# *The State of Your Retirement*

***The Essential Guide for all State of Florida Employees***

***Fourth Edition***

***By***
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# *Introduction*

The purpose of this booklet is to provide a single resource to state employees who are nearing retirement. If you are a member of the Florida Retirement System (FRS), you have seen a lot of changes to your retirement options over the past several years. The state of your retirement has changed dramatically and what made sense in the past often does not make sense today.

We regularly meet with state employees to help them figure out these ever-changing options. These meetings focus on reviewing the pros and cons of your retirement choices to help you make an informed decision. These conversations are done as a free service to you as a state employee. To learn more about us, please review the

section “What Makes Nelson Financial Planning Different?” on page 40 of this booklet.

While you are working, we keep you informed on a continuous basis by mailing FRS Update letters twice a year along with weekly updates of a variety of financial topics including FRS matters on our weekly podcast “Dollars & Sense.” Our program was recently named one of the Top 25 Financial Planning podcasts so be sure to subscribe to us on your favorite podcast platform. If you have trouble finding our channel, visit our website at www.NelsonFinancialPlanning.com.

We do not charge for this ongoing service. Simply put, keeping you informed about the latest legislative changes and market performance while you are still working is part of our usual operations. It also gives you an opportunity to try us out before you’ll really need us in retirement.

As a current employee, your options have changed a lot since 2008. These changes fundamentally shift your retirement options. Be sure to read the section on page 17 entitled “Shifting Sands for Current Employees – The Litany of Changes since 2008”.

Once you retire, things get a lot more complicated. Our focus shifts to providing personalized retirement income strategies to meet your unique retirement expenses and tax liabilities. These income needs are ever changing and the tax implications in retirement are very important. There are a variety of accounts available as a state employee and each has different tax implications depending on your age and job. Your investment focus also shifts to a more growth and income-oriented mix which is very different from the approach used while working. Simply put things get a lot more complicated in retirement and that's when our customized advice becomes invaluable. Be sure to read the section on page 29 entitled "Retirement Income – Your Age and the Account Matters."

This booklet is now in its fourth edition and includes a new chapter on the proper sequencing involved in setting up retirement income for Investment Plan members plus various updates about your retirement options within the Florida Retirement System

# *The FRS Pension Plan – The Guaranteed Check a Month Club*


The oldest retirement option within the FRS is the Pension Plan. The Pension Plan is a defined benefit plan where your benefit of a monthly retirement check is defined by law. The amount of this check is determined by your years of service, your creditable service percentage and your average final compensation. In addition, you select from among four different options for your retirement income. The two most popular options are Options 1 and 3. Option 1 generates the most amount of income but ends when you die and Option 3 generates income for you and then your spouse when you die but with a reduction in income over Option 1 of typically 15-20% depending upon the age of your spouse.

Option 2 provides a guaranteed payout time period of at least 10 years and Option 4 allows one to include dependent or disabled children as contingent recipients of your pension. Just like Option 3, Options 2 and 4 reduce the initial amount of your pension.

This retirement income amount is annually supplemented in retirement by the application of a cost of living adjustment (COLA). However, the COLA has been suspended effective July 1, 2011 which results in a reduction of the prior COLA benefit of 3% per year. Despite better finances in Tallahassee, there has been no suggestion about reinstating this COLA in the future. Consequently, the COLA continues at 0% for all years of services after 2011. For retirees under the Pension Plan, your COLA in retirement is calculated by adding the number of years at 3% to the number of years at 0% and then dividing by your total number of years as a state employee. This average then becomes your COLA that will be permanently applied to your pension check in retirement.

For example, if you retired in 2021 with 25 years of service, your COLA would only be 1.8% rather than 3% - a 40% reduction in future benefit increases. For many years after 2011, Inflation held at about 1% so retirees didn't feel the full impact of losing this COLA benefit. Now, with inflation hitting record highs, the value of this COLA cannot be understated for

retirees who are seeing their purchasing power shrink.


Effective for new employees after July 1, 2011, retirement eligibility has increased to age 65 or 33 years for regular class and age 60 or 30 years for special risk class. Previously, normal retirement was age 62 or 30 years for regular class and age 55 or 25 years of service for special risk class. The vesting period for the Pension Plan has also increased from six to eight years for new employees hired after July 1, 2011. In addition, a 3% employee contribution is required that goes into the general Florida Retirement System. This effectively serves as a 3% reduction in employee compensation.

For a more complete description of the FRS Pension Plan, please refer to the Pension Plan Summary Plan Description prepared by the State of Florida Division of Retirement. This document can be found under the Publications section of www.myfrs.com.

In summary, the FRS Pension Plan is a traditional check a month retirement plan. This check is guaranteed by the state to last for your lifetime or, with a reduction in income, for a set period of time or the life of another like your spouse. There is never any ability to utilize lump sum amounts from the Pension Plan nor leave a lump sum to your beneficiaries. For some, this is the appeal of the Deferred Retirement Option Program (DROP).

# *DROP – The Holding Bin for Your Pension Check*


DROP is a program that allows you to retire without terminating your employment while your retirement benefits accumulate in a separate account earning 1.3% as of July 1, 2011. Previously, the earnings rate was 6.5%. In essence, you retire under the FRS Pension Plan and then have the ability to aggregate a lump sum cash benefit. At the end of your DROP period of 5 years, you must terminate employment. For a more complete description of DROP, please refer to the DROP Guide prepared by the State of Florida Division of Retirement available in the Publications section of www.myfrs.com.

DROP is not extra money or some kind of bonus. It is simply holding your pension check while you are continuing to work for the State. DROP participation means you retired under the FRS Pension Plan based upon your years of service at the time you elected DROP participation. By retiring at that time, your subsequent retirement benefit that would accrue over the next five years is set aside in a lump sum payment. However, your monthly check that you receive from the FRS Pension is less than it would be since the five years you spend in DROP do not count for the FRS Pension Plan calculation. In addition, the earnings rate on these DROP monies has been reduced from 6.5% to 1.3%. This drop in interest rate really undermines the value of DROP particularly considering that your years in DROP don't increase your benefits under the Pension Plan.

The DROP balance is typically rolled over to either the FRS Investment Plan or an Individual Retirement Account (IRA) upon leaving the state's employment in order to properly manage taxes and retirement income. This rollover should be done properly in order to avoid full taxation of the lump sum amount. As you use this DROP amount to provide retirement income,

regular income taxes will apply. By using an IRA you set the proper tax withholding rather than being subject to the 20% mandatory withholding that applies for direct DROP or FRS Investment Plan withdrawals.

However, if you are under the age of 59½ at retirement than you want to roll your DROP over to the FRS Investment Plan if you plan to use your DROP monies over time. Assuming you meet certain parameters (over age 50 and special risk or over age 55 and regular class), you are able to avoid the 10% penalty for early withdrawal by drawing directly from DROP. Alternatively, you could use the FRS Investment Plan (if over age 55) to provide penalty free access to these DROP monies over time. A major distinction between DROP and the FRS Investment Plan is that the DROP rules specifically recognize the age 50 public safety employee exemption as an exception to the normal 10% early distribution penalty. Meanwhile, the FRS Investment Plan does not specifically recognize this age 50 exception and only provides for the usual age 55 exemption. This is where your age, your job and where your money winds up starts to really matter if you want to reduce your taxes in retirement.

# *The FRS Investment Plan – Leaving It To The Kids*


The FRS Investment Plan option started in 2002. The Investment Plan is a defined contribution plan in which employer contributions are a set amount as defined by law. The period of time in which the Investment Plan monies actually become yours or vest is only one year. The 3% employee contribution is still required but those monies go directly to your own personal Investment Plan account rather than to the general FRS fund. The amount of your retirement income depends directly on the performance of your Investment Plan account balance. Unlike the FRS Pension Plan, there is no fixed benefit level at retirement with the Investment Plan.

The Investment Plan is funded through defined employer contribution rates based upon your

salary and your FRS membership class. The contribution rates are currently at 6.3% for regular class and 14% for special risk class which include the mandatory 3% employee contribution as of July 1, 2021. These contributions are made every pay period to your own personal Investment Plan account. Prior to July 1, 2012, these contributions were 30% higher but this reduction occurred to level the Investment Plan benefits with prior cuts that were made in 2011 to the FRS Pension Plan benefits. Regardless, it is disappointing to have any cuts to contribution rates especially in today's inflationary environment.

In addition, these cuts in the contribution rates often mean that the timing of any decision to switch from the Pension Plan to the Investment Plan should be carefully considered. The second choice service on www.myfrs.com allows you to calculate different scenarios for when your lump sum balance is maximized. Often this occurs after you have completed your required years of service for full retirement (*i.e*. 25 years as special risk and 30 years as regular class for those hired prior to July 1, 2011). After that, if you are still working, the lump sum benefit amount does not increase that much at all. The other alternative is

to choose the Investment Plan at the inception of your career with the state.

The Investment Plan contributions are sent to your personal account within the FRS Investment Plan. Within this account, there are only 18 different investment choices (10 of which are target date funds) to invest your contributions. While these choices are somewhat limited in number, there are some worthwhile investment options. We monitor the performance of the investment options we recommend within the FRS Investment Plan and let you know if any changes are warranted through our regular correspondence. Remember the overall balance in one's FRS Investment Plan account is solely dependent on how your underlying investments perform.

In addition, when you retire, this account needs to follow a growth and income approach to provide you with a monthly retirement benefit like what you would have gotten under the Pension Plan. This means that you cannot treat the Investment Plan like a cookie jar in retirement by taking chunks out of the balance. The objective with the Investment Plan balance is to generate a regular monthly income by using

a diversified and properly allocated investment approach. This is where our firm provides its greatest assistance to state employees by working together at retirement to establish a financial plan for the rest of their lives.


In summary, the Investment Plan provides you an option to personally control your retirement monies. Your years of FRS service are represented entirely in a cash value lump sum. The beneficiaries of this lump sum can be your spouse or children when you pass. However, this lump sum must be used to generate your retirement income. It does not come with any guaranteed benefit like the Pension Plan. Your retirement income will be solely based on the investment performance of the funds in the FRS Investment Plan. For a more complete description of the FRS Investment Plan, please refer to the Summary Plan Description of the FRS Investment Plan prepared by the State of

Florida Division of Retirement located within the Publications section of www.myfrs.com.

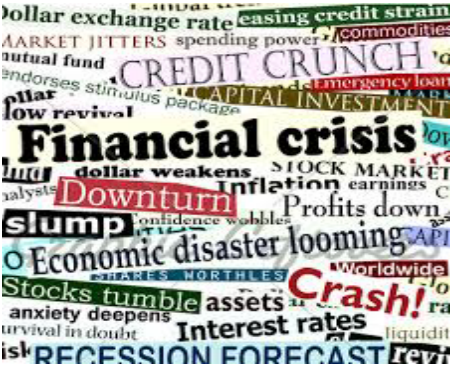
For a complete comparison of the advantages and disadvantages of these FRS options, please refer to Plan Comparison Chart prepared by the State of Florida Division of Retirement at www.myfrs.com. In addition, we are here to meet with state employees at any time at no charge to discuss these options.

One important note about generating income from an Investment Plan account. This is best done using a systematic withdrawal plan that also gives you the option of having a certain amount of tax withheld each month to cover your tax liabilities.

Unfortunately, in every quarterly Investment Plan newsletter, FRS keeps pushing annuities from Metlife as a solution to your income needs in retirement. We don't know how much Metlife is paying FRS for the advertisement of their products but here are a few things to keep in mind when it comes to annuities. First, annuities are perhaps the most misunderstood, highest expense and most restricted investment option available. Second, an immediate annuity takes a

lump sum of money and converts it to an income stream. Consider the example in the latest FRS Investment Plan newsletter of January 2022 – if you invest $100,000 in a Metlife annuity, you will receive $474 per month for the rest of your life starting at age 65. A typical 65-year-old has a life expectancy of about 20 years today. That's 240 payments of $474 or a total of $113,760. Does a $13,760 profit over 20 years on a $100,000 investment sound like a good idea? If you really want a guaranteed lifetime income option for your retirement, you should remain in the Pension Plan rather than use monies in an Investment Plan account to purchase an annuity.

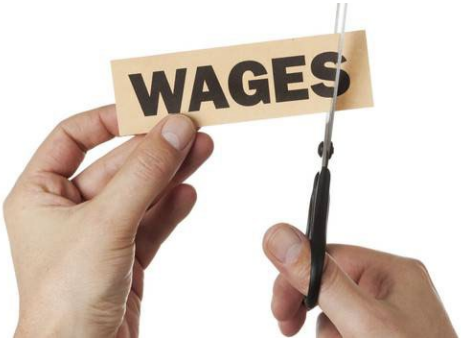
# *Shifting Sands for Current Employees – The Litany of Changes since 2008*




In 2011 with the inauguration of Rick Scott and a Republican Legislature, the Florida Retirement System started to change. These changes were predicated on the aftermath of 2008 on the state's finances. The market decline during 2008 and 2009 dramatically reduced the value of the FRS Pension Plan assets from about $135 billion to under $100 billion. As a result, politicians embarked on a cost cutting spree that effectively reduced your retirement benefits. The effect of these changes on employees depended on whether they were in the Pension Plan, DROP or the Investment Plan. These changes still remain

in place despite the improvement in state finances and the value of Pension Plan assets returning to over $200 billion as of December 31, 2021.

The single biggest change was the requirement for all state employees to contribute 3% of their salary to the Florida Retirement System. For those in the Investment Plan, these monies go into their own account. For those in the Pension Plan, those monies go into the general fund of the Pension Plan. This required contribution did not apply to those employees who were currently on DROP. This required contribution continues to effectively act as a 3% reduction in one's salary. For most employees that was particularly tough to take over the past few years given the absence of any salary increases and now the impact of heightened inflation.



Meanwhile, the biggest change for those under the Pension Plan was the effective elimination of the Cost of Living (COLA) of 3% per year that is part of the calculation of one's Pension Plan benefit.

While the original legislation stipulated that this was a five year suspension ending in 2016, by requiring legislative action to bring the COLA back, it effectively served as an elimination of this benefit. To date, there has been no real movement by the Florida Legislative to reinstate the COLA for state employees. Given that the value of the Pension Plan assets have returned to a value greater than what they were before the 2008-2009 financial crisis, the COLA benefit should arguably return especially in the current environment of higher inflation.

The effect of this change is to prorate an employee's COLA benefit across their total number of service years. For example, if you have 25 years of service as of July 1, 2011 and worked another 5 years, your COLA benefit under the FRS Pension Plan would decrease to about 2.5% per year from the current 3%. Similarly, if you plan to retire in 2022 with 25 years of service, you would have 11 years at a

COLA of 0% (the years since 2011) and 14 years at a COLA of 3%. This would average out to produce a COLA of 1.68% on your pension in retirement.

Employees who choose to go on DROP are also affected by these legislative changes as well. Prior to 2011, DROP monies earned a guaranteed rate of return of 6.5%. After 2011, this rate dropped dramatically to just 1.3%. Over the five year DROP period, this 5.2% annual differential has a dramatic effect on reducing DROP values. In fact, employees should compare the impact of the additional years of service time on their pension with this more limited benefit of DROP. In some cases, the additional years increase one's pension benefit more significantly than the potential income from the lump sum DROP amount. Remember, years spent on DROP don't count towards calculating your pension benefit.

Investment Plan members were able to escape the effect of the 2011 legislative changes but in 2012 politicians caught up with them. In 2012, House Bill 5005 reduced the contribution paid by employers into the Investment Plan by a huge margin. Prior to July 1, 2012, the total contributions to one's Investment Plan account

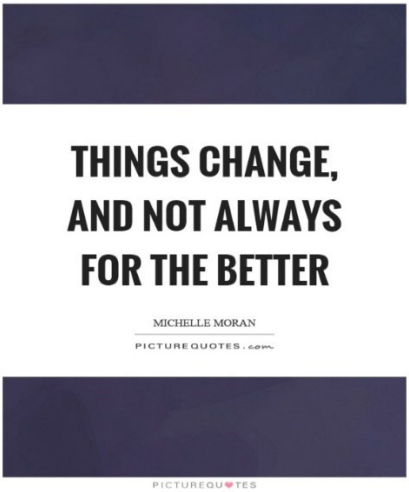
was 22% for special risk employees and 9% for regular class employees. After July 1, 2012 those contribution rates declined to 13% and 6.3% respectively. Since then, these contribution rates have increased only slightly to 14% for special rate employees. Unfortunately, for regular class employees the contribution rate has stayed the same at 6.3%. These rates include the mandatory 3% employee contribution.

While billed as a necessary change to level the benefits between the Pension Plan and the Investment Plan, it served to disproportionately undermine the benefits of the Investment Plan. In addition, these changes in contribution rates were buried in legislation that was passed at the 11th hour and largely occurred without much discussion with the affected employees.

Of course, the deal is also different for new State employees as well. For those entering FRS employment on or after July 1, 2011, the vesting under the FRS Pension Plan increased to 8 years from 6 years. Vesting under the FRS Investment Plan still remains at one year. In addition, average final compensation under the FRS Pension Plan increased to the 8 highest years of service from the 5 highest years.

The age eligibility for retirement increased from age 62 to age 65 for regular class and from age 55 to age 60 for special risk. The retirement eligibility based on years of creditable service increased from 30 years to 33 years for regular class and from 25 years to 30 years for special risk. New FRS employees will need to work longer in order to receive comparable benefits available to current FRS employees.

In addition, new employees must make an election between the Pension Plan and the Investment Plan within eight months after their hire – otherwise the state will choose for them! Effective January 1, 2018 if new employees do not make an election by the end of the election period of eight months, there will be a default membership. Employees in classes other than the Special Risk Class will default to the Investment Plan and members in the Special Risk Class will default to the Pension Plan. All members will continue to have a second election but employees should make their first election immediately after their hire. Otherwise you may wind up using your second election to reverse a default decision that you didn't intend to make.




The bottom line on all these changes is that it affects your decision and timing on making any changes to your retirement. In the past, when employer contribution rates to the Investment Plan were 30% higher, the timing of any switch to the Investment Plan was somewhat immaterial. Now, the timing of the switch really matters. Over the years we have reviewed countless individual comparisons and while each situation is unique, based on these reviews, it seems that any move to the Investment Plan needs to be either at the inception of your career or at the end. This also preserves your second election to switch among the FRS options for future use as well.

At the beginning of your FRS career you have time to generate a sufficient balance in your Investment Plan and can take advantage of its shorter vesting requirements. In fact, we have seen some scenarios where employees who had initially started with the Investment Plan had the opportunity after 10-15 years to buy back into the Pension Plan and retain a significant portion of their Investment Plan balance.

In contrast, those that wait to switch at their 25th year of service (30 years if not special risk) experience the largest run up in their projected lump sum balance in the last five years of service. After hitting these full retirement service years, the projected balance rises at a much slower rate. In those cases, it may make sense to make a move in that 25th (or 30th) year of service if an employee wants to go into the Investment Plan. The hardest scenarios are those with 15 years or so of service. For them, it probably makes sense these days to just wait things out before considering any move among the FRS options.

In addition, those retiring under the FRS Investment Plan need to be aware of the timing restraints that exist to access your money.

Retirees must wait one full calendar month after the month in which they retire before they have an early access opportunity to draw funds from the FRS Investment Plan. In order to shorten this window, one should retire at the end of the month rather than the beginning of the month. For example, if you work a few days at the beginning of a month, you would have to wait the rest of the month plus all of the next month before getting any access to your FRS Investment Plan. This early access is also limited to just 10% of the balance and is available only to retirees who meet the normal age and years of service retirement parameters. In order to gain full access to their Investment Plan balance, retirees then have to wait another full two months after the early access period. Consequently, it often amounts to over three months before retirees can set up normal retirement income from their accounts. This is a significant issue with retiring under the FRS Investment Plan and retirees need to consider their timing restraints and plan their finances accordingly in order to have enough resources to bridge those first three months of retirement.

## *The Uniqueness of 457 Deferred Compensation Plans*

A deferred compensation plan is a type of retirement savings vehicle that is available for government employees. These plans are also known as 457 plans because that is the section of the IRS code that establishes them. All contributions to these plans are done at the discretion of the employee through payroll deferrals. Employee deferrals are the sole source of funding for these accounts. Pre-tax contributions will grow on a tax deferred basis similar to a 401k and are subject to the same maximum contribution limit of $20,500 (plus $6,000 if the employee is over age 50) for 2022. Roth contributions effective January 1, 2011 are also allowed to 457 plans. In addition, once retired, 457 plans can also be rolled into other types of retirement plans such as IRAs but that is where most mistakes happen with deferred compensation plans.


Deferred compensation plans have different features from traditional retirement accounts like IRA's or 401K's. The most significant difference is that deferred compensation plans have no 10% penalty for early withdrawal regardless of age. Consequently, you can take distributions from a deferred compensation account and simply pay only the applicable taxes. This is a major advantage and incentive for employees to put some of their paycheck into such accounts over their working years. Having a deferred compensation account gives one a resource to use in retirement without having to worry about an extra 10% tax penalty. In addition, access to the monies in your deferred compensation account is usually available within less than a month after your final day of work. This feature particularly helps retirees under the FRS Investment Plan who have timing issues in accessing their monies.

One of the biggest mistakes retirees can make is to roll their deferred compensation account over to an IRA. Once that money is in an IRA, then the rules of an IRA, particularly those that impose a 10% tax penalty, apply. FRS members should only roll their deferred compensation accounts over once they have passed age 59 ½ when there is no risk of any penalty regardless of the type of account their money is in.

Another mistake that FRS employees make is not funding a deferred compensation account at all. These accounts can be set up with minimal contribution from one's paycheck and can provide either immediate or future tax savings that can be used to help supplement one's retirement. In addition, these accounts have greater accessibility for early retirees and can help one bridge the three calendar month gap for fully accessing one's FRS Investment Plan Balance that is more fully described in the chapter entitled "Sequencing Matters for Investment Plan Retirees" on page 37.

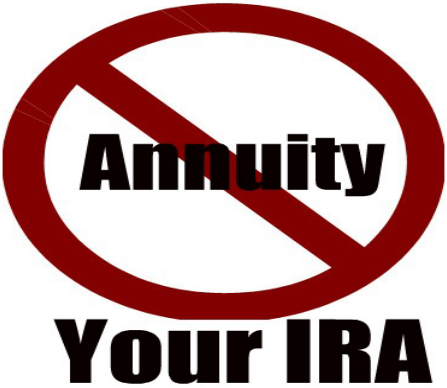
## *Retirement Income – Your Age and the Account Matters*

Planning your retirement income as a member of FRS is a very intricate process. Depending on your age, your years of service, your job, your FRS choices, and your deferred compensation account, the composition of your retirement income and your taxes will be different. We typically spend several hours with FRS retirees properly planning their retirement income. We encourage you to contact us to schedule your complementary, no obligation conversation about planning your retirement income.

We want to warn you about three examples of FRS retirees receiving bad advice that limited their retirement options.

**First, do not rollover your deferred compensation account to an IRA if you are under age 59½.** Once this money is placed in an IRA, you have to pay an extra 10% tax penalty to use the money if you are under age 59½. If the funds are left alone in the deferred compensation plan, you have completely flexible access to the funds with no tax penalty. ***Bottom line, if you***

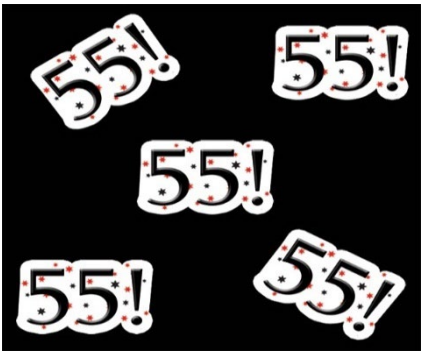
***are under age 59½, leave your deferred compensation alone.***




**<u>Second, the guarantees and promises that come with these "new" income approaches that use annuities are simply not as they are described.</u>** These guaranteed income streams and returns are filled with caveats, fine print and high costs. These promises don't actually guarantee any real return on your money as they only apply to internal insurance company values. If FDIC guaranteed CDs are paying around 2%, insurance companies aren't really paying you 5% or more. ***Bottom line, if it sounds too good to be true, it is.***

In addition, the State of Florida is now promoting the use of annuities in its Investment Plan correspondence to state employees. The

state's suggested annuity approach offers an irrevocable option that ties your money up with an insurance company. If state employees prefer a guarantee, they should just stay with the Pension Plan.




**<u>Third, if you are over age 55 and under age 59½ when you retire, you need to leave the amount of money you will need to spend before age 59½ in the FRS Investment Plan.</u>** The FRS Investment Plan provides you an exception to draw money out in any amount or frequency without having to incur a 10% tax penalty for early withdrawal if you retire in the year you turn age 55. This is a very valuable option for those that qualify. If all the money is rolled out of the FRS Investment Plan and into an IRA, you lose the flexibility of this option.

***Bottom line, if you are retiring in the year you turn age 55, you have more flexibility by actually leaving some money behind in the FRS Investment Plan.***

Properly planning your retirement income is of the utmost importance. These are just some of the examples we have seen where if the retiree had followed the advice given, they would have effectively eliminated their flexibility in retirement or even worse been subject to an extra 10% tax penalty. Simply rolling over your FRS Investment Plan, DROP or Deferred Compensation account to an IRA may not be the best course of action and could generate an extra 10% tax cost in retirement.

## *The Forgotten Benefit – Health Insurance Subsidy*

The Health Insurance Subsidy is one of the most forgotten benefits for eligible FRS retirees. We have seen numerous cases where retirees were not aware of this benefit and had not been collecting it for several years since retiring. Unfortunately, the state will only pay this subsidy in arrears for the prior six months only – any months prior to that represent lost subsidy money that will not be paid. This is an additional benefit available regardless of whether you retire under the Pension Plan or Investment Plan. If you have at least six years of service (eight years if hired after July 1, 2011) and have reached the normal retirement age (age 55 or 25 years if special risk and age 62 or 30 years if regular class), then you could qualify for this additional benefit to help cover the cost of maintaining health insurance coverage.


This monthly subsidy consists of two parts – one paid by the state and another potential portion paid for by certain county employers. The monthly subsidy from the state amounts to $5 for every year of service with a minimum subsidy of $30 and a maximum of $150 per month. For the state subsidy portion, the years of service excludes time in DROP. The potential county portion (not all county's pay this but locally Orange County does) can be $3-$5 per month for each whole year of service up to $150 per month. In contrast to the state subsidy, the county year of service amount includes service time in DROP.

Pension Plan members receive the Health Insurance Subsidy regardless of whether they take normal or early retirement. Those in the Investment Plan who retire early would need to wait until their normal retirement age before being eligible for the Health Insurance Subsidy.

To be eligible for the Health Insurance Subsidy, you must have health insurance coverage at the time you retire. In addition, you must certify this coverage to the state using either Form HIS-1 for Pension Plan members or HIS-IP-2 for Investment Plan members. These forms should be given to you by your human resources contact at your employment exit conference but often they are forgotten particularly for Investment Plan members. These forms are available online at www.myfrs.com and must be signed by a representative of your Insurance Company.

In addition, Investment Plan members must separately apply for the Health Insurance Subsidy using Form HIS-IP because those members are not technically retired until they take a distribution from the Investment Plan. The application using Form HIS-IP is therefore often forgotten because of the waiting period of one full calendar month that must be observed before a distribution can be made from the Investment Plan.

The Health Insurance Subsidy also continues after you die as well. Under the Pension Plan, if you picked one of the survivor options for your

retirement benefit, then the Health Insurance Subsidy would continue for your survivor. Under the Investment Plan, only your spouse is eligible to continue the Health Insurance Subsidy.

# *Sequencing Matters for Investment Plan Retirement*

One of the most misunderstood parts of retiring under the FRS System involves Investment Plan members. There are a series of time frames that need to be observed in order to access one's balance and set up monthly retirement income.

If you work a single day in a month, then you are deemed having worked for that month. The FRS Investment Plan rules require you to be off the payroll for one full calendar month before allowing any access to your FRS Investment Plan account balance. This window is only available for retirees that meet the normal retirement parameters either by age or years of

service. This initial window only allows for a lump sum withdrawal of 10% of account balance and does not provide any option to start on-going income. For example, if your last day of work was January 5, then the window to withdraw funds would not open up until March 1. This can be a long time to wait to receive any retirement money so retirees under the Investment Plan need to plan accordingly. This is another reason why having a Deferred Compensation account is so important as those funds are typically accessible within 2-3 weeks of your actual retirement date.

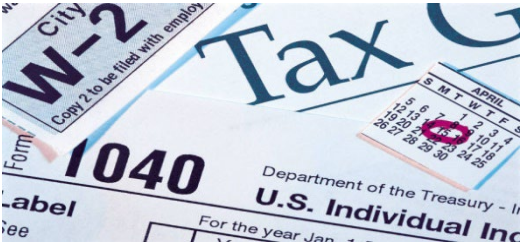
Another important item to note is that FRS does not view you as a retiree under the FRS Investment Plan until you have taken a distribution from the Investment Plan account. A distribution at this initial window is important regardless of whether you need the money in order to become a retiree. Status as a retiree is important because that triggers your eligibility for your Health Insurance Subsidy. Please refer to page 35 of this booklet for a more complete description of the forms that need to be completed for this subsidy.

Once this initial window has opened, you are only allowed one distribution. After that, access

closes for two additional calendar months. So, if you retire January 5 with an initial window of March 1 then the FRS investment Plan account balance does not become fully available until May 1. At that time, you have all options available to you from setting up income or rolling the balance over to an IRA. It is important to understand this sequence of events to make sure your first few months of retirement go smoothly!

## *What Makes Nelson Financial Planning Different?*


1. **Expert Tax Advice You Can Actually Rely On.** You hear a lot of conversations about saving for retirement but not much about planning your retirement income. The biggest reason for this is that most financial firms don't or won't give tax advice. Check out their websites. If the fine print says the firm you are using does not provide tax advice and you should consult your own tax advisor, how good is the overall advice you are getting? Our firm employs a full time IRS Enrolled Agent plus a CPA as members of our financial planning team. We also have a tax preparation service as well and we stand behind our tax advice.




2. **Expertise of a Certified Financial Planner™.** In the financial services industry, credentials matter. Being a Certified Financial Planner™ means that the individual has completed extensive training and experience requirements and is held to a rigorous ethical standard. According to the Certified Financial Planning Board, certificants "understand all the financial complexities of the changing financial climate". If the firm you are using does not employ Certified Financial Planners™, how "expert" is their financial advice?

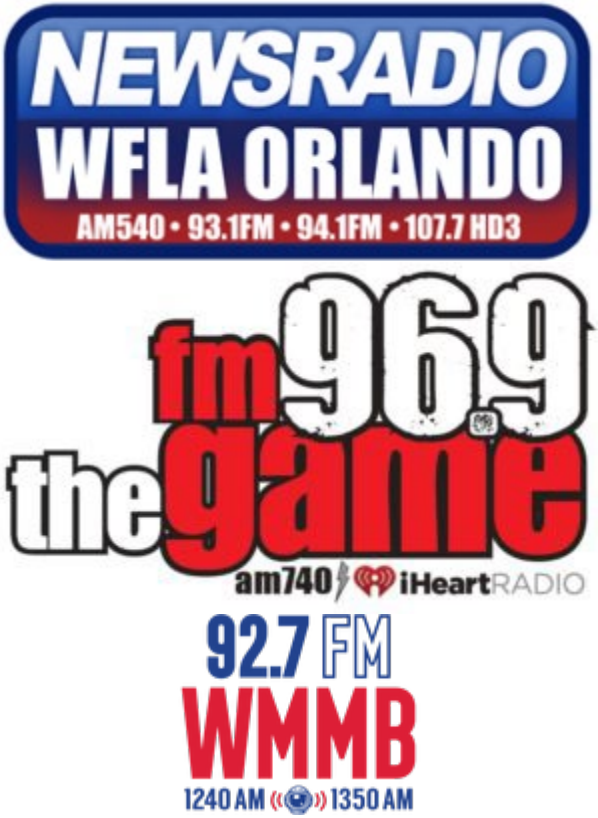
3. **Unbiased Advice of a Certified Financial Fiduciary®.** Every one of our team members are committed to providing unbiased financial advice in a fiduciary capacity and have earned the new industry designation of Certified Financial Fiduciary®. Being a CFF means that the adviser has completed both training and examination and is committed to the highest ethical standard in the industry. According to the National Association of Certified Financial Fiduciary, CFF's "must agree to uphold the highest moral, ethical and fiduciary standard of service when providing advice to potential or existing clients." If the firm you are using does not employ Certified Financial Fiduciaries, how unbiased is their financial advice?

*"Good Faith, Care and Loyalty to Our Client's Best Interest"™*

4. **Our Commitment to Lower Costs & Expenses.** All financial advice comes with a cost. In today's world, there are a laundry list of terms that get used – fee, fee only, commission, transaction charge, management fee, asset fee – to name just a few. No matter what it's called you need to pay attention to all costs and expenses to appreciate what you are really paying. For example, many firms that are fee only don't disclose the underlying expenses of the investments being recommended. These expenses must be combined in order to determine the actual total cost of the financial advice. The cost of your investments and related financial advice is important in retirement because cost ultimately reduces your investment performance. At Nelson Financial Planning, we are committed to lower cost and expenses for all of our clients. In fact, our client costs are typically 25% less than the competition and, in many cases, much lower than that. If you are retiring, make sure you understand your true financial costs.

5. **Only Recommend Investments that We Own Personally.** Our investment policy is to only recommend to our clients investments that

we personally own. In the financial industry, few firms can make that claim of their financial planners. Jack Nelson started that commitment when he began the firm in 1984. While Jack has since passed, this bedrock principle continues today. Don't you want to be dealing with somebody that truly has a vested personal interest in how your investments perform?




6. **Central Florida's longest running Radio Show and a Top 25 podcast** –Many firms do

radio shows or podcasts for certain periods of time but ours is the longest running in Central Florida. We view the radio show/podcast more as an opportunity to speak to our followers every week with fresh ideas and perspectives on the most current events of the day. Our radio show/podcast "Dollars and Sense" is heard live every Sunday at 9AM on 93.1 FM/AM 540 Newsradio WFLA Orlando and 96.9 FM/AM 740 The Game and at 11AM on 92.7 FM/AM 1240 Space Coast WMMB. If you miss the show on Sunday, it is always available on any of our social media sites – Facebook, Twitter, Soundcloud, iTunes, YouTube, Spotify, Amazon, or LinkedIN – or at www.NelsonFinancialPlanning.com. Unlike other shows that constantly tell you to call the office now, ours does not because its purpose is to educate, inform and hopefully entertain the listening audience.

# *About the Author Joel Garris*

The entire contents of this booklet were personally written solely by Joel J. Garris, J.D., CERTIFIED FINANCIAL PLANNER™, Certified Financial Fiduciary® and President and CEO of Nelson Financial Planning.


Started in 1984 by Jack Nelson as Nelson Investment Planning Services, today we remain a fully independent and family owned and operated firm. We only recommend actively managed investments that we own personally. Our retirement income and investment approach is based on our over 35 years of experience with what really works over time.

Joel specializes in bringing all the various parts of an individual's finances into focus. His areas of expertise include retirement income planning, cash flow planning, retirement planning, tax

planning and estate planning. He recommends effective solutions for efficiently managing cash to meet all needs and develops plans to properly provide retirement income. In addition, Joel also provides successful strategies to reduce both income and estate taxes.

Prior to joining Nelson Financial Planning, Joel was a securities law attorney at the law firm of Dickstein Shapiro LLP, a large multi-practiced firm with more than 400 attorneys in Washington, DC. He specialized in initial public offerings, mergers and acquisitions and debt financing for a wide array of corporate clients, including Fortune 500 companies. Prior to becoming an attorney, he worked as an engineer at Central Maine Power Company.

Joel is a Certified Financial Planner™, a Certified Financial Fiduciary® and a member of the Massachusetts and Washington, DC bar. He holds various securities licenses including, Series 7 – General Securities Representative, Series 24 – General Securities Principal, Series 27/28 – Financial and Operations Principal and Series 51 – Municipal Fund Securities Principal.

Joel was an Assistant Scoutmaster for Troop 24 chartered by First Presbyterian Church of Orlando. He has served as a youth sports coach on numerous occasions for Delaney Park Little League, Association of Christian Youth Sports, YMCA and Upward. He is also a member of various organizations, including Mensa, and has been a volunteer for Literacy Volunteers of America and the Veterans' Administration.

Joel is the current host of Central Florida's longest running radio show, which was started in 1984 by Jack Nelson. "Dollars and Sense" is heard live from 9:00 AM to 10:00 AM every Sunday on 93.1 FM/AM 540 Newsradio WFLA Orlando and 96.9 FM/AM 740 The Game and at 11AM on 92.7 FM/AM 1240 Space Coast WMMB. Previously, Joel was the host of "Moneywise", a financial call-in talk show on WORL 660 AM, for five years. Joel also taught a personal enrichment class entitled "Analyzing and Solving Life's Financial Matters" through Orange County Public Schools.

Joel married Stephanie Nelson on February 13, 1999. Stephanie is the President and CEO of Grace Medical Home and previously served as the Executive Director of the Orlando Metro Area for the American Cancer Society. She is

also a past President of the Junior League of Greater Orlando. They have three sons Nelson, Ethan and Connor Garris who attend various colleges and all three graduated from Boone High School and The Christ School in downtown Orlando.

***Where indicated, market data and performance represent past performance which is no guarantee of future results. Individual results may vary and values do fluctuate in any investment. This booklet contains our most current understanding of the Florida Retirement System and U.S. tax laws as of January 2022. This booklet is intended to detail complicated retirement topics but is not a complete discussion as each individual's situation is different and various exceptions exist. Nelson Financial Planning offers securities through Nelson Ivest Brokerage Services, Inc., a member of FINRA/ MSRB/SIPC. Please note that the information provided in this document has not been approved or endorsed by the State of Florida or the Florida Retirement System.***

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