of generic drugs.

*To Exit the Coverage Gap, add:
Deductible Paid
Copays in Initial Coverage
Copays in the Coverage Gap
Brand Discounts in the Coverage Gap
Exit at \$5,100 (2019)*

In order to exit the coverage gap, the exit level must be reached. But the exit level is calculated differently than the initial coverage exit. It is made up of the retiree actual costs including the deductible and copays through the initial coverage and the coverage gap, plus the manufacturer discounts on brand drugs in the coverage gap. In brief, it is harder to exit the coverage gap than it is to exit the initial coverage.

The "Coverage Gap" is also known as "The Donut Hole." No kidding!

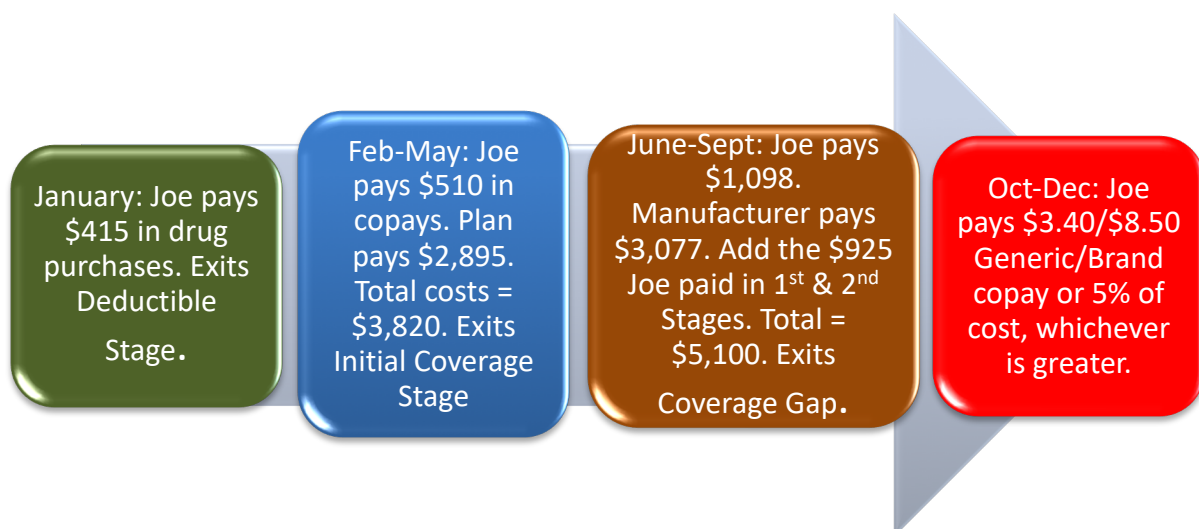
Catastrophic Coverage

The few retirees who exit the coverage gap, or donut hole, enter the **Catastrophic Coverage**. For the rest of the year, they will pay a modest copay or five percent of the drug cost, whichever is higher.

Calendar Year Reset

At the end of the calendar year, the cycle resets with the retiree entering the annual deductible stage.

Example:



Let's look at a generalized example. Joe, a fictitious retiree, has a chronic condition requiring significant brand name drug usage. During January he pays \$415 in drug purchases at 100 percent of the cost of the drugs and thus exits the deductible stage.

From February to May Joe pays \$510 in copays in the initial coverage stage. His plan pays \$2,895. When we add the \$415 annual deductible, the total drug cost for the year reaches \$3,820. He now exits the initial coverage stage and enters the dreaded coverage gap.

The math now changes. From June to September, Joe continues to purchase his Brand Name Drugs. He pays 25%. Sometime in September, Joe's deductible and copays from Stage 1, 2 and 3, plus the Brand Name Drugs discount the manufacturers contribute reaches \$5,100. Joe now happily exits the Coverage Gap and enters the Catastrophic Stage.

In the Catastrophic Stage, until the end of the Calendar year he will pay either a modest copay or 5% of the cost of the drug, whichever is greater.

Now here is the good news. Those few Retirees who enter the Catastrophic Stage will be reimbursed by SHARP-Ex for total copays during that Catastrophic Stage. "Why is this good news?" you ask. "The costs are low." Maybe not. A Retiree who has blasted through the Initial Coverage by the end of May is probably using some very expensive drugs. 5% of a very expensive drug is going to be a lot of money. That reimbursement will be extremely helpful for those few Catastrophic Stage Retirees.

On the subsequent January 1, Joe exits the Catastrophic Stage and enters the next year's Deductible Stage.

Example Rx Plans
35 Year Retiree, DVH Opt In

Rx Only	35 Year Retiree, Purchased DVH		
	Wellmark Blue	UnitedHealth care Saver	Humana Walmart
Annual Premium	\$421	\$484	\$ 221
Net HRA Contribution	\$1,620	\$1,620	\$1,620
Net Retiree Annual Premium Costs	\$1,199	\$1,136	\$1,399

Example Plans

So let's look at some Rx plans in one market. This will not be your options or your prices.

The selection process allows Retirees to enter specific drugs being prescribed and to select from among plans that make the most sense for his or her needs. Some higher cost plans will cover more expensive drugs.

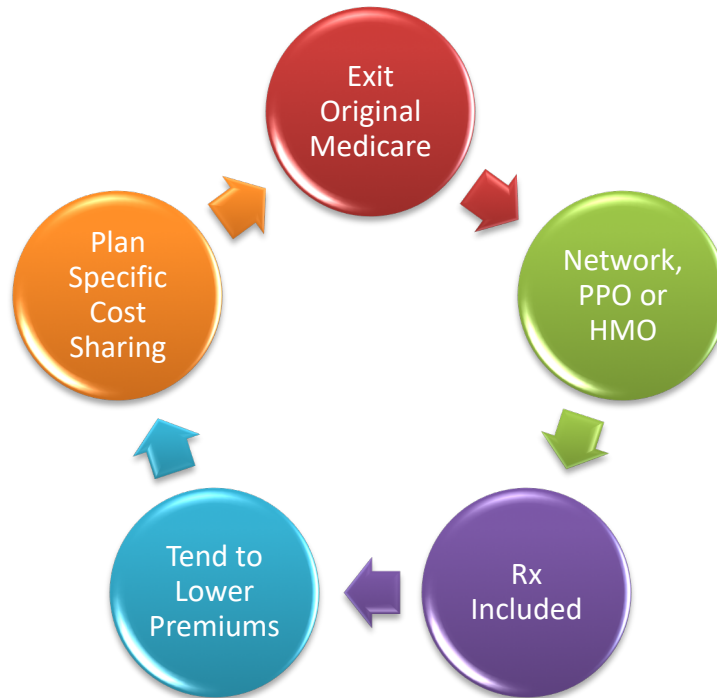
In this example, there are three plans. The annual premium is shown. The total HRA Contribution is also shown, net of the Dental/Vision/Hearing Plan this Retiree enrolled in. All three options leave a significant amount which would be needed for the purchase of the previously described Medigap Plan if purchased.

Specific drug co-pays are not included in these numbers and may be substantial.

In this example the Humana Walmart plan requires the smallest premium, but a Retiree would want to review the Deductible and Tier structure and if all of his or her drug needs are covered by the Plan.

Medicare Advantage Plans

Now let's look at the alternative to the Medigap plus Rx Strategy, the Medicare Advantage Plans. The Retiree actually exits Original Medicare, although the Medicare B premium is still paid. The Plan must include all of the Medicare A and B provisions of Original Medicare.



Networks

The Plan is based on a network. Retirees may have to change doctors. Some broader networks are called preferred provider organizations, or PPOs. Health Maintenance Organizations or HMO's are more narrowly defined. Retirees generally will be assigned a Primary Care Physician who manages overall care and is responsible to refer to a specialist when needed. Lab, radiology, hospitalization and doctors all must be part of the network.

Prescription Drugs

Unlike the Medigap plans, Medicare Advantage Plans usually include Prescription Drugs.

Cost Structure

Premiums tend to be lower in these plans than in the Medigap & Rx combination. Some Plans offer zero-dollar premiums. Cost sharing is specific to the Plan. Some have an admissions deductible, some have a daily charge for hospitalization and some cover the full cost of hospitalization. A broad generalization would be that Medicare Advantage Participants pay less, except during a year with hospitalization.

Example Medicare Advantage Plans

Here are three Medicare Advantage Plans in one zip code. The annual premiums vary significantly, as do the hospitalization coinsurance rules. Note that United Healthcare pays for the hospitalization, but Aetna and SCAN require the participant to pay a per diem for the first five days of hospitalization.

Example: Medicare Advantage Plans			
Retiree Pays:	United Healthcare HMO	Aetna PPO	SCAN HMO
Annual Premium	\$0	\$924	\$288
Hospitalization	\$0	\$225/day first 5 days	\$300/day first 5 days
Dr. Visit CoPay	\$0	\$10	\$0
Specialist CoPay	\$0	\$40	\$0
Network Type	HMO	PPO	HMO
Dental	None provided	None provided	\$0 Exam
Vision	\$0 Exam	\$0 Exam	\$35 Exam
Hearing	\$0 Exam	\$0 Exam	\$0 Exam
Rx Deductible	\$0	\$0	\$0
Rx: Preferred Generic	\$0	\$0	\$4
Generic	\$0	\$10	\$14
Preferred Brand	\$131	\$121	\$116
Non Preferred Brand	\$290	\$300	\$275

The network type shows that Aetna has a PPO, which is a broader network than the HMO's of SCAN or United Healthcare. These are examples and demonstrate how retirees will review available options. The retiree will look at such a comparison and will select a plan that makes the most sense.

Strategic Thoughts

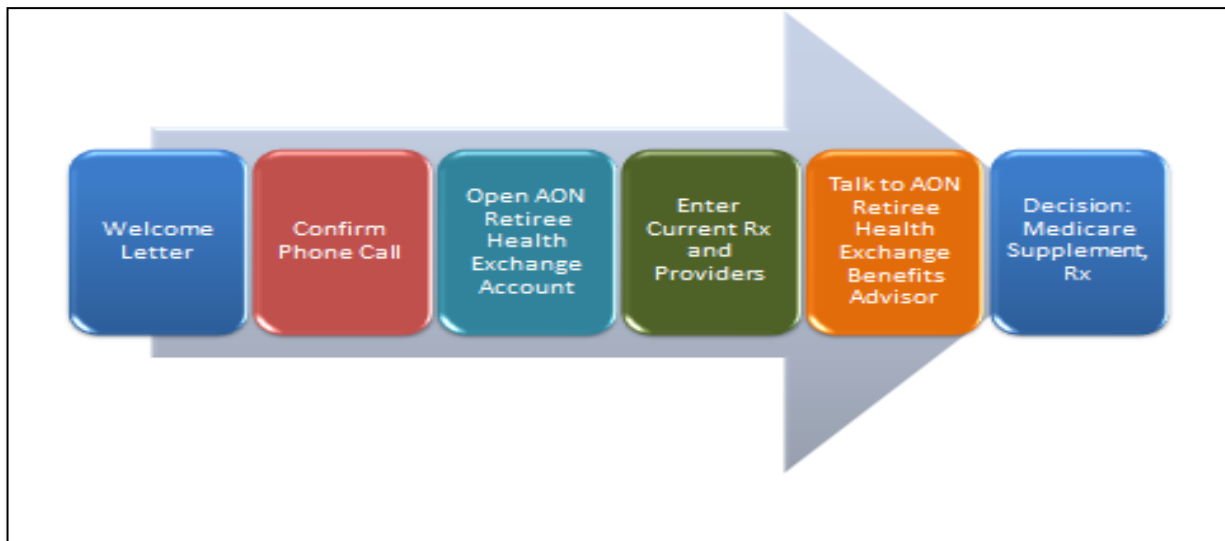
Retirees considering which overall strategy makes the most sense may wish to consider:

- A Medigap plan allows you to visit any provider that accepts Medicare. Medicare Advantage does not.
- Retirees needing frequent doctor visits often find the Medigap strategy to be best.
- Because of provider flexibility, 'snowbirds' and those who travel a lot in retirement find the Medigap strategy to be more convenient, although Medicare Advantage plans have emergency care provisions.

- Retirees who like to deal with one carrier and one plan find that Medicare Advantage is most convenient. The Medigap & Rx strategy requires managing two carriers for Medigap and Rx plans.
- Medigap limits itself to Medicare services. Medicare Advantage often will include limited dental, vision and sometimes hearing assistance.
- From a risk management perspective, those willing to pay higher premiums to avoid high incident costs for hospitalization might find the Medigap strategy appealing. Those who prefer lower premiums, recognizing that occasionally there will be high incident costs, tend towards the Medicare Advantage strategy.

The Selection Process

The process for selection of a strategy and specific plans can be tedious and time consuming. The employee applies for retirement through the employer who then forwards that application to the NAD Retirement Office. Once there, demographic and other information is sent to AON



Retiree Health Exchange which then sends a welcome letter directly to the employee. That letter includes specific information including an account number and date and time for a phone call with an AON Retiree Health Exchange Advisor. The letter also includes notification of the HRA contribution that SHARP is going to send to the Health Reimbursement Account.

The employee must confirm the phone call date and time. Without such confirmation, the benefits advisor is not allowed to call the retiree. The retiree then may go online and open an AON Retiree Health Exchange Account using the account number provided. Using that account, the employee should enter specific prescription drugs and provider information which will provide the system with a needs assessment.

Warning: Please do NOT make any purchases until you have talked to the AON benefits advisor.

The AON Retiree Health Exchange tools are quite intuitive and allow you to explore various options. By the time the call occurs, most retirees will probably have a good feel for what type of plan or plans make the most sense. Retirees who are not comfortable with online exploration can do this by phone with the benefits advisor.

With the assistance of the benefits advisor, the retiree will make decisions. Which strategy, Medigap & Rx or Medicare Advantage? Which specific carriers? The first month's premium will be paid, and the reimbursement system will be set up.

Changing Plans

Plan changes should be approached with caution. Every year there is a Medicare Annual Open Enrollment from October 15 to December 7. Changes can be made during this time frame, to become effective January 1 of the subsequent year. We'll look at the three supplemental strategies, Medigap, Medicare Part D for Rx Plans and Medicare Advantage.

Changing Medigap Plans

If you are enrolled in a Medigap plan, changing to another plan may trigger questions where you are required to explain any pre-existing conditions. You didn't have to answer those questions when you first enrolled in Medicare and a supplemental plan, because of a right called "Guaranteed Issue," which simply means the insurance company is required by law to issue you a policy without asking about any health issues you may be facing. Guaranteed issue, however, usually does not apply to plan changes. Cancelling one Medigap policy, for instance, in favor of another Medigap policy will likely result in your being asked questions about your health. The company may decline to cover you or may delay coverage of anything related to the pre-existing condition, or may issue you coverage but at a higher price than normal. Having said that, rules in some states provide greater rights for Medigap changes.

Changing Medicare D (Rx) Plans

Medicare Part D plans can be changed at the annual open enrollment. If you move or the plan fails or terminates you can change outside of the annual open enrollment. The company cannot deny coverage for pre-existing conditions.

Medicare Advantage Changes

Medicare Advantage members can change to another Medicare Advantage plan without pre-existing condition problems at annual open enrollment. They can also change back to original Medicare. Medicare Parts A and B will readily accept such a shift, however enrolling into a Medigap plan from a Medicare Advantage plan will usually require answers to questions about health condition. A Medigap plan may decline to cover such individuals or charge higher premiums.

Switching from any plan or plan type requires careful research before taking any action. The Aon Retiree Health Exchange benefits advisor can assist in thinking through changes.

Learning Exercises

Helpful Links

Use this link to explore carriers of Medicare supplemental plans in your retirement zip code. **This is good for research, but don't purchase a plan without going through the benefits advisor.**

<https://www.medicare.gov/find-a-plan/questions/home.aspx>

The following links will assist in learning about changing Medigap, Medicare D and Medicare Advantage plans.

<https://www.medicare.gov/find-a-plan/staticpages/learn/rights-and-protections.aspx>

<https://www.medicareinteractive.org/get-answers/medicare-prescription-drug-coverage-part-d/medicare-part-d-enrollment/changing-part-d-plans>

<https://www.medicare.gov/sign-up-change-plans/medicare-health-plans/medicare-advantage-plans/when-to-join-medicare-advantage-plan.html>

Learning Evaluation (Answers follow)

1. The following are eligibility criteria for SHARP-Ex (mark all that apply):

- Age 65+
- 15+ Years of qualified service credit
- Denominational clergy or teachers only
- Medicare participant
- Extended Family of SHARP-Ex eligible retiree

2. The role of the AON Retiree Health Exchange benefits advisor is to:

- Decide what supplemental plans you will purchase.
- Provide a basket of plan options from among which you will choose.
- Introduce you to various supplemental plans.
- Evaluate your health condition and report back to the carriers.

3. The role of SHARP-Ex is to:

- Replace Medicare.
- Supplement Medicare.
- Manage day to day healthcare of retirees.
- Contract with supplement carriers.

4. When reviewing a supplemental strategy, retirees should consider the following (mark all that apply):

- Provider flexibility
- Retiree travel
- Premiums

- Coinsurance exposure
- What friends have selected
- Risk philosophy
- Convenience

5. What do you need in order to estimate the annual HRA contribution the plan will make on your behalf?

- You shouldn't try. It's too complicated. You have to trust AON Retiree Health Exchange to get it right.
- Your total years of qualified service credit and the HRA contribution table.
- Don't worry, if you've got 15+ years, your employer pays for all your healthcare costs.
- A personal appointment with a Medicare agent.

6. A Medicare Advantage Plan:

- Replaces original Medicare.
- Is a dental/vision/hearing plan.
- Replaces Medigap options.
- Provides low-cost healthcare for indigent retirees.

7. A Medigap Plan:

- Replaces original Medicare.
- Pays some retiree cost exposures under Medicare.
- Supplements Medicare Advantage plans.
- Provides low-cost healthcare for indigent retirees.

Question 1
 Correct: Pre-Medicare is in a separate module.
 Correct: Additional years will increase the amount of assistance in five-year bands.
 Incorrect: SHARP-Ex is available to custodians, secretaries and other denominational employees.
 Correct: SHARP-Ex assumes the retiree participates in Medicare in order to supplement that coverage.
 Incorrect: The retiree and Joint & Survivor Spouse are eligible for SHARP-Ex.

Question 2
 Incorrect: The benefits advisor may 'advise' you, but you will make the final decision on what plans you will purchase.
 Correct: The benefits advisor will make recommendations, but the choice is yours.
 Incorrect: AON Retiree Health Exchange does not own its own supplemental plans. It acts as a broker/agent for carriers such as AARP, Kaiser and others.
 Incorrect: AON Retiree Health Exchange has no mechanism to report your health condition to carriers.

Question 3
 Incorrect: Retirees must have Medicare in order to participate.
 Correct: SHARP-Ex helps fund and select supplemental plans.
 Incorrect: SHARP-Ex is not involved with your providers.
 Incorrect: SHARP-Ex contracts with AON Retiree Health Exchange, a broker, not carriers.

Question 4
 Correct: Retirees may not wish to change doctors.
 Correct: Retirees who travel extensively may find Medicare Advantage plans to be challenging.
 Correct: Premium costs should be considered, among other factors.
 Correct: A low premium may result in high costs for hospitalization, or in needed drugs not covered.
 Incorrect: While advice may be considered, decisions should be based on the retiree's own healthcare needs.
 Correct: Many prefer low premiums and tolerate higher risk of costly incidents. Others prefer higher premiums and lowered incident risk.
 Correct: Convenience of provider selection, location of network providers, one plan versus multiple plans, all can make life more pleasant.

Question 5
 Incorrect: SHARP, not AON Retiree Health Exchange determines the contribution amount.
 Correct: Review the table for the applicable year and find your five-year band based on your service record.
 Incorrect: All retirees are going to incur cost sharing.
 Incorrect: Medicare would not know what the contribution amount will be.

Question 6
 Correct: The retiree must continue to pay the Medicare B premium, but the Medicare Advantage plan replaces the functions of Medicare A (hospitalization), Medicare B (medical) and usually Medicare D (Rx).
 Incorrect: Many Medicare Advantage plans include a modest dental plan, however.
 Incorrect: Medigap is a supplement to Medicare. Medicare Advantage replaces Medicare.
 Incorrect: Medicare Advantage is designed to provide convenient economical healthcare for retirees. It is not healthcare for the poor.

Question 7
 Incorrect: Medigap plans supplement original Medicare.
 Correct: The largest of these is the Medicare A hospitalization deductible.
 Incorrect: Retirees cannot have both a Medigap and Medicare Advantage plan at the same time.
 Incorrect: Medigap plans are not considered low-cost options. Indigent retirees would struggle with premium payments.

The Defined Benefit Plan

Glossary

Death Benefit	Modest benefit paid to surviving spouse or estate upon death of Retiree or J&S Spouse
Defined Benefit Retirement Plan (DB Plan)	The US Church Retirement Plan in the form of a pension that is calculated based on pre-2000 Qualified Service Credit.
Early Retirement	The option of retiring prior to the Normal Retirement Age. This usually involves a benefit reduction.
Joint & Survivor Benefit/Annuity	A benefit assumed for a married retiree. A reduction from the Single Life Benefit nominally pays for Survivor Benefits and Healthcare provisions for the spouse.
Normal Retirement Age (NRA)	The DB Plan's age for unreduced benefits. Climbing from age 66 to age 67.
Participating Employer	An employer that participates in the NAD Retirement plans.
Pension Factor	A dollar amount voted each year by the NAD to calculate the retirement benefit for the DB Plan. This provides for the annual Cost of Living Adjustment (COLA).
Pre-Certification	The process of requesting the Plan for certification of Qualified Service Credit.
Retirement Allowance	The one-time lump sum payment made to a retiree upon going directly from employment into retirement.
Retirement, Retiree, Retired	Termination from full-time employment at or after age 59 ½ and application for benefits filed.
Single Life Benefit/Annuity	A benefit calculated for a single retiree or a married retiree who has waived Joint & Survivor.
Spouse Allowance	An enhancement to the DB pension for retiree whose spouse has no employer provided benefits.
Survivor Benefit	Benefits provided to J&S Spouse upon death of retiree
Vesting	Employee has reached a service requirement which grants unconditional entitlement to future retirement benefits.
Joint & Survivor Spouse (J&S Spouse)	The spouse of a retiree designated at retirement as a Joint & Survivor Spouse, and thus may be eligible for survivor benefits and healthcare assistance.

The **Defined Benefit Plan (DB Plan)** has existed under various models from 1911 until 1999. This section is for individuals who have pre-2000 NAD church qualified service credit and at least 10 years of total full-time qualified service credit. We will discuss how a **retiree** becomes

eligible for a pension based on the pre-2000 employment, how we calculate the benefits, and the difference between the **Single Life** and **Joint & Survivor (J&S)** benefits. We will talk about survivor benefits and the pre-2000 lump sum **Retirement Allowance**. We will describe the application process and will give some examples.

Monthly Benefits

Benefits Calculation

In order to receive a pension, certain key information must be obtained.

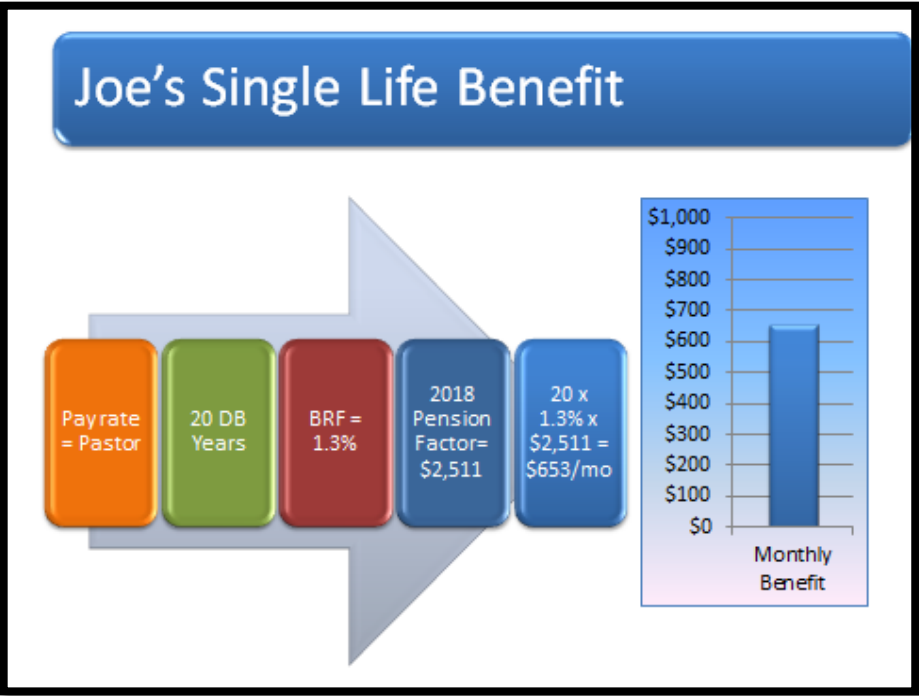
- The employee must have **vested**. In order to vest, an employee must meet the service requirement. Today's retirees must have earned 10 full-time equivalent years of qualified service credit. Some of those years may have been earned after the Defined Benefit Plan was terminated in 1999.
- We look at pre-2000 years of NAD qualified service credit as shown in the accumulators as described in the service record module.
- We then look at the benefit rate factor, which is a number derived from the 10 highest pre-2000 yearly rate factors using the NAD's proprietary Remuneration Percentage Scale.
- We also look at a dollar figure voted each year by the North American Division Committee. This dollar figure helps us calculate initial pension, and also manage cost of living adjustments which are normally provided in January.

North American Division Service Record																																			
Employee	Employment	Service Summary																																	
Donald Duck , Phone: Fax: Email: ID: 407388	Hired on: 1998-07-01	<table border="1"> <thead> <tr> <th></th> <th>ServCred*</th> <th>Vested?</th> </tr> </thead> <tbody> <tr> <td>US:</td> <td>1.50</td> <td>Y</td> </tr> <tr> <td>Hospital:</td> <td>0.00</td> <td>N</td> </tr> <tr> <td>Canada:</td> <td>0.00</td> <td>N</td> </tr> <tr> <td>Canada Suppl:</td> <td>0.00</td> <td></td> </tr> <tr> <td>Foreign:</td> <td>0.00</td> <td></td> </tr> <tr> <td>Total SCr:</td> <td>1.50</td> <td></td> </tr> <tr> <td>US > 1999:</td> <td>11.42</td> <td></td> </tr> <tr> <td>Hospital > 1991:</td> <td>3.43</td> <td></td> </tr> <tr> <td>Berm & Kett > 1999:</td> <td>0.00</td> <td></td> </tr> <tr> <td>Regional:</td> <td>0.00</td> <td></td> </tr> </tbody> </table>		ServCred*	Vested?	US:	1.50	Y	Hospital:	0.00	N	Canada:	0.00	N	Canada Suppl:	0.00		Foreign:	0.00		Total SCr:	1.50		US > 1999:	11.42		Hospital > 1991:	3.43		Berm & Kett > 1999:	0.00		Regional:	0.00	
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Personal																																			
Marital Status:	Married																																		
Gender:	M																																		
Born on:	1950-05-01																																		

In this example, the top of the service record shows three of the required facts.

- DB Plan qualified service credit: Blue arrow.
- Benefit Rate Factor: Red arrow.
- **Vesting**: Green arrow.

Donald is considered vested in the DB Plan with 1.5 years of qualified service credit. His Benefit Rate Factor (BRF) is 1.06.



Single Life Benefit

The calculation is quite simple. Joe is a fictitious employee who had 20 years of qualified service credit prior to 2000. We multiply the 20 years times the benefit rate factor times the NAD voted Pension Factor and come up with Joe's single life monthly benefit.

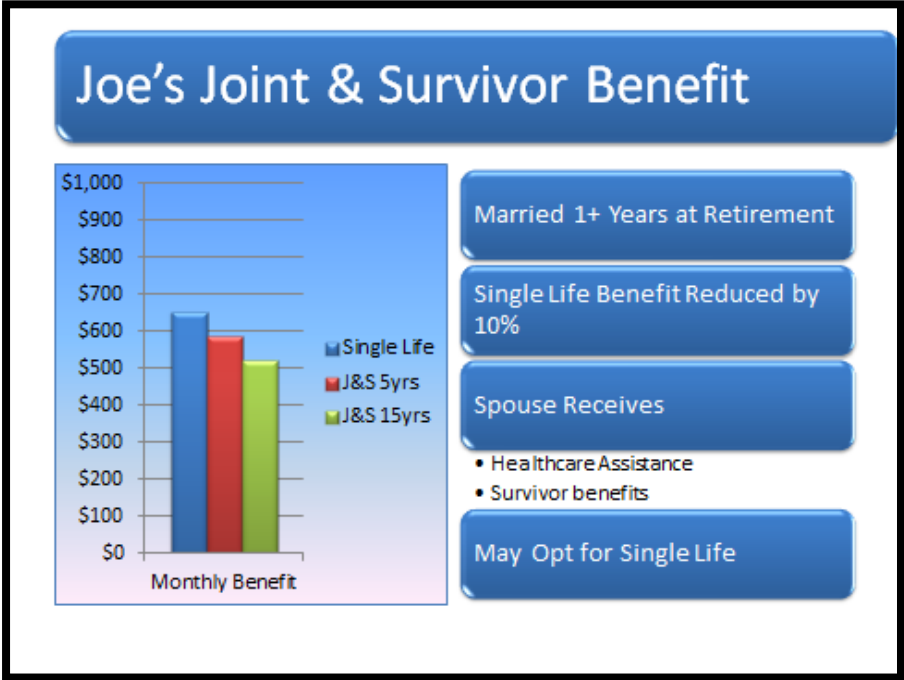
J&S Benefit

Joe is married. The

Plan will assume that Joe will *not* select the single life benefit, choosing rather to provide spousal benefits including healthcare assistance and survivor benefits. In most cases, this will cost Joe 10 percent of his single life benefit calculated in the last graphic.

This is even easier. We take 10 percent off of the single life benefit for the J&S Benefit, shown on the left bar.

This calculation assumes that Joe is within five years of his wife's age. If she is more than five years younger, then the reduction will be greater than 10 percent. The chart also shows what the reduction would be if Joe's spouse is 15 years younger than he is.

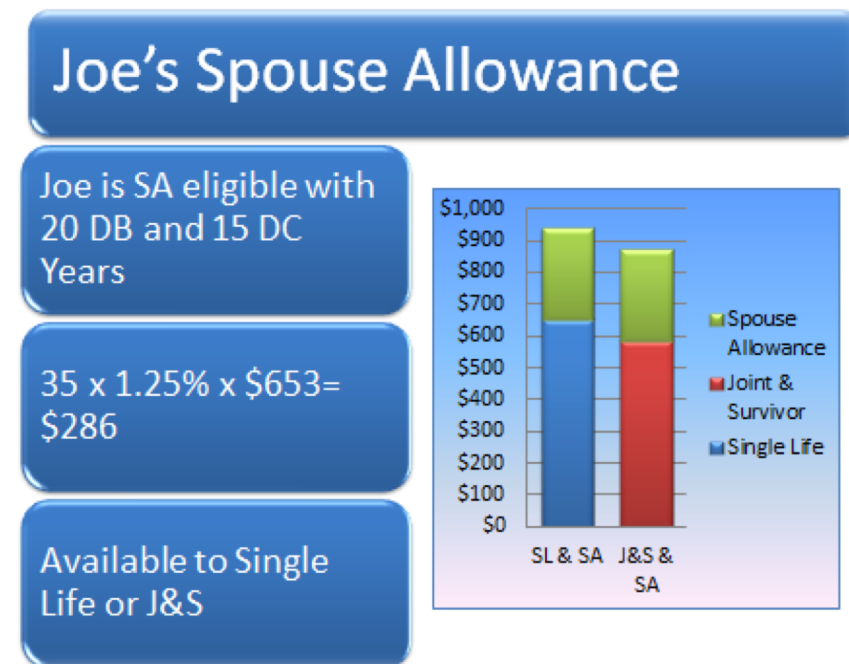


Joe and his spouse may opt out of the Joint & Survivor by signing a waiver. This document requires both Joe and spouse to sign, acknowledging their understanding that the spouse is not eligible for healthcare assistance, or for any survivor benefits if Joe pre-deceases her.

The Spouse Allowance

The **Spouse Allowance** is an enhancement to the single life or Joint & Survivor benefit. It is relatively rare today for new retirees because it is available only if the spouse, at retirement, is going to essentially have no retirement benefits of his or her own from any employer.

Eligibility requires 10 or more pre-2000 Years of qualified service credit, and 20 or more total years including both DB and DC Plans. The spouse must have been married to the retiree for at least one year at retirement. The spouse allowance is discontinued at death of the spouse and does not restart if the retiree remarries.



The calculation is shown on the chart. Interestingly, the spouse allowance can be applied for even if the retiree declined Joint & Survivor. They are different policies entirely.

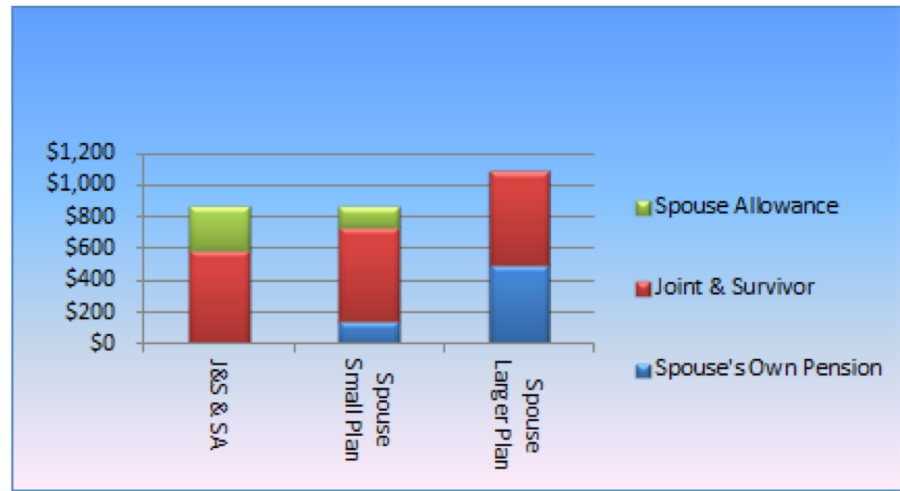
In the example, Joe meets the requirements of having been married for at least one year at retirement and having at least 10 pre-2000 years and more than 20 total years of qualified service credit. The calculation takes his total years times 1.25 percent times his single life benefit,

even if he chose Joint & Survivor, and the result is the calculated spouse allowance.

Once calculated, the spouse allowance will be reduced by any employer-provided retirement benefits the spouse is eligible for other than Social Security. The first bar shows the benefit if the spouse has no retirement benefits of her own. The second bar shows the spouse with a small benefit which simply reduces the spouse allowance. The third bar shows the spouse with a sizeable benefit which eliminates the retiree's spouse allowance.

Joe's Spouse Allowance Reduction

To reiterate, the spouse allowance has become quite rare, as most spouses have some retirement benefits at retirement. The application of this policy is complex, particularly if a spouse is eligible



for payouts from an employer funded Defined Contribution Retirement Plan. Specific questions should be directed to the human resources office.

Joint & Survivor vs. Spouse Allowance

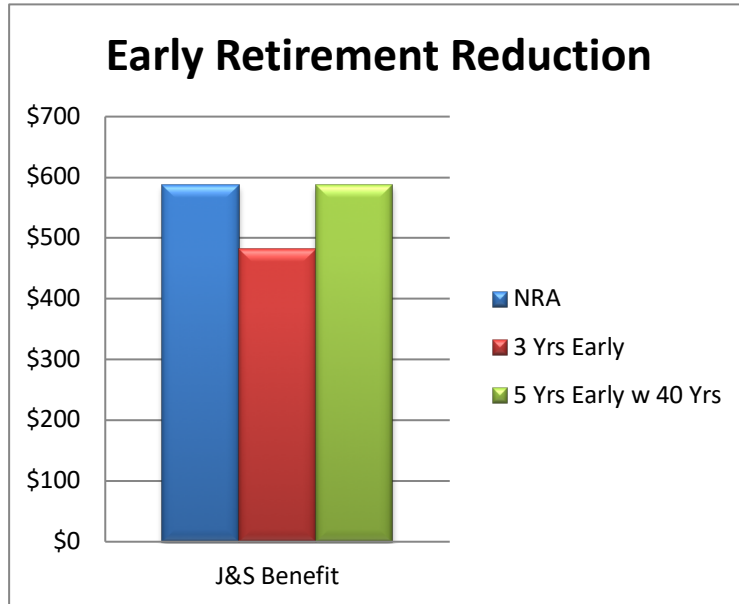
We've just described two policies, and how they work: The Joint & Survivor and the Spouse Allowance. They are often confused.

The Joint & Survivor is very common and is available to any couple who has been married for at least one year at retirement. The retiree's monthly benefit is reduced, usually by 10 percent, a nominal contribution towards providing healthcare assistance and survivor benefits to the spouse.

The Spouse Allowance has become relatively rare. It requires at least 10 pre-2000 years, 20 total years, one year of marriage, and the spouse to document any retirement benefits he or she will receive.

Normal Retirement Age

Normal Retirement Age (NRA), also called Full Retirement Age, begins to increase both in Social Security and in this Defined Benefit Retirement Plan from age 66 to age 67. The increase moves in two-month increments from 2021 to 2025. NRA for individuals born in 1954 is 66. The NRA for individuals born in 1955 is 66 and 2 months.



Both Social Security and the DB Plan reduce benefits for those who retire prior to their NRA. The Plan reduces the benefits by one half of one percent for each month short of one of two targets: The normal retirement age or 40 years of qualified service credit, whichever yields the greater benefit for the retiree.

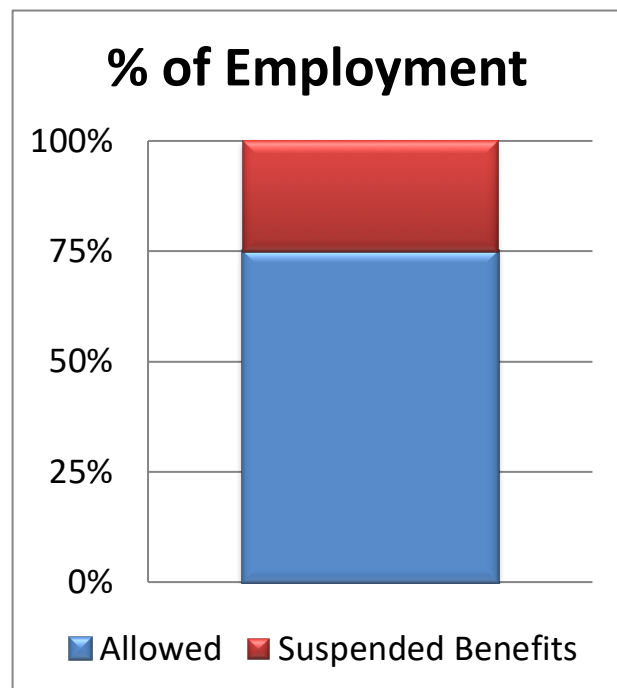
The chart shows Joe's retirement at his normal retirement age, three

years early, and five years early, but with 40 years of qualified service credit. The person who retires three years early will suffer a lifetime benefits reduction of 18 percent. But, the person who retires five years early with 40 years of qualified service credit suffers no monthly benefits reduction.

Post Retirement Denominational Employment

Many retirees find satisfaction in continuing to work for the church into their retirement years. While the Plan sets no mandatory retirement age, once an employee begins to receive retirement benefits he or she can no longer work full-time for a participating employer. The Plan has defined permissible level of employment as up to 75 percent of full-time employment for that job. Exceeding that 75 percent of full-time employment will result in the suspension of benefits including healthcare assistance.

In years past, some employers and employees have conspired to reduce the pay to 75 percent but expect full-time employment. One policy provision in the past allowed a 'top-up'



mechanism where a salary was paid which, when added to the pension, resulted in the equivalent of full-time pay. These methods are not in compliance with the Plan and may violate state and federal laws on age discrimination. We look at the time expectation of the job. A pastor with a three-church district who retires and is paid a 75 percent salary but is still responsible for the same three churches is clearly in violation, unless the employer can document that the pastor has been given assistance with the result of reducing his time expectation.

There are exceptions. Employment by a non-participating employer does not violate the limitation. Teaching for a year at an English language school in Korea, for instance, does not violate the rule because the employer is not an NAD participating employer.

Temporary or casual full-time employment is allowed. A substitute teacher, summer camp employment, interim pastor, are examples of permissible employment by a participating employer after retirement. If the full-time temporary employment exceeds five months, the Plan no longer considers it to be temporary and benefits will be suspended.

Applying for Benefits

How long before my effective date of retirement should I start the process? We recommend six months. It may take a number of weeks for retiree and employer to complete the necessary documentation, and the turnaround time in the NAD Retirement Office varies depending on many factors.

The Effective Retirement Date is the first day of the retirement month. If all has been done on a timely basis, the first pension is due on the 27th day of the retirement month.

The employee notifies the employer of his or her or her intention to retire and gives an effective retirement date. The employer will provide forms to be filled out. There will be some back and forth as documentation is clarified by the employer.

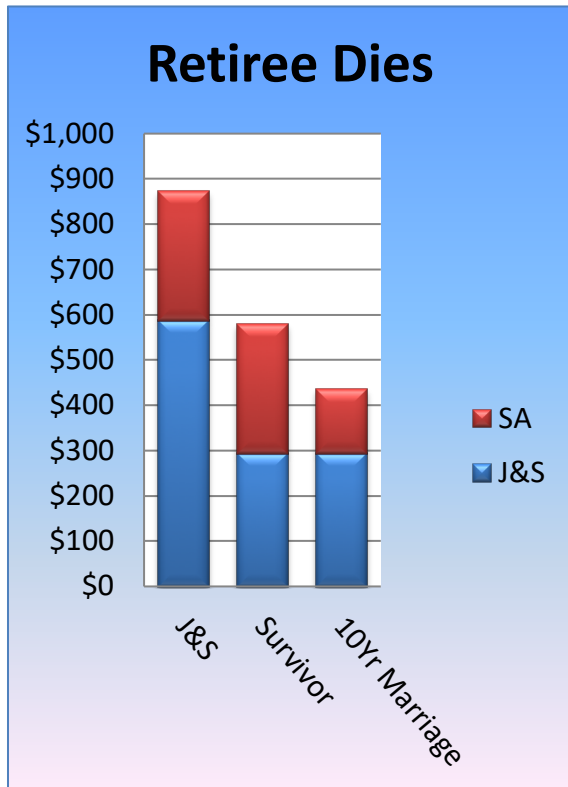
The employer then may provide an estimate of benefits to the employee. This is merely an estimate and includes caveats. Until the Plan has reviewed all documentation, the benefits estimate should be used as a general guideline. The employer then files the application forms, along with documentation.

Upon receipt, the Plan verifies all documentation and service, initiates the healthcare assistance Process and when completed, transfers the benefit to the monthly NAD Retirement Benefits Distribution Office for payment of the one-time lump sum retirement allowance and the monthly benefit payment.

The Plan adheres to a 'first-in first-out' queue process. A retiree whose application is not received until one month prior to the effective date is probably not going to receive any monthly retirement benefits for several months. Delayed benefits will be retroactively

calculated back to the effective retirement date. However, the healthcare assistance, if any, will be expedited for a delayed application to eliminate or minimize the time a retiree will be without healthcare assistance.

The Survivor Benefit



What happens to retirement benefits at death? In this lesson we will discuss **Survivor Benefits** and give some examples. The order of death is uncertain, and that uncertainty requires careful thought.

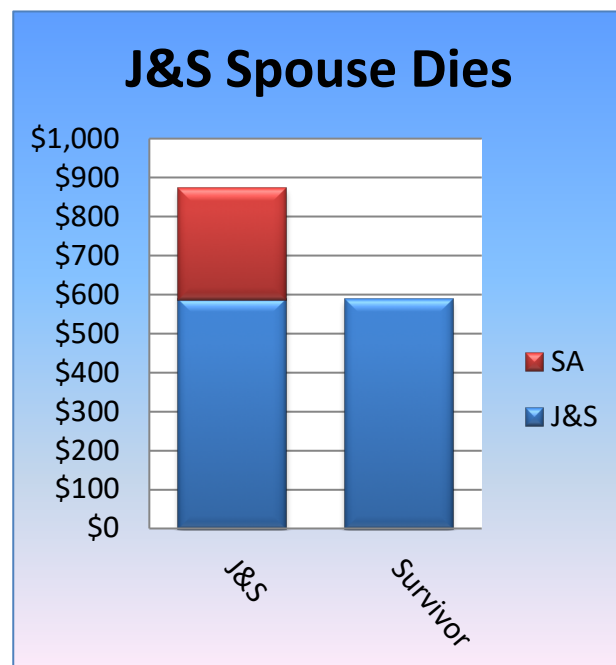
Monthly Survivor Benefits

In our example, Joe the Retiree dies while receiving retirement benefits. He was married to Tina for all 20 of his pre-2000 years of qualified service credit. Tina is not qualified to receive retirement benefits from any employer, and thus Joe is eligible for the **Spouse Allowance**.

Joe's Joint & Survivor Benefit is halved at his death. Upon conversion of the benefits to survivor benefits, the Plan prorates any spouse allowance. Since they were married for all of the 20 pre-2000 years, Tina continues to receive the full spouse allowance as a survivor benefit. If she had not been

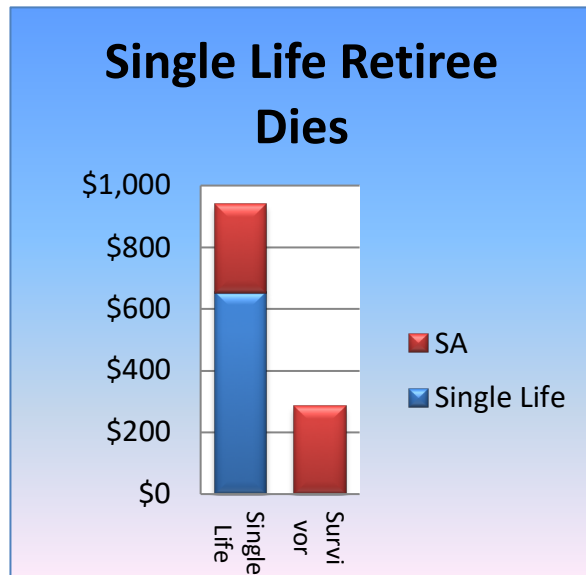
married to him for all 20 years, the Spouse Allowance would be prorated. The third bar shows them having been married for only 10 of the 20 pre-2000 years.

If Tina remarries after Joe's death, there would be no change in her survivor or healthcare plan benefits, but her new spouse would not be eligible for any survivor or healthcare benefits based on Joe's qualified service credit. If Joe passed away just prior to applying for retirement, survivor benefits would be calculated in the same way.



Let's change the example. Joe lives on. Tina, the Joint & Survivor Spouse passes away. Pre-death benefits were the same as in the last example. However, upon Tina's death, Joe loses the spouse allowance permanently. If Joe were to remarry, the new spouse would not be eligible for Joint & Survivor benefits, healthcare or any other benefit based on Joe's career.

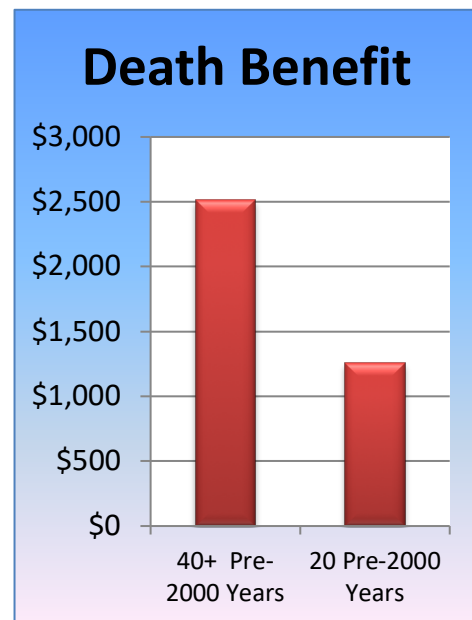
Let's take a different angle entirely. Joe retired but declined the Joint & Survivor Benefit. He and Tina signed the Joint & Survivor Waiver which declared that Joe would receive more monthly money, but Tina would not be eligible for a healthcare assistance plan, or potential survivor benefits.



Joe passes away first. Tina receives no survivor benefit. However, because Joe was eligible for the spouse allowance and he and Tina had been married for all of his 20 pre-2000 years of qualified service credit, Tina will continue to receive the spouse allowance, even though they had waived receipt of normal survivor benefits. She is not eligible for any healthcare assistance or **Death Benefit**.

The Death Benefit

Retirees who pass away while receiving



benefits under the Defined Benefit Plan are granted a modest Death Benefit to assist with end of life expenses. The benefit is prorated based on pre-2000 qualified service credit compared with a 40-year career. Since the DB Plan has been terminated for many years, only previously retired employees will be eligible for the full 40-year death benefit.

The death benefit does not require documentation of expenses. It is provided to the retiree's spouse if living, or to those managing the end of life financial matters. If the retiree designated a spouse as a Joint & Survivor Spouse at retirement, the spouse is also eligible for the same death benefit.

The Retirement Allowance

The **Retirement Allowance (RA)** is a lump sum payment made to employees working half-time or more who go directly from employment to retirement. While the allowance will not make anyone wealthy, it is a large enough amount that it should be protected.

There are some limited exceptions to the rule of going directly from employment to benefits. The most common one is that the employer requests the retirement plan to protect the RA for a period of up to 36 months from termination until retirement benefits begin. This request might be made if the termination is involuntary and the employee does not need to begin receiving benefits immediately and does not wish to receive early benefits because of the benefits reduction for early retirement. Whatever the reason may be, the Plan will usually honor the request of the employer and will record the protection of a deferred retirement allowance. But the deferral will never be more than 36 months. If retirement benefits do not begin within 36 months, the RA is forfeited.

The RA is divided into two pieces for most employees. Here, we will discuss only the pre-2000 years retirement allowance. Under the Adventist Retirement Plan module, we discuss the post-1999 retirement allowance.

In this example, Joe retires with 20 pre-2000 years of qualified service credit. His pre-retirement monthly pay is \$4,500, including cost of living allowance, but not including any benefits or reimbursements such as area travel or tuition assistance. His one-time lump sum retirement allowance will be:

Pre-2000 Qualified Service Credit x .125 x Monthly Wages.

$$\mathbf{20 \times .125 \times \$4,500 = \$11,250.}$$

Employees will file for retirement benefits through the Human Resources office. The lengthy application form includes a section on the retirement allowance and allows the retiree to give instructions to the Plan as to the destination of the payment. The retiree may choose to receive the payment by check, in which case it becomes immediately taxable, or to have the payment sent directly to a personally set up Individual Retirement Account, or to a 403b Retirement Plan account such as the Adventist Retirement Plan. Most retirees select the last of these options. This allows the retiree to defer taxes until a year when there is less income, and to conveniently manage the income in one investment. There is a partially pre-filled form the employer can download from the AdventistRetirement.org website for the employee to make this request. The link to that form is provided in the Learning Exercise.

Bridges Between Plans

Glossary

Adventist Retirement Plan (ARP)	The US Church Defined Contribution Retirement Savings Account Plan.
Defined Contribution Retirement Plan (DC Plan)	The US Church Retirement Plan in the form of a retirement savings account accumulated post-1999. Also referred to as Adventist Retirement Plan, or ARP.
Early Retirement	The option of retiring prior to the Normal Retirement Age. This usually involves a benefit reduction.
Vesting	Employee has reached a service requirement which grants unconditional entitlement to future retirement benefits.
Spouse Allowance	An enhancement to the DB pension for retiree whose spouse has no employer provided benefits.
Qualified Service Credit	A measure of time expressed in years and percentage of years used to determine the retirement benefit under the DB Plan and the Healthcare Plan.

In this lesson, we provide information about some bridges designed to smooth the transition from the pre-2000 Defined Benefit Retirement Plan and the Defined Contribution Retirement Plan begun in 2000. We will discuss what is called 'Vesting Reciprocity', and how Service Credit qualification can be met by DB or DB and DC qualifying service credit. We also discuss how the service credit qualification for the **Spouse Allowance** can be met by DB or DB and DC qualifying service credit. We will discuss how to use DC years to lessen the **Early Retirement** benefits reduction using service credit from both plans, and how both plans contribute towards the Healthcare Plan.

Vesting Bridge

While the DC Plan has no **vesting** requirement, the DB Plan has a 10-year vesting requirement. So, what happens to the individual who had only six years, for example, when the DB Plan was terminated at the end of 1999? Because of the vesting bridge, if he or she worked an additional four years so that total years equaled or exceeded 10 years of **Qualified Service Credit**, vesting takes place. The employee would be considered to be vested with six years (not 10 years) of qualified service credit towards the DB Plan monthly pension. This provision terminated at the end of 2014. If the 10 years of qualified service credit had not been earned by December 31, 2014, further employment will **not** vest the employee.

Healthcare Assistance Bridge

Those who have taken the Healthcare Assistance modules will remember that both the DB and DC Plan qualified service credit count towards healthcare assistance. This applies to both the

initial eligibility requirement of at least 15 years of qualified service credit and additional five-year bands which increase the financial assistance.

In addition, an employee wanting to retire prior to Medicare eligibility at age 65 can use qualified service credit from both plans to reach the critical 40-year service requirement for an earned credit towards the cost of the Pre-Medicare Plan.

Spouse Allowance Bridge

In the Defined Benefit module there was a lesson on the Spouse Allowance. One requirement was that the retiree had to have 20 years of qualified service credit in order to meet initial eligibility for the spouse allowance. In order to use this bridge, the employee must have at least 10 pre-2000 years of qualified service credit. The bridge then allows up to 10 post-1999 Defined Contribution qualified service credit to count towards the 20-year requirement.

Again, this bridge provision ended at the end of 2014. If the total 20-year requirement including ten pre-2000 years was not earned by that date, additional employment after 2014 will NOT qualify the employee for the spouse allowance.

Remember the spouse allowance is relatively rare, and other requirements must be met as spelled out in the spouse allowance lesson. Merely reaching the 20-year service requirement does not qualify a retiree for the spouse allowance.

Early Retirement Bridge

In order to qualify for a no-penalty early retirement with Pre-Medicare Healthcare Assistance, a retiree must have at least 40 total years of qualified service credit. The bridge policy allows qualified service credit from both Plans to count towards that 40-year requirement. Without the 40 years, the retiree may still join the Pre-Medicare Plan, but will receive no earned credit towards the fairly high cost of that plan.

Also, the module on the Defined Benefit Plan describes the benefits reduction incurred for retirement prior to either normal retirement age or 40 years of qualifying service credit. Service in both DB and DC Plans counts towards the requirement to reduce or eliminate the benefits reduction.

Learning Exercises

To download a partially filled in Retirement Allowance Rollover Form, use this link:

<https://www.adventistretirement.org/wp-content/uploads/2014/12/Current-General-Empower-Rollover-Form-November-2017.pdf>

By completing this form, you can request the Retirement Plan to send your retirement allowance directly to your Defined Contribution Retirement Plan account.

Learning Evaluation (answers follow)

1. Under a Policy Exception, the Retirement Allowance may be deferred for up to 36 months from termination if:

- The employer requests such a deferral.
- Employer financial difficulty causes involuntary termination.
- Employee was 'dearly beloved.'
- Officer employee was not re-elected.

2. Eligibility for the Retirement Allowance includes (select all that apply):

- Going directly from employment into retirement.
- At least half-time employment for last two years.
- Involuntary retirement.
- Service under both the DB and DC Plans.

3. The Retirement Allowance destination is:

- Direct to retiree, rolled over to a 403(b) plan such as the DC Plan account, or to an Individual Retirement Account.
- The DC Plan account.
- Direct purchase of a commercial tax-deferred annuity.
- Direct payment by check to the retiree for both employer and plan portions.

4. Eligibility for a pension under the NAD Defined Benefit Retirement Plan includes:

- Currently married.
- Ten or more years of qualified service credit & Age 59 ½ or more.
- Church member in good standing.
- Currently a denominational employee.

5. The Joint & Survivor Option:

- Is required for all married retirees.
- Is available for all retirees, single or married.
- Is only available for widowed retirees.
- Is assumed for married retiree, but can be declined by retiree and spouse .

6. The Single Life Benefit:

Provides benefits, including healthcare assistance to only the retiree until his or her death with no survivor benefits.

Provides benefits only to unmarried retirees.

Provides benefits to a widow of a retiree upon retiree's death.

Provides a single combined benefit to spouses who have both worked for the denomination.

7. The employee should file a retirement application with the:

NAD Retirement Office at least one month prior to the Retirement Effective Date.

Employer any time prior to the Retirement Effective Date.

Employer a recommended six months prior to the Retirement Effective Date.

NAD Retirement Office directly if the application is within three months of the effective date.

8. Survivor Benefits:

Provide the spouse and children of retirees a monthly pension at death of retiree.

Provide the retiree's designated J&S Spouse with monthly benefits and continuation of the existing retirement healthcare plan if the retiree passes away first.

Provide healthcare assistance and monthly benefits to both a pre-retirement spouse and a spouse married after retirement.

Provide a life insurance payout at death to the J&S Spouse at death of retiree.

9. The following service requirements may be met by post-1999 Qualifying Service Credit (select all that apply):

10 Years for DB Plan vesting.

40 Years for unreduced early retirement benefits.

20 Years for spouse allowance eligibility.

15 Years towards healthcare assistance eligibility.

40 Years towards pre-Medicare earned credit.

Question 1 Correct: This is the most common reason for deferral. The retirement effective date MUST be within 36 months of termination, or the RA will be forfeited.

Incorrect: An involuntary termination does not in and of itself cause RA deferral. But sometimes the employer will use this as a reason to request such deferral, a request which will usually be granted by the Plan.

Incorrect: Special exceptions are not given just because a person was 'dearly beloved.' However, 'dearly beloved' employees might prevail upon the employer to make the exception request to the Retirement Office.

Incorrect: Failure to be re-elected does not grant automatic deferral of the RA.

Question 2

Correct: Although there are exceptions, this is the primary eligibility rule.

Correct: Occasionally, employees 'wind down' and work less than full time before retirement.

Incorrect: Involuntary termination does not force retirement.

Incorrect: It is not necessary to have service under both plans in order to be eligible for the RA.

Question 3

Correct: These options are at the discretion of the retiree.

Incorrect: This is certainly possible, but not required.

Incorrect: This is not an available option.

Incorrect: This is possible but not usually done. It would make it immediately taxable.

Question 4

Incorrect: Marriage status needs to be recorded by the Plan, but being married is not a requirement for benefits.

Correct: These are the primary two requirements. Later, we will discuss vesting reciprocity with other plans.

Incorrect: Retirement is considered a deferred employment benefit and cannot be denied because of loss of church membership.

Incorrect: Going directly from employment into retirement is often the case but is not required.

Question 5

Incorrect: J&S is assumed, but not required.

Incorrect: Single retirees are not eligible for Joint & Survivor Benefits. (A single divorced retiree has a different set of rules.)

Incorrect: J&S deals with the current living spouse.

Correct: The Plan assumes the retiree will designate a spouse to whom he or she has been married for at least one year as the J&S Spouse, but by signature of both retiree and spouse, J&S can be waived.

Question 6

Correct: The Single Life Benefit will be more than the Joint & Survivor Benefit but ceases permanently upon the death of the retiree regardless of his or her marital status.

Incorrect: Married retirees can waive the J&S in favor of a Single Life benefit. Such a waiver requires the spouse's signature.

Incorrect: The Single Life Benefit is what the retiree receives until death.

Incorrect: Generally, each employee will retire under his and her own Qualified Service Credit.

Question 7

Incorrect: The application process always goes through the current NAD employer, or if not currently employed, through the last NAD employer.

Incorrect: While the application can be filed at any time, failure to initiate the process at least six months prior to retirement will likely result in delayed pension and retirement allowance payments.

Correct: Six months will usually result in timely starting of the benefits.

Incorrect: The employee always files through the employer.

Question 8

Incorrect: Children do not receive survivor benefits.

Correct: Only the designated J&S Spouse. This means they must have been married for at least one year upon retirement.

Incorrect: Only the J&S Spouse receives the benefits of the Joint & Survivor policies. A post-retirement marriage does not provide the new spouse with any retirement benefits.

Incorrect: There is a modest Death Benefit provided at the death of the retiree to assist with end of life expenses.

Question 9

Correct: This provision ended on December 31, 2014.

Correct: The Benefits Reduction is described in the Defined Benefits Plan module.

Correct: However, at least 10 years must have been earned prior to 2000.

Correct: Post-1999 employment also counts towards increasing Healthcare Assistance using the five-year bands described in the two SHARP modules.

Correct: If the retiree has less than 40 years, there would be no Earned Credit towards the high cost of the Pre-Medicare Plan.

Closing Comments

A word from Del Johnson

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 sister¹ 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. He served the church for 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.



I wish you God’s blessings as you create your prudent plan.

Regards,

Del L Johnson, Retiree

AdventistRetirement

¹ 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** [emphasis added]. He gives them special grace and wisdom,” (*Acts of the Apostles*, 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

Special Situations

Glossary

Division, World Division	The Adventist global designation of geographical territories directly under the direction of the General Conference.
Independent Transfer (ITR)	A denominational employee from another division who has moved to the NAD and accepted employment from a NAD employer without receiving an ISE invitation.
International Service Employee (ISE)	An employee under the General Conference ISE policies. Previously known as Interdivision Employee or IDE.
Mixed Service	Employment by employers operating under two or more denominational Retirement Plans.
Plan	The NAD Retirement Plan administration.

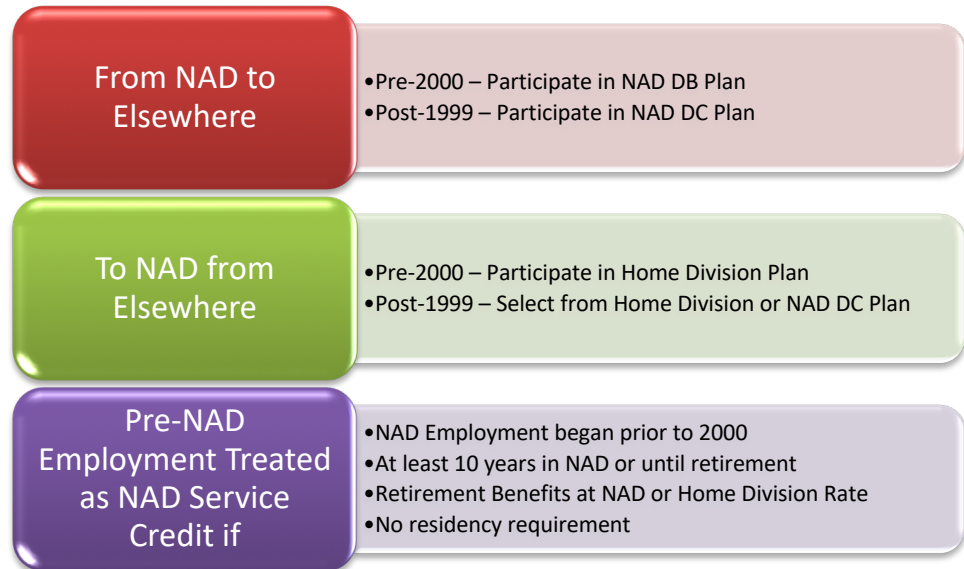
This module is for individuals approaching retirement age with employment with a participating employer under either the DB or DC Plans. In this module we will describe common situations in which an employee has worked under more than one retirement plan. Some plans have reciprocal arrangements, some do not.

We describe the missionary, both *from* the United States and *to* the United States and the implications of an international assignment on the employee's retirement benefits. We describe situations where **mixed service** included the pre-1992 Hospital Plan, the pre-2000 Church Plan, the Canadian Employees Plan and the Regional Conference Employee Plan. We also describe the employees who have migrated from another **division** of the Seventh-day Adventist Church who have service in that pre-NAD division's retirement plan, and retirement implications.

International Service Employee

The **International Service Employee (ISE)** is a person who has received a written formal call or invitation from the General Conference of the Seventh-day Adventist Church to serve in a division other than his or her home division under policies including moving assistance, home leaves and other miscellaneous benefits. Previously known as Interdivision Employees or IDE's, these employees retain a link to their home division and are expected to return to the home division upon completion of the assignment.

Employees who receive an employment invitation directly from a local employer in another division such as a conference or university, regardless of the terms of the offer, are not considered International Service Employees.



International service under a volunteer model such as student missionaries or Adventist Volunteer Service models, while incredibly important to the mission of the church, do not fall under the category of International Service Employees, and do not earn NAD qualified service credit.

The Adventist church has adopted the mantra of “From everywhere to everywhere.” Missionaries travel to and from the United States to serve the church and its mission. Individuals whose home is in the United States who accept a formal ISE invitation from the General Conference are considered employees of a NAD-based employer for purposes of retirement. Those employees participate in the NAD Retirement Plan. Pre-2000 ISE years are counted towards receiving retirement benefits under the NAD Defined Benefit Retirement Plan. The General Conference makes contributions to the retirement plan on behalf of those employees and is considered a participating employer.

Post-1999 ISE years are counted towards qualified service credit under the NAD Defined Contribution Retirement Plan. The General Conference makes contributions to the employee’s defined contribution account in the US. Upon completion of an international assignment, the ISE returns to the United States and, if employed by a NAD employer, continues to seamlessly accrue benefits under the NAD Plans.

Generally, individuals whose home is in a division other than NAD, who accept a formal ISE invitation from the General Conference, are considered employees of their home division for purposes of retirement. Those employees participate in the Home Division Retirement Plan. The General Conference makes contributions to that division's retirement plan. Upon completion of the NAD assignment, the ISE returns to his or her home division and, if employed by a denominational employer, continues to seamlessly accrue benefits under that plan. Generally, that is how it works.

However, since 1999, ISE's called to a NAD-based employer under the NAD Defined Contribution Retirement Plan are given an alternative. They are allowed to choose to participate in the NAD Defined Contribution Retirement Plan instead of in the home division's retirement plan. If they select the NAD Retirement Plan, the employer makes contributions to the NAD Defined Contribution Retirement Plan just as if the employee was a NAD-based employee. Upon completion of the assignment, the ISE has access to those accumulated assets and can take them with him or her upon return to the home division.

In some cases, ISE's to the United States may choose to retire in the United States. Such employees are given an unusual opportunity. Even though pre-NAD employment was in another division and no contributions were made to the NAD Plan by pre-NAD employers, if the employee has served as an ISE in the NAD either for at least 10 years or until retirement, the ISE can retire in the US and receive pre-2000 benefits at either the NAD Defined Benefit Retirement Plan rates, or the Home Division Retirement Plan Rates, whichever gives the retiree the larger benefit. All pre-2000 and post-1999 employment years count towards retirement benefits just as if all years had been in the United States. There was at one time a US Residency requirement, but that has been removed. So, an ISE can retire in the US, receive NAD monthly retirement benefits, and move anywhere without reduction of monthly benefits for pre-2000 employment.

In some cases, legal implications limit the provisions just described. National rules may restrict the accrual of retirement benefits for service outside of the home division country. National monetary policies may restrict the flow of retirement benefits across national borders, and banks may charge significant fees for such transfers. Moving accumulated Defined Contribution assets across national lines will usually result in tax implications, sometimes in both the US and the country of residence. And SHARP, the NAD's healthcare assistance, simply does not work outside of the United States due to its reliance on Medicare. These are all issues that must be understood by the retiree. Plan personnel are not qualified to advise in such matters, and the NAD does not provide compensation for expenses related to international funding of retirement benefits.

Many years have passed since 1999, and there are not many ISE's in the US who came prior to 2000.

Mixed Service

The NAD Retirement Office has managed a number of retirement plans since inception. In addition, other NAD Employers operate under separate plans. While similar, these plans vary somewhat, creating opportunity for confusion for those with service in more than one plan. The table below summarizes some general differences between the various plans retirees may encounter. The complexity of these differences cannot be entirely captured in such a summary table.

Policy	Church DC	Church DB	Hospital DB	Canada DB	Regional DB
Normal Retirement Age	NA	66->67	65	65	65
Full Time Denominational Employment Allowed after Ret.	Yes	No	Yes	Yes	Yes
Earliest Retirement Age	59 ½	59 ½	65	55	55
Vesting Reciprocity with other DB Plans	NA ²	Yes	Yes	Yes	Yes
Vesting Reciprocity with Church DC Plan	NA	Yes ³	No	Yes	Yes
Lump Sum in Lieu of Pension	NA	No ⁴	Yes	No	No
Healthcare Plan	Yes	Yes	No ⁵	Yes	Yes
Retirement Allowance	Yes	Yes	No	Yes	Yes

The Church DB, DC and Hospital DB Plans are administered by the NAD Retirement Office. The Church DB Plan terminated at the end of 1999 in favor of the Church DC Plan. The Hospital DB Plan terminated at the end of 1991 in favor of a DC Plan administered by the Adventist Healthcare Retirement Plan in Roseville, California.

The Retirement Plan for employment in Canada is administered by the Seventh-day Adventist Church in Canada in Oshawa. The Retirement Plan for employees of the regional conferences in the United States is administered by the Regional Conference Retirement Plan Office in Huntsville, Alabama. The NAD Retirement Plan personnel are not authorized to describe the Hospital DC Plan or the Canada or Regional DB Plans. Questions about service in those plans

² Church DC Plan has no vesting requirement

³ Provision stopped at December 31, 2014

⁴ Vested Church service less than five years requires cash payout in place of pension

⁵ Hospital provides monthly supplement in place of Healthcare Assistance

should be referred to those administrators. However, this table gives a general comparison of some policy differences between the plans. Let's look at significant issues on this table as it relates to mixed service.

The Church DC Plan varies significantly from DB Plans. Essentially, a Normal Retirement Age is not applicable in the DC Plan. Employees have full access to the DC Plan Assets at age 59 ½ even if still employed. There is no vesting requirement. There is no lifetime monthly pension provision other than the annuity options described in the ARP Plan Distribution Years lesson. The Church DC Plan does have a retirement allowance provision, similar to that described in the Defined Benefit Plan.

Church DC Employment can be used to complete vesting requirements for the Church DB Plan, the Canada DB Plan and the Regional Conference DB Plan, but not the Hospital DB Plan. Employees with Church DB employment in addition to Hospital, Canada or Regional DB Plans, will have different rules for Normal Retirement Ages and Full Time Employment after Retirement. Such an employee may begin to receive pensions from plans other than the Church DB Plan even though still employed after age 65. So church and other retirement dates may well be different, with say, Hospital benefits beginning at age 65 and Church benefits beginning at actual retirement termination after age 65. All DB Plans provide for reciprocal vesting with other DB Plans. For instance, an employee with six years in each of two of the DB plans is considered vested in both.

The Hospital DB Plan makes provision for an optional lump sum cash-out instead of a monthly pension. The other DB Plans make no such provision. But the Church DB Plan *requires* a lump sum payout if Church DB Plan qualified service credit is five or less years.

The Hospital DB Plan has no Healthcare Assistance provision but provides an Accrued Pension Supplement for qualifying retirees which is a taxable pension enhancement in place of a Healthcare Assistance Plan. The Church, Canada and Regional DB Plans all make provision for healthcare assistance. However, coordination for mixed employment is complex and goes beyond what this summary description can provide.

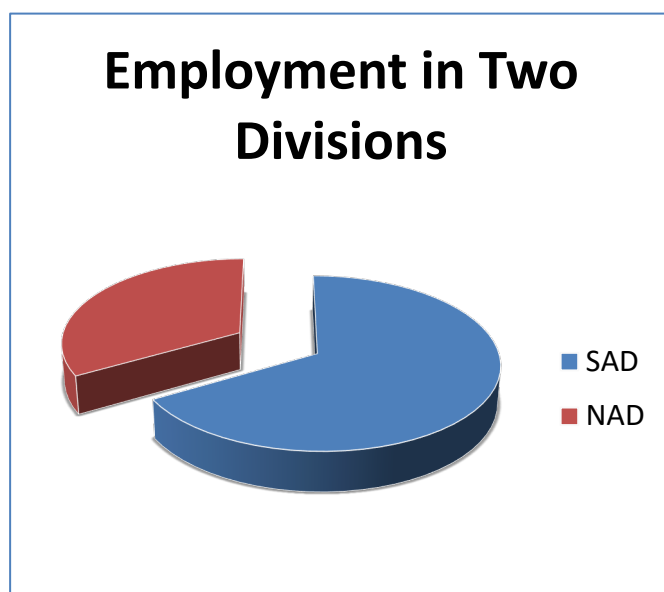
Direct retirement from a Church Plan Employer, a Canada Employer and a Regional Employer will result in a lump sum retirement allowance as described in the Church DB Plan module. Qualified service credit from all of these plans will both count towards that benefit. However direct retirement from a Hospital Plan employer will not result in a retirement allowance for any years.

Independent Transfers

An individual who has worked in a division other than the North American Division and moves to the United States and becomes employed by a participating employer without a written International Service Employee or ISE invitation from the General Conference, is called an Independent Transfer, or ITR.

Non-Portability

General Conference Working Policy requires each division to provide for retirement plans for denominational employment in that division, and to plan for the funding of such plans. Divisions will consider national pension plans and retirement cultures in the design of a plan. Division plans will generally not accept service credit outside of that division towards retirement benefits.



Here is an example. A pastor works for 20 years in the Southern Asia Division, moves to the United States and works for a NAD employer for 10 years, and then retires. That pastor would rely on the Southern Asia Division's retirement plan for the first 20 years of his or her career, and the NAD for the last 10 years of the career. Each plan would apply its own policies regarding vesting, eligibility and benefits. This is true even if a NAD employer directly invited the pastor and may have assisted in the cost of the move.

There is no automatic vesting reciprocity between division retirement plans. If the employee had not vested in his or her home division when he or she moved away, it is unlikely that the home division retirement plan would allow NAD employment to complete vesting in the pre-NAD Retirement Plan. Neither will vesting requirements in the NAD be met by pre-NAD employment.

Non-Portability Exceptions

Notwithstanding the above, if certain criteria are met, an ITR *can* receive pre-NAD service credit towards NAD Benefits from the pre-2000 Defined Benefit Retirement Plan just as if those years had been in the United States.

There are four criteria for ITRs to receive NAD pension benefits based on pre-NAD employment:

- NAD Employment begins prior to 2000, and
- Retirement begins after 1999, and

- At least 10 years of NAD qualified service credit are earned, including both DB and DC years, and
- The ITR was an employee of a NAD participating employer on December 31, 1999.

If all four criteria are met, the Plan applies the exceptions policies and seeks to ensure that pre-2000 years of service credit are treated as if they were all NAD qualified service credit years. This can be done by coordinating with the pre-NAD Plan or paying full benefits for all pre-2000 service credit if the pre-NAD Plan declines to pay benefits because of a failure to vest in the pre-NAD Division.

An individual who becomes an ITR after 1999 is not eligible for the exception. Upon retirement, that ITR would have to apply for benefits, if any, from the home division for pre-NAD employment, and from the NAD Retirement Plan for qualified service credit in the NAD. Pre-NAD employment would not count towards NAD pension, healthcare assistance or other retirement benefits.

Learning Exercises

Learning Evaluation (Answers follow)

1. An International Service Employee (ISE) is:
 - Any denominational employee who has worked in more than one country.
 - A denominational employee who has moved to the United States prior to 2000.
 - A denominational employee who has accepted a General Conference invitation to serve outside of the home division on an ISE basis.
 - A denominational employee whose responsibilities require occasional international travel.

2. Mixed Service includes:
 - NAD denominational employment under two or more retirement plans.
 - Employment at a non-denominational employer and a denominational employer.
 - Employment in a division other than NAD and subsequent retirement in the US.
 - Employment by two denominational employers at the same time.

3. An Independent Transfer occurs when a denominational employee in another division:
 - Moves to the NAD upon an invitation from the General Conference.
 - Moves to the NAD and becomes employed by a NAD participating employer.
 - Temporarily works in another division upon an invitation from that division.
 - Transfers from another denomination and becomes a Seventh-day Adventist.

4. Of the five options, select the one that is *not* a criterion for adopting pre-NAD employment as NAD qualified service credit:
 - Great need as a result of international employment.
 - NAD employment prior to December 31, 1999.
 - NAD current employment on December 31, 1999.
 - Retirement occurs after 1999.
 - At least 10 years of NAD employment.

<p>Question 1</p> <p>Incorrect: Student missionaries, Adventist Volunteer Service and short-term employees are not considered ISEs.</p> <p>Incorrect: This is not a criterion for ISE status.</p> <p>Correct: Only the General Conference can issue a formal ISE invitation.</p> <p>Incorrect: International travel does not create ISE status.</p> <p>Question 2</p> <p>Correct: Plans could include the NAD Church Plan(s), the NAD Hospital Plan, the Regional Conference Retirement Plan, and the Canadian Plan.</p> <p>Incorrect: Non-denominational employers do not factor into retirement policies or calculations.</p> <p>Incorrect: Employment in another division does not provide any retirement benefits in the NAD unless specific criteria are met.</p> <p>Incorrect: This happens but is not referred to as mixed service.</p> <p>Question 3</p> <p>Incorrect: This would usually be considered an ISE, or International Service Employee.</p> <p>Correct: Assuming there was no General Conference invitation.</p> <p>Incorrect: Independent transfer is not a temporary international assignment.</p> <p>Incorrect: Becoming an Adventist is not an independent transfer as described in the retirement plan policies.</p> <p>Question 4</p> <p>Correct: This is not one of the exception criteria.</p> <p>Incorrect: This is one of the exception criteria.</p> <p>Incorrect: This is one of the exception criteria.</p> <p>Incorrect: This is one of the exception criteria.</p> <p>Incorrect: This is one of the exception criteria.</p> <p>Incorrect: This is one of the exception criteria.</p>
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Clergy Retirement Issues

Glossary

Clergy	An ordained or commissioned minister
Credentials	Status documentation of an employee. For Plan purposes used for Ministerial Credentials
Emeritus Credentials	Credentials issued to retirees. May include ordained, commissioned and other.
Housing Allowance Exclusion	Tax law, currently under review, which allows designated clergy to reduce taxable income by the cost of providing a home.
Parsonage Allowance Exclusion	Tax law, currently under review, which allows designated clergy to reduce taxable income by the cost of providing a home.
Social Security Exempt	A minister who has filed form 4361 and received exemption from participating in Social Security
Union Conference	The geographical territory within the NAD which makes up a group of local conferences.
Windfall Elimination Provision (WEP)	The Social Security provision which reduces Social Security income for those with career years not participating in Social Security.

This section is for members of the clergy approaching retirement age with employment with a participating employer under either the Defined Benefit or Defined Contribution Plans or both. We describe how current tax rules for retired clergy provide the Parsonage or Housing Allowance exclusion. We discuss the result of a minister's opting out of Social Security. We describe how a retired minister can maintain clergy credentials. We also offer some cautions about common Social Security estimators and why they may not be accurate for members of the clergy.

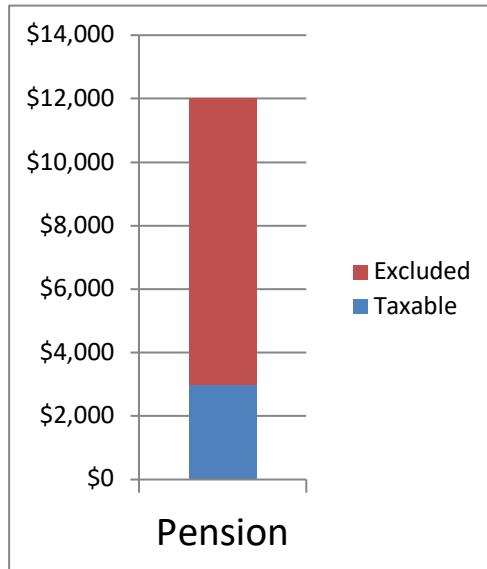
Parsonage Allowance Exclusion

Clergy employed in ministry in the Adventist Church are able to participate in a tax strategy called the Housing Allowance Exclusion, or the Parsonage Allowance Exclusion. This treats a minister as a self-employed person for purposes of Social Security. Instead of having FICA charged and contributed by the employer, the minister makes SECA payments to the IRS. Subject to certain IRS limits, the minister can deduct from his income from ministry the cost of maintaining a home. Most ministers are familiar with this provision. An experienced tax

preparer can provide advice on use of this provision. Retirement Plan personnel are not trained in providing more than general information about the Exclusion.

Ministers may also be aware that the exclusion is under legal attack from a constitutional perspective. It is very possible that the exclusion will be done away with or modified significantly within a short period of time. However, while it is still in place, the strategy extends to retired clergy as well.

Both the Defined Benefit and Defined Contribution Retirement plans allow the minister to be



defined as a member of the clergy who is eligible for the exclusion. In most cases the retirement plan relies on the last participating employer to inform the Plan of the eligibility for the exclusion. If the last employer allowed the exclusion, so does the Plan.

Most (not all) participating employers require a form from the clergy employee documenting qualifying expenses for maintaining a home, such as mortgage payments, utilities, maintenance and other household expenses. The W-2 is then reduced to the net amount, resulting in reduced income taxes paid by the minister.

The Plan handles this differently. No report is required. Instead the Plan issued 1099-R issued to the IRS and the

retiree is marked "Taxable Amount Not Determined." The retiree then determines how much he or she has spent on qualifying housing expense, and within certain IRS limits, files his or her income tax forms showing both the total retirement distribution, and the taxable retirement distribution.

Unfortunately, we believe many retirees assume the full church retirement income to be excludable. This is possible, but not always the case, particularly if the retiree has no mortgage payments. If the retired minister is ever subjected to an IRS audit, the actual expenses for providing a home would have to be documented and will be compared with the exclusion claimed on the return.

Participation in Social Security

We now come to an interesting provision provided by Federal law for members of the clergy. By filing Form 4361, usually at the beginning of his or her ministerial career, a minister may request personal exemption from participating in Social Security. The form warns that “once the application is approved, you cannot revoke it.” Congress allowed exempt ministers to revoke their exemption during two windows in 1977 and 1987. During both of those windows, NAD administrators urged exempt employees to revoke their exemption and get back into Social Security. The North American Division has gone on record discouraging exemption from Social Security, but the NAD recognizes the right of the minister to seek the exemption.

I certify that I am conscientiously opposed to, or because of my religious principles I am opposed to, the acceptance (for services I perform as a minister . . .) of any public insurance that makes payments in the event of death, disability, old age, or retirement; or that makes payments toward the cost of, or provides services for, medical care.
Form 4361

Highly respected Christian financial advisor Dave Ramsey seems to encourage opting out of Social Security for financial reasons, but only if the employee has a financial plan to replace the Social Security and Medicare benefits waived, including putting unpaid SECA payments into savings, and buying long-term disability insurance and life insurance. Plan attorneys tell us that opting out of Social Security for financial reasons probably does not meet the Conscientious Objection requirement of the IRS.

The Retirement Office believes the most important challenge of opting out is retirement healthcare assistance. Fortunately, many who have opted out have accumulated the necessary 40 quarters under Social Security to qualify for Medicare prior to opting out. If not, healthcare assistance in retirement will be a challenge for which the Church does not have a solution.

Ministers reading this have probably already decided whether to opt out or not. Exempt ministers approaching retirement should consider carefully, perhaps with the assistance of a Certified Financial Advisor, how to replace Social Security income, Medicare, disability insurance and lifetime benefits for a surviving spouse.

Exempt ministers who have qualified for reduced Social Security income because of non-ministerial employment may run into the dreaded Windfall Elimination Provision (WEP). This law seeks to eliminate the subsidy of the monthly benefit of those with lower incomes throughout the career as recorded in the Social Security record. An exempted minister may appear to have a low career earnings record because of years of non-participation in Social

Security, which results in a subsidy of the monthly benefit. The WEP provision determines that this subsidy is not appropriate and revokes it.

Warning: Standard software estimates of Social Security income may overstate the amount actually given by Social Security because of WEP.

The Retirement Plan's SHARP-Exchange described in a module of that title describes how the Adventist Church provides healthcare assistance for 65+ retirees and spouses. SHARP-Ex assumes eligibility for Medicare. The Plan has no healthcare solution for a Social Security exempt participant who is ineligible for Medicare.

The Plan has developed a document entitled "Opting Out of Social Security" which is available for download in the Learning Exercises section of this web page.

Retired Minister Credentials

Ministerial credentials are normally issued only to active employees. Upon retirement some employers request the return of the credential as part of the exit process since the retiree is no longer an employee. Some employers simply allow the retiree to retain the credential until it expires, and do not renew it.

Retiring ministers may wish to continue to carry documentation of ordination or commissioning in retirement. This can be useful if the minister wants to have clergy visitation rights at a hospital, perform a wedding or survive a tax audit. Such retiring ministers may apply for **Emeritus Credentials** during the retirement process. This process is entirely voluntary. Retired ministers are not required to carry current ministerial credentials, and many do not do so.

The employer processing the retirement will, upon the request of the retiree, send a letter to the executive secretary of the union conference where the retirement home is, recommending the issuance of the appropriate credential; ordained minister or commissioned minister.

The union conference executive secretary or other appropriate office will issue and maintain emeritus credentials to the retired minister. In the case of General Conference elected personnel who retire directly from the GC, emeritus credentials will be issued by the General Conference.

Estimating Social Security Income

Retirees have informed us that standard Social Security income calculation tools may not be accurate enough to confidently create a retirement budget. This can be for several reasons.

- The software may not understand the dual nature of the clergy or the parsonage allowance exclusion, and thus contributions and pension rates may not be accurately estimated.

- Ministers who have opted out of Social Security but will still qualify for benefits because of employment prior to opting out may encounter the dreaded Windfall Elimination Provision (WEP) described previously.

In the Learning Exercises on this page we have provided a link to Social Security's WEP Calculator which may be useful. A trained tax preparer familiar with clergy matters may also provide valuable advice.

Learning Exercises

Helpful Links

Download and review our 'Opting Out of Social Security' document at <https://www.adventistretirement.org/employee/defined-benefit-plan/>

Review this article by Russell Moore regarding the ethics of opting out.

<https://www.russellmoore.com/2010/02/15/is-it-okay-for-me-to-opt-out-of-social-security-my-response/>

Review this article on the Dave Ramsey website with a different conclusion.

<https://www.daveramsey.com/blog/should-ministers-opt-out-of-social-security>

If you have years of employment in which you did not participate in Social Security, such as in Canada or because of a Social Security exemption, use this Social Security calculator to estimate your Windfall Elimination Provision (WEP) reduction.

<https://www.ssa.gov/planners/retire/anyPiaWepjs04.html>

Learning Evaluation (Answers Follow)

1. Parsonage/Housing Allowance Exclusion:

Exempts clergy from paying income tax

Designates part of the retirement income from a Church Plan as a non-taxable parsonage/housing allowance

Provides a housing allowance to retired clergy

Is only available for those who live in a church-owned 'parsonage'

2. A Social Security exempt minister is one who:

Is ineligible to participate in Social Security because he/she is a minister.

Has declared in writing a conscientious objection to participating in a public insurance program.

Is temporarily employed in the United States and thus chooses not to participate in Social Security.

Has retired and is therefore no longer a Social Security participant.

3. Clergy credentials in retirement are provided by:
- The union conference which includes the retirement residence.
 - The employer that processed the retirement application.
 - The local church of which the retiree is a member.
 - The conference within which the retiree lives.

Question 1
 Incorrect: Ministers have the opportunity to reduce their taxable income, not eliminate it.
 Correct: However, this provision is subject to specific IRS limits. Also note that this exclusion is under legal attack and may not survive as currently used.
 Incorrect: Policy makes no provision for an enhanced monthly benefit for housing.
 Incorrect: The exclusion is most helpful for those providing their own homes.

Question 2
 Incorrect: Ministers are not excluded from Social Security participation.
 Correct: The proper method of doing this is using Form 4361. The exemption does not begin until notice is received from the IRS of acceptance of the application.
 Incorrect: Temporary employment by a US employer does not exclude a person from Social Security participation.
 Incorrect: Retirement is not considered exemption.

Question 3
 Correct: However, individuals who retire from an elected position at the General Conference can receive their emertus credentials directly from the GC.
 Incorrect: Unless that employer is also the union conference in which the retiree resides.
 Incorrect: Local churches do not issue emertus clergy credentials.
 Incorrect: Local conferences do not issue emertus clergy credentials.

Glossary

Terms	Explanation
Adventist Retirement Plan (ARP)	The US Church Defined Contribution Retirement Savings Account Plan.
Adventist Risk Management (ARM)	The Adventist agency which assists the Plan in managing Dental/Vision/Hearing and pre-Medicare options.
Annuity	An instrument to convert a lump sum, such as in a DC Plan, to a regular flow of funds.
AON	Aon Retiree Health Exchange, a company with which the Plan has contracted to manage SHARP-Ex.
Asset Allocation Model	An investment model which distributes assets across various classes of equities and fixed income options.
Auto Enroll/Escalate	Automatically enrolls new employees with a three percent voluntary contribution, and then annually increases that by one percent to reach seven percent. The employee can decline.
Basic Contribution	The employer's initial contribution to the employee's DC account. Usually five percent.
Clergy	An ordained or commissioned minister
Credentials	Status documentation of an employee. For Plan purposes used for Ministerial Credentials
Death Benefit	Modest benefit paid to surviving spouse or estate upon death of Retiree or J&S Spouse.
Defined Benefit Retirement Plan (DB Plan)	The US Church Retirement Plan in the form of a pension that is calculated based on pre-2000 Qualified Service Credit.
Defined Contribution Retirement Plan (DC Plan)	The US Church Retirement Plan in the form of a retirement savings account accumulated post-1999. Also referred to as Adventist Retirement Plan, or ARP.
Dental/Vision/Hearing (DVH)	The SHARP option dealing specifically with Dental, Vision and Hearing assistance.
Division, World Division	The Adventist global designation of geographical territories directly under the direction of the General Conference.
Early Retirement	The option of retiring prior to the Normal Retirement Age. This usually involves a benefit reduction.
Earned Credit	The amount of financial assistance based on Qualified Service Credit provided for DVH and Pre-Medicare.
Emeritus Credentials	Credentials issued to retirees. May include ordained, commissioned and other.
Empower Retirement	The retirement brand name of Great West, the company currently contracted to provide DC Plan administration for ARP.
Health Reimbursement Account (HRA)	An account opened for eligible retirees and/or spouses. The account receives annual contributions from SHARP to reimburse the retiree for qualifying healthcare expenses.
Health Maintenance Organization (HMO)	A health insurance network to which subscribers pay a pre-determined fee in return for a range of medical services. Services outside of a narrowly defined network may be at personal cost.

Housing Allowance Exclusion	Tax law, currently under legal review, which allows Clergy to reduce taxable income by the cost of providing a home.
Independent Transfer (ITR)	A denominational employee from another division who has moved to the NAD and accepted employment from a NAD employer without receiving an ISE invitation.
International Service Employee (ISE)	An employee under the General Conference ISE policies.
Joint & Survivor Benefit/Annuity	A benefit assumed for a married retiree. A reduction from the Single Life Benefit nominally pays for Survivor Benefits and Healthcare provisions for the spouse.
Joint & Survivor Spouse (J&S Spouse)	The spouse of a retiree designated at retirement as a Joint & Survivor Spouse, and thus may be eligible for Survivor Benefits and Healthcare Assistance.
Leakage	Assets lost due to unpaid loans, withdrawals, tax penalties, contribution delays or failures and excessive fees.
Longevity Risk	The uncertainty of life expectancy, and the possibility of outliving retirement income.
Match Contribution	The employer's contribution which matches the Voluntary Contribution up to three percent.
Mixed Service	Employment by employers operating under two or more denominational Retirement Plans.
Normal Retirement Age (NRA)	The DB Plan's age for unreduced benefits. Climbing from age 66 to age 67.
North American Division (NAD)	The Seventh-day Adventist World Division including Canada, Bermuda and the United States.
Parsonage Allowance Exclusion	Tax law, currently under legal review, which allows designated Clergy to reduce taxable income by the cost of providing a home.
Participant	An employee of a participating employer who is eligible to earn service credit in the Plan, or a former employee who is receiving benefits from the Plan.
Participating Employer	An Employer that participates in the NAD Retirement Plans.
Pension Factor	A dollar amount voted each year by the NAD to calculate the Retirement Benefit for the DB Plan. This provides for the annual Cost of Living Adjustment.
Plan	The NAD Retirement Plan administration.
Plan Year	The calendar year
Pre-Certification	The process of requesting the Plan for certification of Qualified Service Credit.
Preferred Provider Organization	A health insurance network within which subscribers receive discounts for a range of medical services. Services outside of a broadly defined network may be at higher cost.
Pre-Medicare Plan	The healthcare plan offered to eligible retirees and spouses who meet eligibility requirements for Healthcare Assistance but are not yet age 65.
Qualified Service Credit	A measure of time, expressed in years and percentage of years used to determine the retirement benefit under the DB Plan and

	the Healthcare Plan.
Retirement Allowance	The one-time lump sum payment made to a Retiree upon going directly from employment into retirement.
Retirement Plan	A Plan designed to provide income and assistance after termination of full-time employment after age 59 ½.
Retirement, Retiree, Retired	Termination from full-time employment at or after age 59 ½ and application for benefits filed.
Rx Option	The prescription drug coverage options.
Secure Foundation	A variable annuity provided by Great West to ARP employees and retirees.
Service Record	The documentation of denominational employment.
SHARP	A healthcare plan provided by the NAD Retirement Plan for retirees, J&S spouse and in rare cases, for children.
SHARP-Ex	The specific portion of SHARP dealing with retiree and spouse age 65 and over.
Single Life Benefit/Annuity	A benefit calculated for a single retiree or a married retiree who has waived Joint & Survivor.
Social Security Exempt	A minister who has filed form 4361 and received exemption from participating in Social Security
Spouse Allowance	An enhancement to the DB pension for retiree whose spouse has no employer provided benefits.
Survivor Benefit	Benefits provided to J&S spouse upon death of retiree.
Tier	Categories of prescription drugs from low-copay tier one to high co-insurance tiers four or five.
Union Conference	The geographical territory within the NAD which makes up a group of local conferences.
Vesting	Employee has reached a service requirement which grants unconditional entitlement to future Retirement benefits.
Voluntary Contribution	The employee's voluntary contribution. Recommended three percent to seven percent.
Windfall Elimination Provision (WEP)	The Social Security provision which reduces Social Security income for those with career years not participating in Social Security.



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