

Getting Ready for the *Rest* of your Life

**A Guide for MUS Pre-Retirees
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The contents of this booklet are current as of October 2008, but are subject to change at regular intervals. Please verify all information at the time you begin to plan your retirement. Thank you!

Introduction

Retirement used to be considered the end of a person's life. Nowadays, it should be looked at as the *rest* of that life. Our hope is that you have worked hard to take good care of yourself, using our health plans and wellness programs along the way, so as to enjoy another twenty or thirty years once you've retired.

When potential retirees ask me what they need to do to retire, I tell them just two things: know what you are going to do with your time and know how you are going to pay for it. These two simple things are intimately intertwined. Without one, the other becomes futile. You can have all the money in the world (lucky you), but without purpose, what will you do with it? And all those glorious plans for your future are meaningless without enough financial backing to cover the costs.

I cannot tell you how to spend your time, though I have high hopes that you have dreams, goals, activities, travel, hobbies, grandkids, vacations, volunteer work, and just plain fun planned like there's no tomorrow. I can help you with planning the more practical side of things, and that is the purpose for this booklet. The subject matter may be a little dry, but I'll try to make it as interesting as I can. The information is presented in no particular order, as each individual will have a different set of circumstances surrounding his or her decision to retire. With a little guidance and a whole lot of planning, you can get on..... with the *rest* of your life!

Is it time to retire? Only you can know if it is time. Physically, mentally, and emotionally, you are looking at one of the

most consequential decisions of your life. This is no longer an age-driven mandate, but a desire-directed option; *you* get to choose when to take the proverbial gold watch. One good thing to keep in mind is that retiring is neither irreversible nor permanently binding, although some of the related choices you must make are. Take as much time as you can in making wise selections of things you have to live with “forever”. The information that follows will assist our MUS employees in making informed choices that will help make your retirement everything you have planned for.

Pensions and Related Issues

All active MUS employees are covered by either the Montana Teachers Retirement System (TRS) or the Montana Public Employees Retirement System (Administration) (PERS) or the Optional Retirement Plan (ORP) through TIAA-CREF (T-C). A few individuals may also have a combination of an inactive TRS, PERS, or T-C account(s) and an active account of another type. PERS now has a Defined Benefit (-DB) Plan (most members) and a Defined Contribution (-DC) Plan (a few members). Just to complicate things, T-C offers a 403(b) voluntary contribution plan and the State of Montana has a 457(b) voluntary contribution plan available to MUS employees. MUS also has 403(b) plans with AIG-Valic, MetLife, T. Rowe Price, and ING-Aetna.

You should know what retirement plan(s) you have (active and inactive), plus any private annuity or similar investment plans you have, and know what your withdrawal options are, long before you tell your supervisor that you are retiring. Plan-

ning in this case is not just essential; it is critical. If you think you can retire on Social Security alone (see below), think again!

Your TRS, PERS, or ORP account, whether active or inactive, has its own rules (governed in part by the IRS) pertaining to age and employment longevity that determine eligibility, amount, and duration of pension benefits. Those rules are strictly enforced by each pension plan. Each pension system works separately, with little influence or bearing on decisions made by another system, unless you return to work on a post-retirement contract. (See Working after Retirement in this booklet.)

You can contact your pension system months, even a year or two, in advance and ask for an estimate of your expected benefit. PERS-DB and TRS can provide fairly close approximations under a variety of possible scenarios, depending on your preferences and needs. T-C and PERS-DC, as well as any other annuities and qualified plans you might have, can give you a range of withdrawal options, but may not be able to offer much in the way of concrete dollar figures since their investments and benefits vary with stock market fluctuations. Once you have a firm retirement date, you will be required to make an **irrevocable** decision as to how your pension fund(s) will be distributed. Think long and hard, discuss budget plans with affected family members, and don't forget to talk to your tax advisor. Your choices will affect your income levels for literally the rest of your life. When you have a reasonable idea of what your pension and other benefits will be, you can outline a budget to use for long- and short-term financial planning. Remember: more and more people are living to be 80, 90, even 100. Plan accordingly!

Contact information for professional pension advice is:

TRS: 406-444-3134

*write to: PO Box 200139
Helena, MT 59620-0139
*go to: 1500 6th Ave., Helena

PERS (MPERA): 406-444-3154

*write to: PO Box 200131
Helena, MT 59620-0131
*go to: 100 N. Park, Ste. 200, Helena

TIAA-CREF: 1-800-842-2776 participant call center

*web access: www.tiaa-cref.org/montana
(dedicated website with email inquiry)
*Schedule consultation: 1-800-732-8353
*UM campuses – Mark Vossler
1-800-842-2776 (leave a message)
*MSU campuses – Anne Anderson
1-800-842-2776 (leave a message)
*write/go to: 370 17th St., Suite 1800
Denver, CO 80202

This is important: Keep a written account of all conversations, including the time, date, and person spoken with. Keep copies of all mail, both incoming and outgoing. “Proof” is everything if you find yourself in a disagreement with your pension plan.

Social Security Benefits (SSA)

Filing for Social Security benefits requires making many personal choices, just like obtaining your pension benefits. However, I can actually give guidance for SSA as the federal government has a lot more binding rules and a lot fewer choices. You can get up-to-the-minute information from either www.socialsecurity.gov or

www.ssa.gov or by contacting your nearest Social Security office. The “Questions?” section on the website is its best feature. Do not be intimidated by the home screen, which is a bit crowded and hard to follow. Also useful are the many publications that SSA keeps relatively updated, especially now with the Baby-Boomer influx. Most publications are downloadable from the websites, or you can get a copy of the more popular booklets at your local SSA office.

You must apply for Social Security benefits, either online or in person. In all cases, you receive no benefits unless you apply, regardless of your circumstances.

You may begin receiving your SSA benefit as early as 62, although with a permanent percentage penalty in most cases for taking an early benefit. Persons who are survivors, divorced, disabled, or with other special circumstances may have different rules for eligibility. For people born between 1943-1954, the full penalty is 25%, diminishing with each month you postpone your SSA benefits until you turn 66. People born before 1943 are penalized on a prorated scale if younger than a specific age between 65-66. People born after 1954 may be penalized for taking early SSA benefits prior to reaching age 67. To learn when to begin drawing SSA with no penalty, see the Full Retirement Age chart at: www.ssa.gov/retire2/agereduction.htm.

Pre-retirees often ask if they will lose money by taking their SSA benefits early. The best answer to that question is the solution to a simple algebra problem, although I’ll leave the actual math problem out. Mathematically speaking, if you expect to be long-lived (78 or older), you will receive more total SSA benefits (cumula-

tive) if you wait to collect until your Full Retirement Age or later. If you expect to die “young” (before age 78), due to current illness, lifestyle, or family history, you should start taking your SSA benefit as soon as you can to collect as much as you can. Of course, no one can predict the future, so retirees have to take their best guess on this issue. (People born before 1943 or after 1954 will have a slightly different age projection, depending upon year of birth.)

Normally, you don't want to draw your SSA while you're working and still under your Full Retirement Age (FRA), unless you are working very part-time. Income limits for semi-retired persons drawing SSA benefits are \$13,560 (2008). If you make more than that and are younger than your FRA, your SSA benefit will be penalized substantially during that calendar year. Once you have reached your FRA, you are (currently) allowed to work as much (or as little) as you care to, without penalty for earnings. However, you will have regular payroll taxes withheld, including SSA and MCR. Obviously, you have to make the decision to work after retiring based upon your own budgetary needs, but the longer you wait to draw SSA, the higher your benefit will be and the less chance of any penalties.

Some general comments about SSA: You can probably expect to get a benefit in the range of 20-30% of your current income assuming that your final position was your highest paid and that you worked in a similar position for several years. Your annual SSA report, received about three months before each birthday, lists reliable benefit estimates. In most cases, you must have worked at least 40 quarters (10 years total,

but not necessarily consecutively) while contributing to SSA to draw a benefit. There are special rules for divorced, widowed, and disabled individuals that are too involved to go into here, but you can go to www.ssa.gov to find out more. Spouses have several options, the most common being (1) a spouse receives an SSA benefit based upon his/her own earnings history, or (2) a spouse receives one-half of the benefit that his/her spouse is receiving. The latter option is especially important for non-working spouses who stayed at home to care for children, etc. When a spouse dies, the surviving spouse usually receives the higher of the two benefits from that time forward. If you work after beginning to receive your SSA benefits, Social Security and Medicare withholding (as well as income taxes) will still come out of your paychecks, unless you are employed by a special government program like Foster Grandparents or Senior Companions. Your SSA benefit amount will be adjusted accordingly, usually on an annual basis.

Medicare (MCR)

The best information you can get about Medicare is at www.medicare.gov. Go to either [Medicare and You 2009](#) or *Frequently Asked Questions* at the bottom of the MCR home page where you can type in your questions. MCR has set up an excellent Q & A system that most people can successfully navigate. Another good resource is your state Aging Hotline (1-800-332-2272 in Montana). The MCR hotline, 1-800-MEDICARE (1-800-633-4227) frequently has very long wait times, sometimes more than an hour, and should be used only when no other option is available.

Medicare is a health insurance entitlement program for US citizens 65-and-older who have been employed for at least 40 quarters (usually), as well as for the disabled and those with certain specific diseases. If you are or will be eligible for Social Security benefits, you will most likely be eligible for MCR. If you live or travel outside the United States, you will have limited or no access to MCR coverage unless you return to this country for services.

Enrolling in Medicare: As you approach your 65th birthday, MCR will send you forms by mail to complete and submit for MCR coverage. If you have not received the forms six weeks prior to your 65th birthday, you should go to your local SSA/MCR office and apply in person. *Do not neglect your MCR application!* There are deadlines that must be met or you will incur penalties that could last your lifetime. In general, Part A covers hospitalization costs while Part B covers physician and other related medical costs. Both pay about 80% of the MCR allowable charge after deductibles are met. MUS will continue to cover your prescription costs as we currently do, as well as providing secondary coverage to MCR Parts A and B (assuming you enroll as a retiree with MUS).

MUS Requirements for Medicare

Coverage: If you are actively working and covered by MUS employee insurance, you should sign up for Part A at age 65 (it's free). As long as you are an active employee, MCR is secondary to MUS Insurance, but Part A can still be a financial help especially if you are hospitalized. If covered by an active MUS employee policy, you do not need to sign up for Part B unless you want the added coverage. There is no penalty for

waiting to sign up for Part B enrollment, **as long as you sign up when you actually retire and move to MUS retiree health coverage.** Note that there is an income-based premium for Part B. When you are within 2-3 months of actually retiring and changing to MUS retiree coverage, you should contact SSA/MCR and sign up for MCR Part B effective the first of the month following your retirement date. Don't sign up for a Part D (prescription drugs) plan if you intend to stay on the MUS Health Plan.

If you are an MUS retiree, surviving spouse, or retiree spouse who is approaching age 65, you must enroll in both Medicare Part A and Medicare Part B to order to continue coverage with the MUS Health Plan. You may not enroll in Medicare Part D and stay on the MUS Plan. You will be contacted about six weeks prior to your 65th birthday and asked to verify your MCR enrollment, then directed to contact your campus benefits office for MUS enrollment rate and plan changes. MUS rates for retirees covered by MCR are substantially lower, since MCR covers a significant portion of their medical bills. In most cases, the MUS premium difference more than makes up for the Part B premium you will pay.

Retirees should show their providers both their MCR cards and their MUS cards and tell the providers that MCR is their primary coverage. Currently (2008-09), the MUS plan is a true secondary plan, meaning that we pay for many medically-necessary services that MCR doesn't pay for. MCR doesn't pay for everything, despite common misconceptions. Other than deductible amounts, with both MCR coverage and MUS coverage, most retirees pay little out-of-pocket for their medical expenses. MCR deductibles (yes, they exist

and are increasing) are usually also credited toward MUS deductibles, so retirees effectively get double credit for their deductible amounts. We recommend using MCR participating providers whenever possible; this will cut down your residual out-of-pocket expenses considerably. If you are covered by an MUS managed care plan, be certain to use in-network providers as well.

Alternative Insurance Coverage: When you approach age 65, you will receive literally and figuratively a ton of mail offering Medicare supplemental coverage, MediGap plans, Part D plans, Medicare Advantage (Part C) plans, and many derivations of these. It is truly overwhelming and quite amazing that insurance companies will spend so much marketing to our senior population. Your question, of course, is, “What should I do with all this mail?”

Here are my suggestions: if you don't recognize the company's name, throw it out. If you do decide to change insurance carriers, you want to be covered by a well-known company with a good reputation that you can depend on. If you are offered “the best/cheapest/most popular policy in America,” toss that as well. Good companies do not need to exaggerate in their advertising. If you are offered policies that will “*never* change/raise rates or be cancelled,” they are not being truthful, so shred those, too. If it sounds too good to be true, it probably is, and you should be very skeptical. You will have about 10% of your pile left. Look at those with a critical eye. It is possible that there is a really good, reasonable policy in your pile that you might want to consider.

If you decide to consider something besides the MUS Plan, be certain you are

comparing all the variables – premium cost, claim coverage, location of facilities, Rx plan, stability of the plan, deductibles and other out-of-pocket expenses, available providers, types of covered services, coordination with MCR, spousal coverage, customer assistance – the list is nearly endless. Be sure that you are comparing apples to apples, not apples to oranges, or even worse, apples to lemons. You do not want to have a lemon of a policy at this stage of your life. And most importantly, remember: **if you decide to drop your MUS retiree health coverage, you cannot get it back!!!**

Retirement Benefits: Health Insurance, Dental Insurance, Vision Care Insurance

If you retire from MUS and are eligible for a TRS or PERS pension benefit (even if you delay taking it); or have worked 25 years or more and are in the ORP; or are 50+ and have worked 5+ years and are in the ORP; you are probably eligible for MUS retiree insurance coverage. You will be offered this coverage at the time of your retirement and have 63 days to accept, or forever forfeit your eligibility.

You must select a medical plan and may select either dental coverage (beginning July 1, 2007) or vision care coverage. Dental coverage is a one-time election in most cases; vision coverage can currently be added or deleted each year at annual enrollment. To avoid confusion, I will mention here that vision care covers eye examinations, glasses, contacts, and other services related to visual acuity. Cataracts, macular degeneration, and similar medical conditions are covered by MCR if appli-

cable and then by your MUS medical plan. Most retirees are allowed to change their plan choices and covered dependents prior to July 1 each year, with certain limitations. **If you give up your and/or your family's rights to MUS plan coverage, it is an irrevocable decision.** This includes loss of coverage for failing to pay premiums on a timely basis and failing to make proper enrollment changes during annual enrollment or when qualifying events occur.

Your retiree medical insurance policy is closely linked to your MCR coverage. If you have retired early (before turning 65), pay close attention to any mail you receive from MCR and MUS in the months prior to your 65th birthday, and follow instructions, noting due dates carefully. This rule-of-thumb goes for your spouse or adult dependent, too. If you are 65+ (or covered by MCR due to disability) when you decide to retire, your MCR Part A and Part B enrollments must be in place at the time you sign up for MUS retiree insurance. Refer to the MCR section in this booklet for more information.

The medical premium rates you will pay are directly tied to your MCR coverage. Younger retirees will pay *considerably* more each month than MCR-covered retirees do, for the simple reason that the latter group's claims are submitted to and paid by MCR first. MUS's liability is significantly reduced by both actual dollars paid and the allowable charges as determined by the MCR claims processing system. Again, note that MCR Plan B does require payment of an income-based premium, but the savings in your MUS premium will offset that cost. Dental and vision care insurance coverage and rates are not affected by MCR but instead by the claims experience that

the MUS plan has with those coverages.

Each year in mid-spring, you should receive materials from MUS concerning annual enrollment changes and options. Please look at both the information and the enrollment form closely, to decide what changes you are eligible for, which ones you want to take, and especially, when the form is due back to your campus human resources office. If you miss application deadlines, you may miss out on one-time enrollment options or cost-saving changes. The Benefits Office staff and the Inter Unit Benefits Committee are always looking for ways to provide better, more affordable coverage for both active and retired staff. Annual enrollment is your opportunity to take advantage of these plan changes.

A few weeks prior to your retirement, you will spend some time working with a campus benefits representative at your human resources office. I strongly urge you to go to HR at least twice: once for information to consider and then a second time to fill out forms. You will complete a retiree enrollment form for any health insurance plans you want to continue, and you may also be able to convert your group life insurance coverage and/or your long term care coverage to personal pay policies (see below). If you have a substantial amount of termination pay coming, you should seriously consider prepaying premiums for your health coverage until the end of the current benefit or calendar year with pretax dollars. If your job is covered by a VEBA Plan (Voluntary Employee Beneficiary Association), any termination pay will be directed to your VEBA account, and you can be reimbursed from the VEBA with tax-free dollars whether you pay your premiums a year at a time or

month by month, for as long as your VEBA funds last. As you allocate that last check, remember that your pension benefits generally do not begin until the end of your first full month of retirement. You need to keep enough of that last check in cold, hard cash to make ends meet until your first pension check(s), regardless of source, start coming in.

Finally, I will add a note about the taxability of the money you use to pay your retiree premiums. As an active employee, your premiums were most likely taken from your paychecks as pre-taxed dollars – no federal, no state, no SSA, no MCR. Retiree premiums, regardless of how you pay them, are paid with taxable money, unless prepaid through your final check or reimbursed by a VEBA. You might qualify for a deduction on your Form 1040 Schedule A form, but few people actually hit the over-7.5%-of-gross that it takes to qualify for the deduction. If you itemize deductions on your Montana state tax return, you may be able to deduct your premiums near the top of Form 2M or similar itemized deduction form. (Deductibility in other states will vary.) Because they are group-rated premiums, retiree premiums do not qualify as self-employment premiums; even if you are working part-time for yourself after retiring from MUS, you can't deduct your premiums with that method.

I mention this tax issue because you and your family need to understand that the effective dollar-for-dollar cost of your insurance will be 10-35% higher than the cost was when you were an active employee, and that's not even considering the loss of your State Share contributions (amount paid on your behalf by your employer). If this seems unfair, it is – and many learned and

powerful people have been trying for years to get Congress to address this issue.

Converting Life & Long Term Care Policies

When you retire, you are no longer eligible for many of the group benefits active employees have, such as group life, disability, accidental death & dismemberment, and long term care insurance. However, at retirement you may have a one-time opportunity to change your group life to a personal term life policy, and, if you are lucky enough to be enrolled in the MUS long term care plan, you can convert that coverage to a personal pay plan and keep the low rates that you receive through MUS.

You have a maximum of 31 days following the termination of your group life coverage to convert to a personal policy or to buy a portability policy, assuming you are eligible. Group life coverage terminates automatically at the end of the day that you retire from your job. Qualifying factors vary, depending upon the amount of coverage you have, your age, and your current health status. You must complete and submit the correct forms and pay required premiums before the 31 days expire. If you are interested in pursuing these options, remember to ask for the appropriate forms and contact numbers when you visit your campus HR office prior to retiring.

Long term care coverage is becoming increasingly popular as our MUS staff ages. If you enrolled in long term care coverage through MUS as an active employee, you may keep that coverage after you retire by converting it to a personal pay policy.

The election to convert must be made within 31 days of the date of termination of group coverage, that is, 31 days from the date you retire. Your coverage level will remain the same and your premium rate is protected as long as our group rates remain the same. If there is a group rate change, your rates will probably change as well. However, for most employees, MUS rates are far lower than any rates available to the public, so your retirement rates will continue to be at a significant savings for this type of coverage. You will need to complete a single page form and have your HR department sign it in order to change from group to personal pay status. Be sure to ask for this form when discussing your retirement with your campus representative.

Working after Retirement

This section almost sounds silly, doesn't it? But more and more retirement-aged people are continuing or returning to work, after they officially retire. Many do so because they find they need the money*; a few do so because they end up feeling bored*; some find that they don't feel like they are done contributing to the world; and there are those who just miss their jobs. (*Remember at the beginning of this booklet, where I discussed having enough money and enough activities planned?)

Whatever the reason, if you decide that working is going to be part of your life after retirement, you need to know that there are *rules* for post-retirement employment. If you return to work on a part-time basis at a unit of MUS, your employer and you will set up a specific, post-retirement contract or hiring arrangement, assuring

both parties that all the rules, especially the ones that allow you to work while receiving a pension, are upheld.

You may work for any company **not** covered by TRS, PERS, or ORP, or become self-employed, without any strings attached, except for limitations on your income if you are drawing Social Security benefits, as described in the SSA section above.

If you are drawing a benefit from TRS or PERS, there are very specific rules as to how many hours you can work and/or how much you can earn, without taking a penalty or even temporarily losing your pension. These rules are subject to change by TRS and PERS, so I won't list them here, but you can contact the agency in question at the same numbers listed earlier in the Pensions section of this booklet to find out the particulars. All State agencies, MUS campuses, and public schools are required to report your hours and earnings to TRS and PERS, so you can't try to sneak past the post-retirement employment limitation rules.

Additionally, if you take a post-retirement position that is subject to ORP withholding, you will not be able to draw from either TRS or PERS as a general rule. Also, if you are drawing from your ORP annuity, in most cases you cannot work in a position subject to ORP withholding. Once the annuity(s) start, unless a very specific arrangement has been *prearranged* with TIAA-CREF, additions to your ORP account are not allowed.

You'll find that there are benefits to working after retirement besides the obvious paycheck. If you return to an MUS unit while paying for MUS retiree insurance

premiums, you can arrange for your premiums to be reimbursed with pre-tax dollars. You may have done this for out-of-pocket medical expenses using a Flex Account during your active employee years. You can also be reimbursed for your out-of-pocket medical expenses and for many other individual insurance policy premiums as well. (Group policy premiums, including Medicare Part B costs, do not qualify for reimbursement, except through a VEBA.) This will save you many tax dollars that you would otherwise owe on the money used for various premiums. If you really don't need the money that you earn, you can set it aside tax-deferred in a 403(b) or 457(b) account. This will help to augment your available income when you finally fully retire.

Working after retiring helps to maintain your social contacts and keeps your mind active. One proven way to keep your body "young" is to stimulate your mental abilities regularly. Even if your new job is not as demanding as your former job, it's still more brain food than watching television all day. If you take a position outside of your former field, you may find that you have hidden talents that you can draw on when you totally retire. Example: a former history professor might start working as a museum tour guide, only to discover a latent talent in the creative arts. Voila! The next Grandma Moses!

Conclusion

There are many more topics that could be addressed for pending retirees, but those covered in this booklet are the things that MUS has a direct connection with and they're the first questions that we are asked

by our employees. We hope that you have been given the information that you need to make the right choices for the "rest of your life." If you have questions or need to focus on other areas, please feel free to contact your campus human resources office, or call or email Sue Schmitt at 406-444-0614 or sschmitt@montana.edu.

Now, go have some fun planning for your retirement!

Quick Reference for Planning Ahead

Contact your pension or annuity plan for estimates, planning, and forms – 3 to 12 months (or more) before retiring.

Register for Social Security Benefits – at least 3 months before wanting benefits.

Enroll in Medicare Part A – 2 to 3 months before 65th birthday, usually by mail.

Enroll in Medicare Part B – 2 months before converting to MUS retiree insurance coverage (or when enrolling in Part A).

Enroll in Medicare Part D – NEVER if you are staying on the MUS Insurance Plan.

Enroll in MUS retiree benefits – inquire at least 3 months before retiring. Complete the transition during the last month of work.

Convert group life and/or group long term care coverage – within 31 days of retiring.

Plan for your retirement – We recommend starting the day you begin your first real job!

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