Guns & Hoses

# Work or Retire

A Guide for Michigan Law Enforcement Officers and Firefighters


Work vs. Retirement Comparison
Retirement vs. Pay Cut Scenario
Retirement with Contribution Increases

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SEQUOIA FINANCIAL GROUP

# Sequoia Financial Group Creed

## In our opinion...

1. **Capitalism works.**
Most people want better lives for themselves and the next generations. Because of that, they will work hard, invent new stuff, and come up with ways to improve their lives and the lives of others.

2. **Abundance, not scarcity.**
Capitalism can and does create abundance. When something new is created (like cellphones), someone wins (the cellphone manufacturer and the users) and someone loses (landline manufacturers). But most developments, because they are designed to make our lives better, provide more than they take away. Cars put buggy-whip manufactures out of business, but created vastly more opportunities.

3. **Anybody can participate in capitalism.**
You only have to own one share of Apple to share in Apple's success. Alternatively, you can buy one share of an index fund and participate in 500 companies' success.

4. **The world is vast.**
The United States is the greatest country in the world, warts and all. However, there are 22 times more people who live outside of the US. They buy cars, cellphones, food, gas and soap. By investing globally, we can share in global capitalism.

5. **Large company stocks are big for a reason.**
These companies' stocks grew by doing something right (but it doesn't mean that they still do it right today). That's why our portfolios can include large stocks. It's like NFL players: they made it to the NFL for a reason.

6. **Small company stocks have the potential to be the next Apple.**
Large company stocks were small at one time. A good opportunity for growth could be in small company stocks. However, small stocks tend to have more risk. So small stocks are like promising high school football players, midcap stocks are like promising college football players. If you want to have a football team for generations, you need some of all of them.

7. **Don't put all your eggs in one basket.**
Diversify. This is simple. There is some company out there right now that has the next big thing. To give you an idea, in 1955, there were 77,188 new patent applications at the USPO, while in 2015, there were 589,410. Which company has the next big thing? We don't know. But if you own a variety of companies' stocks, you enhance the chance of owning the next winner and you won't just own the duds.

8. **Infinity and hell's basement.**
This is the "heads I win, tails I lose" fallacy. In reality, the full downside of an investment is losing 100% of your contribution while the upside can be unlimited ( > 100%). For example, Berkshire Hathaway went public on 03/17/80 at $290 a share (if you were in the know, you got in back in 1957 for about $7). On March 16, 2018, it was $306,710 per share. That's about a 105,862% rate of return. GM, Kmart, Enron all define 'hell's basement': meaning they went down 100%. If the majority of holdings are successful, the portfolio can produce good results. See #7

9. **Fees Matter.**
We believe equity returns and fixed-income returns tend to migrate to an average over time, and that the costs to provide such returns can be a direct drag on performance. Sometimes paying a mutual fund company, broker, bank or advisor can reduce your rate of return. We take into consideration the costs of the manager and funds when selecting an ingredient in a portfolio. When we make a selection, we work to ensure that the fee is worth the value it will add.

10. **Season to taste.**
The last point of the Creed is that you need to stay balanced. Investing is like riding a bicycle, you need to keep your balance to move forward. We reset the allocation periodically to reduce risk and create opportunity for return. Sometimes rebalancing increases return and sometimes reduces risk. In either case, we believe it keeps us on track.

# Letter from the Author

Why did we spend the time to write this guidebook? Why do we like to work with Law Enforcement Officers and Firefighters? Why do we conduct our business the way we do?

We could probably ask you some of the same questions. Why do you pursue armed suspects, work in inclement weather, go to court, or attend public meetings (the last two being the most dangerous)?

Our answer can be explained using Lt. Colonel Dave Grossman's On Combat. Grossman relays a story from a Vietnam vet and retired colonel, who basically suggests that most people in society are "sheep." Kind, productive, and gentle; sheep only hurt each other by accident. "Sheep" is not derogatory, but complimentary. Sheep are peaceful, good creatures without a capacity for violence or danger.

Then there are wolves. The wolves feed on the sheep without mercy. They are evil men who are capable of evil acts, like murder or arson. Wolves have a capacity for violence and danger and lack regard for fellow citizens.

And then there are the sheepdogs. The sheepdogs protect the flock and confront the wolves. Sheepdogs can embrace danger and uncertainty with a deep love for their fellow citizens. As Law Enforcement Officers and Firefighters, you are sheepdogs. You serve to protect the flock from danger.

We see similar uncertainties and dangers with money. Not the kind of danger that you face, but the danger of a financial crisis affecting your family, being steered into bad investments, or losing wealth. We think you, our sheepdogs, could use a financial sheepdog of your own, someone to look out for you and what you work for, your family.

In 1998, our firm of professional advisors chose to specialize part of our practice on the financial needs of Law Enforcement Officers and Firefighters. We learned everything we could; studied the tax laws, the investment options and the nuances of family estate planning. We also studied sheepdogs to see how they tick. Not to our surprise, they tick like we do. We decided that Law Enforcement Officers and Firefighters deserve a fee-only fiduciary to look after them and their family—not someone paid on commission.

This is why we continue to write and update our Guns & Hoses books. We want you to be well equipped for your retirement and financial future. We want your family to be financially safe. What's the catch? We think doing a great job for you might encourage you to hire us to work for you someday. More importantly, we think it's the right thing to do. In the end, there is only one thing to do—the right thing.

Thank you for your service,

Matthew Teetor and the Guns & Hoses Team

# Guns & Hoses
# Work or Retire?
# Analyzing Retirement Decisions for Michigan Law Enforcement Officers and Firefighters: Public Act 152 (PA 152)

The economic turmoil of recent times could come home to roost in Michigan municipalities. Dramatic declines in employment and tax revenue could have a vicious effect on municipal property tax revenues. In addition, the 'Publicly Funded Health Insurance Contribution Act,' known PA 152, caps the amount a public employer can pay toward health care coverage. Accordingly, employers may pass health care costs onto employees, including Law Enforcement Officers and Firefighters. It is also possible to see changes in bargaining as it relates to wage level and contribution levels.

In general, you could see:

- Significant pay decreases offered by the employer
- Potential increased employee contribution to the pension
- Potential increase in employee health care premium co-pays (possibly from $100-$300 a month)
- Two tier (DC and no retiree medical for new hires) systems

In light of the new economic climate for public employers, a Michigan Law Enforcement Officer or Firefighter at or near eligibility should re-evaluate their retirement analysis. The purpose of this booklet is to provide a short snapshot on the basics of analyzing the retirement decision. We use a 'bottom-line' analysis of paycheck to pension check. This means we suggest making a comparison of a paycheck after all deductions (taxes, pension, Medicare, union dues, etc.) to a pension check after all deductions (taxes, including the Michigan tax on pensions effective 1/1/2012).

Any alternate scenarios (like a pay cut, additional medical co-pays, or additional contributions to the pension) can be evaluated using the same method.

## Work or Retire Example

As an example, let’s say Tom is a Law Enforcement Officer or Firefighter in Michigan. His pension is a FAC 3 (Final Average Compensation) times a 2.7% multiplier. His pension allows retirement at 25 years. For purposes of the initial examples, we are only comparing the base pension and not considering joint and survivor or annuity withdrawal (both of which are important considerations). Let’s presume for our examples that Tom is making $70,000 a year. We’ll make a non-exempt (covered by Social Security) and an exempt (not covered by Social Security) example:

| **Normal Scenario: FICA** | **Work** | | **Retire** | |
|---|---|---|---|---|
| Gross Pay | **$** | **5,833.33** | **$** | **3,937.50** |
| Federal Tax | $ | 306.58 | $ | 200.75 |
| Michigan Tax | $ | 182.40 | $ | 139.01 |
| FICA | $ | 361.67 | $ | - |
| Medicare | $ | 84.58 | $ | - |
| Pension Contribution | $ | 291.67 | $ | - |
| §457 Contribution | $ | 583.33 | $ | - |
| Union Dues & JRE | $ | 350.00 | $ | - |
| **Net Check** | **$** | **3,673.10** | **$** | **3,597.74** |
| Difference | | | $ | (75.36) |

In this example, Tom’s gross pay is $5,833 a month (annual $70,000). Presuming he is married, filing a joint return and they take the standard deduction, his federal taxes under the new 2018 tax law (no exemptions and standard deduction of $24,000) will be about $306.58 a month, taking into account his deductions for pension contributions and Deferred Comp. Note that you need to adjust to your own situation. Now, add about $182.40 a month in Michigan taxes (we’re using the $4,000 exemption allowance for 2017, and the pension and Deferred Comp are deductible). This example is for a Law Enforcement Officer/ Firefighter covered by Social Security, so we need to take out $361.66 for FICA. Next, take out Medicare tax (1.45%) or $84.58. Let’s assume Tom’s City requires a 5% employee contribution to the pension, so we’ll add another $291.67. And, let’s assume Tom is putting into his Deferred Comp (§457 plan) to the tune of 10%. Last, let’s take out union dues and other job-related expenses, which are the costs of having a job as a Law Enforcement Officer or Firefighter (the Department of Labor estimates job-related expenses at 6%.) His net is about $3,673.10 a month.

 

On the other side of the equation, Tom's gross pension check is about $3,597.74 a month. Pensions are taxable, so he has to pay about $200.75 a month in federal taxes. Let's assume he was born after 1952. Tom is now subject to the 2012 rules on pensions that make his pension taxable for Michigan income taxes. That means he pays $139.01 a month in Michigan taxes. So far, it looks just like his paycheck. But, there are no Social Security or Medicare taxes on pensions. You don't have to contribute to the pension system, and you no longer contribute to Deferred Comp. No more job, so no more job-related expenses. The bottom line of retirement is about $3,597.74 a month.

Comparing the two scenarios, Tom nets $3,673.10 a month working for the City, and nets $3,597.74 **not** working for the City! His net is about $75 a month to work in his current job. If we divided that by his total hours, it's a pittance. Not to mention the fact that being a Law Enforcement Officer or Firefighter, although fun, can be a bit dangerous.

If Tom were in an exempt (not covered by Social Security) system, the example would look like this:

| **Normal: Exempt FICA** | **Work** | | **Retire** | |
|---|---|---|---|---|
| Gross Pay | **$** | **5,833.33** | **$** | **3,937.50** |
| Federal Tax | $ | 306.58 | $ | 200.75 |
| Michigan Tax | $ | 182.40 | $ | 139.01 |
| FICA | $ | - | $ | - |
| Medicare | $ | 84.58 | $ | - |
| Pension Contribution | $ | 291.67 | $ | - |
| §457 Contribution | $ | 583.33 | $ | - |
| Union Dues & JRE | $ | 350.00 | $ | - |
| **Net Check** | **$** | **4,034.77** | **$** | **3,597.74** |
| Difference | | | $ | (437.03) |

Note that the exempt system member does not contribute to Social Security (but probably won't collect much from it either, due to the Windfall Elimination Provision offset). The bottom line is still only $437.03 a month to work for the City versus not work there. It's worth noting that the examples don't take into account any other employment. In this example, Tom would be ahead if he made anything more than $437.03 net a month. ('Hi, welcome to Home Depot.')

**Special Michigan income tax rule for exempt system pensioners: Retirees in an exempt system will receive a different exclusion from Michigan taxes than those covered by Social Security. A new law signed in November 2017 allows those born after 1945 and retired as of Jan 1, 2013 to deduct up to $35,000 of pension benefits (single) or $55,000 (married filing joint) from their Michigan taxable income beginning in 2018 (for 2017, only those born between 1946 and 1952 receive the larger deduction). If both spouses receive a pension from an exempt system, the deduction is increased to $70,000. For those born after 1952 and retired in 2013 or later, the deduction is $15,000 for single or married and $30,000 if both spouses are under exempt system.**

 

## Analysis of a Pay Cut

The same method can be used to look at a pay cut. Some departments may be making significant reductions in current contract negotiations, and the property tax revenues recovering quickly in Michigan doesn't seem likely. Here's an example, using Tom again, of what his scenario looks like if the City cuts his pay by 10%:

| 10% Pay Cut: FICA | Work | Retire |
|---|---|---|
| Gross Pay | **$ 5,250.00** | **$ 3,937.50** |
| Federal Tax | $ 247.08 | $ 200.75 |
| Michigan Tax | $ 161.32 | $ 139.01 |
| FICA | $ 325.50 | $ - |
| Medicare | $ 76.13 | $ - |
| Pension Contribution | $ 262.50 | $ - |
| §457 Contribution | $ 525.00 | $ - |
| Union Dues & JRE | $ 315.00 | $ - |
| **Net Check** | **$ 3,337.47** | **$ 3,597.74** |
| Difference | | $ 260.27 |

Here, the surprise is that Tom will actually make $260.27 **more** retired than working. At first, this doesn't seem likely, since we're comparing a $63,000 a year job (after the pay cut) to a $47,250 pension. However, as you've seen from the previous examples, pension checks and paychecks are different in their deductions.

So, if the City cuts Tom's pay by 10% (or for that matter, cuts out overtime, etc.), he actually makes $260.27 a month more retiring from the City than working for the City. If Tom were in an exempt system, it would look like this:

| 10% Cut: Exempt FICA | Work | Retire |
|---|---|---|
| Gross Pay | **$ 5,250.00** | **$ 3,937.50** |
| Federal Tax | $ 247.08 | $ 200.75 |
| Michigan Tax | $ 161.32 | $ 139.01 |
| FICA | $ - | $ - |
| Medicare | $ 76.13 | $ - |
| Pension Contribution | $ 262.50 | $ - |
| §457 Contribution | $ 525.00 | $ - |
| Union Dues & JRE | $ 315.00 | $ - |
| **Net Check** | **$ 3,662.97** | **$ 3,597.74** |
| Difference | | $ (65.23) |

 

Obviously, if the cuts were bigger, the difference gets more dramatic. Here's an example of a 20% pay cut:

| **20% Pay Cut: FICA** | **Work** | | **Retire** | |
|---|---|---|---|---|
| Gross Pay | **$** | **4,666.67** | **$** | **3,937.50** |
| Federal Tax | $ | 187.58 | $ | 200.75 |
| Michigan Tax | $ | 140.25 | $ | 139.01 |
| FICA | $ | 289.33 | $ | - |
| Medicare | $ | 67.67 | $ | - |
| Pension Contribution | $ | 233.33 | $ | - |
| §457 Contribution | $ | 466.67 | $ | - |
| Union Dues & JRE | $ | 280.00 | $ | - |
| **Net Check** | **$** | **3001.83** | **$** | **3,597.74** |
| Difference | | | $ | 595.91 |

| **20% Cut: Exempt FICA** | **Work** | | **Retire** | |
|---|---|---|---|---|
| Gross Pay | **$** | **4,666.67** | **$** | **3,937.50** |
| Federal Tax | $ | 187.58 | $ | 200.75 |
| Michigan Tax | $ | 140.25 | $ | 139.01 |
| FICA | $ | - | $ | - |
| Medicare | $ | 67.67 | $ | - |
| Pension Contribution | $ | 233.33 | $ | - |
| §457 Contribution | $ | 466.67 | $ | - |
| Union Dues & JRE | $ | 280.00 | $ | - |
| **Net Check** | **$** | **3,291.17** | **$** | **3,597.74** |
| Difference | | | $ | 306.57 |

It should be no surprise that with a 20% pay cut, that retiring looks considerably more attractive. It is interesting that Tom's City pays him $596 a month (or $307 a month in an exempt system) more to **not** be a Law Enforcement Officer or Firefighter than to be one. This also doesn't take into account any of Tom's other economic activities. However, in this case, Tom actually gets a raise by retiring.

# Analysis of Health Care Co-Pay

PA 152 mandates that public employers limit their total cost on health care. It's possible that municipal employees may experience dramatic increases in co-pays. Here's an example of what might happen if the medical co-pays went up by $300 a month:

| Normal: FICA/$300 Med | Work | | Retire | |
|---|---|---|---|---|
| Gross Pay | **$** | **5,833.33** | **$** | **3,937.50** |
| Federal Tax | $ | 306.58 | $ | 200.75 |
| Michigan Tax | $ | 182.40 | $ | 139.01 |
| FICA | $ | 361.67 | $ | - |
| Medicare | $ | 84.58 | $ | - |
| Pension Contribution | $ | 291.67 | $ | - |
| §457 Contribution | $ | 583.33 | $ | - |
| Union Dues, Co-pay, JRE | $ | 650.00 | $ | - |
| **Net Check** | **$** | **3,373.10** | **$** | **3,597.74** |
| Difference | | | $ | 224.64 |

| Normal: Exempt/$300 Med | Work | | Retire | |
|---|---|---|---|---|
| Gross Pay | **$** | **5,833.33** | **$** | **3,937.50** |
| Federal Tax | $ | 306.58 | $ | 200.75 |
| Michigan Tax | $ | 182.40 | $ | 139.01 |
| FICA | $ | - | $ | - |
| Medicare | $ | 84.58 | $ | - |
| Pension Contribution | $ | 291.67 | $ | - |
| §457 Contribution | $ | 583.33 | $ | - |
| Union Dues, Co-pay, JRE | $ | 650.00 | $ | - |
| **Net Check** | **$** | **3,734.77** | **$** | **3,597.74** |
| Difference | | | $ | (137.03) |

In this example, the 'gap' between working and retiring narrows considerably. Sometimes the City might ask for a pay cut **and** push the Health Care cost sharing. The two issues are independent:  PA 152 is a mandate, and the pay cut is a budgetary issue, although PA 152 does improve the City's budget.

## Analysis of Extra Pension Contribution

Another possibility is where the City might have the members contribute more toward their pensions. In actuality, this scenario can hurt the member considerably less than a pay cut, or a co-pay. The reason is that the additional contribution by the members can be retrieved with an annuity withdrawal.

Here's what a 10% employee contribution (instead of 5%) would look like in our previous examples:

| More Pension Contribution | Work | | Retire | |
|---|---|---|---|---|
| Gross Pay | **$** | **5,833.33** | **$** | **3,937.50** |
| Federal Tax | $ | 285.58 | $ | 200.75 |
| Michigan Tax | $ | 174.96 | $ | 139.01 |
| FICA | $ | 361.67 | $ | - |
| Medicare | $ | 84.58 | $ | - |
| Pension Contribution | $ | 466.66 | $ | - |
| §457 Contribution | $ | 583.33 | $ | - |
| Union Dues & JRE | $ | 350.00 | $ | - |
| **Net Check** | **$** | **3,526.55** | **$** | **3,597.74** |
| Difference | | | $ | 71.19 |

| Exempt: More Pension | Work | | Retire | |
|---|---|---|---|---|
| Gross Pay | **$** | **5,833.33** | **$** | **3,937.50** |
| Federal Tax | $ | 285.58 | $ | 200.75 |
| Michigan Tax | $ | 174.96 | $ | 139.01 |
| FICA | $ | - | $ | - |
| Medicare | $ | 84.58 | $ | - |
| Pension Contribution | $ | 466.66 | $ | - |
| §457 Contribution | $ | 583.33 | $ | - |
| Union Dues & JRE | $ | 350.00 | $ | - |
| **Net Check** | **$** | **3,888.22** | **$** | **3,597.74** |
| Difference | | | $ | (290.48) |

## Moving Parts: Why Your Mileage Will Vary

All of our ‘work or retire’ examples are exactly that: examples. Your situation, although similar, will have some differences. Some of these differences might include:

1. **Your choice of payment method.** Frequently, employers will have multiple payout options on the pension, ranging from a single life annuity, to multiple joint and survivor options, and ‘pop-ups.’ We almost always recommend married Law Enforcement Officers/Firefighters take one of the joint and survivor methods (if they’re married to someone they like) to get retiree medical benefits for the surviving spouse, plus the income. Sometimes, it makes sense to take a lower survivor annuity (like a Joint and 50%) and buy a term life insurance policy (like a 20 or 30-year term policy).
2. **Annuity withdrawal.** In virtually all cases of systems where the members make contributions, the members have a choice to take their contributions plus interest out (annuity withdrawal). There are a variety of considerations in the annuity withdrawal:
   a. How much is pre-tax versus after-tax?
   b. How much is the reduction in the pension for the withdrawal?
   c. How important is survivability? (Your pension generally lasts as long as you and/or your spouse are alive, but whatever is left of your annuity withdrawal can be passed on.)
3. **Your spouse’s income.** Obviously, any tax scenarios have to take into account total income and deductions. Your spouse may have health insurance; you may have younger kids (although income is income, whether it comes from a pension plan or a City payroll).
4. **Your Deferred Compensation.** We are big fans of Deferred Comp. None of our examples used a Deferred Comp withdrawal (mainly because we think you should keep Deferred Comp as a nest egg and not withdraw it unless you need it). However, you can access Deferred Comp at any time after you retire. You pay taxes on the withdrawal but no penalty, similar to an IRA. As an example, suppose Tom had $250,000 in his Deferred Comp plan, and wanted to take 3% of that out every year to help pay for the kids’ tuition bills. It would look like this:

| §457 Withdrawal | Work | Retire |
|---|---|---|
| Gross Pay | **$ 5,833.33** | **$ 3,937.50** |
| Federal Tax | $ 306.58 | $ 275.75 |
| Michigan Tax | $ 182.40 | $ 165.57 |
| FICA | $ 361.67 | $ - |
| Medicare | $ 84.58 | $ - |
| Pension Contribution | $ 291.67 | $ - |
| §457 Contribution/Withdrawal | $ 583.33 | $ **625.00** |
| Union Dues & JRE | $ 350.00 | $ - |
| **Net Check** | **$ 3,673.10** | **$ 4,121.18** |
| Difference | | $ 448.07 |

 

Tom’s net would go up by $448.07 a month. If he made more than 3% on his Deferred Comp, his account would increase. For example, suppose Tom was going to take the $7,500 out for 8 years. Further suppose that he makes 7 ½% on his Deferred Comp investments. He’d have about $360,000 in the Deferred Comp, even after taking out $60,000. Incidentally, we’d probably tell Tom to leave $60,000-$80,000 in his Deferred Comp and roll the rest over to an IRA. IRAs have much broader investment choices than the §457 plans, but Deferred Comp has the penalty-free withdrawal advantage.

5. **DROP.** The analyses provided in this book don’t take into account DROPs and their associated advantages/disadvantages. From our standpoint, we are usually in favor of a Law Enforcement Officer/Firefighter DROPping. The DROP has some very specific tax and financial planning ramifications. For an overview of DROPs and DROP taxation, please download our DROP white paper, from sequoia-financial.com/guns-hoses or contact our office and we’ll send you a copy.
6. **The importance of looking at the bottom-line difference.** All of the ‘work or retire’ examples compare the marginal after-tax, after-deduction cash flow of retirement. Note that retirement doesn’t necessarily mean ‘don’t work’, it means ‘don’t work here.’ In general, we see lots of retired Law Enforcement Officers/Firefighters getting jobs, sometimes in almost exactly the same field. But, they lock in a pension and health care and then have the supplement of their ‘retirement job.’ It is possible to create a ‘pseudo-DROP’ and save a significant portion of the retirement income.
7. **Don’t forget (or some cases do forget) about Social Security.** If you’re in a system that pays into Social Security (non-exempt), we’ve been ignoring the effects of Social Security benefits. Recognize that deciding when to take Social Security is not a simple decision: we count at least nine ways to collect Social Security. If you are eligible for Social Security benefits, build those into your plan when you attain the appropriate age. On the other hand, if you are in a system exempt from Social Security, the Windfall Elimination Provision reduces your Social Security benefit by a significant amount. [See SSA Publication No. 05-10045 for more information, including how the Windfall elimination is calculated].
8. **Make effective use of the pay-outs.** Most Law Enforcement/Fire Retirees typically have some pay-outs in the form of sick time bank, shift differentials, accrued vacation or a variety of other payouts. There are considerations in how to take the buyouts, including maximizing the Deferred Comp through the use of a catch-up contribution (for 2018, you can contribute $18,500, and an additional $6,000 if you are 50 or older). We think you need to look at contributing the catch-up into the Deferred Comp, or maybe paying down debt. The pay-outs should be analyzed carefully.
9. **Don’t forget about buying time.** Many municipalities allow for the purchase of service time. In most cases, you can buy time with your §457 or Deferred Comp plan, which means you are using pre-tax money. If the plan allows a purchase of service time, look into it. This isn’t to say all purchases are good. Some service time purchases are prohibitively expensive. Different municipalities will have different costs and some might be expensive.

 

## Compare Your Own

Here's a worksheet for making your own comparison.

| | Personal Comparison | Work | Retire |
|---|---|---|---|
| 1 | Gross Pay | $ | $ |
| 2 | Federal Tax | $ | $ |
| 3 | Michigan Tax | $ | $ |
| 4 | FICA | $ | $ |
| 5 | Medicare | $ | $ |
| 6 | Pension Contribution | $ | $ |
| 7 | §457 Contribution | $ | $ |
| 8 | Union Dues & JRE | $ | $ |
| 9 | **Net Check** | **$** | **$** |
| 10 | Difference | | $ |

On **Line 1** put your gross paycheck (under whatever scenario you are analyzing) on the 'Work' side. Enter your gross pension check (after annuity withdrawals and any adjustment for joint and survivor on the 'Retire' side).

On **Line 2** calculate your approximate federal taxes (don't forget to take into account your pension contribution and §457 contribution).

On **Line 3** calculate Michigan tax, which is basically your federal adjusted gross income minus $4,000 for each exemption, times 4.25% (0.0425).

On **Line 4** if you're covered by Social Security, take 6.2% (0.062) of your gross (line 1) on the 'Work' side. If you're in an exempt system, put in zero.

On **Line 5** take 1.45% (0.0145) of your gross (line 1) on the 'Work' side.

On **Line 6** enter your monthly pension contribution.

On **Line 7** enter your monthly Deferred Comp contribution.

On **Line 8** either enter what you determine to be job-related expenses (like union dues, employee expenses, commuting, etc.) or enter 6% of line 1. If the City is changing your health care, enter your co-pays and expenses here.

**Line 9** is Line 1 minus lines 2-8.

**Line 10** is the difference between the two columns.

 

## To Obtain Your Copy of Guns & Hoses Materials

Our entire series of Guns & Hoses guides and resources are available as a PDF at sequoia-financial.com/guns-hoses. We're also happy to mail you or your department hard copies. To request a hard copy, call (248) 641.7400 or email guns-hoses@sequoia-financial.com.

## An Hour of Our Time

Take advantage of the opportunity to sit down with a Guns & Hoses advisor for a free professional opinion on your retirement situation. Call (248) 641-7400 to schedule your free one-hour consultation. Questions can be sent via email to guns-hoses@sequoia-financial.com.

## Department Seminars

Our advisors will come to your group for a customized educational experience. We will bring a light meal and hold a casual discussion on topics that apply to your department including, but not limited to pre-retirement planning, §457 and Deferred Comp optimization, tax planning, college savings plans, work vs. retire scenarios, DROP plans and estate planning.

## Disclaimers

Deciding how and when to retire is one of the most important decisions you will ever make. It is also something that requires consideration of many variables that are unique to your situation.

Whether you seek our advice or not, ensure that you are making a well-informed decision by consulting a professional with experience in public safety retirements.

# Guns & Hoses
# Work or Retire Analysis Meeting Request

Fill in the following form and send to Matthew Teetor via:
**Fax:** 248.641.7405, **Email:** guns-hoses@sequoia-financial.com or
**Mail**: Sequoia Financial Group, 5480 Corporate Drive, #100, Troy, MI 48098.
If you have any questions, please call 248.641.7400.

**ABOUT YOU:**

1. Your name: ____________________
2. Date of birth: ____________________
3. Spouse's date of birth: ____________________
4. Department your work for: ____________________
5. Phone: ____________________
6. Email: ____________________

**PAYCHECK Information (from your paystub):**

1. Gross pay per month: $ ____________________
2. Federal taxes: $ ____________________
3. Michigan taxes: $ ____________________
4. FICA (Social Security): $ ____________________
5. Medicare taxes: $ ____________________
6. Pension contribution: $ ____________________
7. Deferred Comp (457) contributions: $ ____________________
8. Union dues: $ ____________________
9. Medical dues: $ ____________________

**PENSION Information (estimate from employer):**

1. Pension gross amount: $ ____________________
2. Type of pension:
   a. ❑ Straight Life
   b. ❑ Joint and 50% survivor
   c. ❑ Joint and 75% survivor
   d. ❑ Joint and 100% survivor
   e. Other: ____________________

 

3. Annuity withdrawal:
   a. Total amount: $ ______________________________
   b. Taxable amount: $ ______________________________
   c. After-tax amount: $ ______________________________
4. Medical: $ ______________________________
5. Other income in retirement: $ ______________________________

**DEFERRED COMP AND IRAs:**

1. Balance in Deferred Comp: $ ______________________________
2. Where is it? (ICMA, Nationwide, Prudential, etc...)
   ______________________________
3. Balance in regular IRAs: $ ______________________________
4. Balance is Roth IRAs: $ ______________________________
5. DROP? ______________________________
6. DROP Balance: $ ______________________________

**BUYOUTS:**

1. Amount of total buyouts for sick, unused vacation, shift diffs, etc.:
   $ ______________________________

**DEBTS:**

1. Balance on mortgage: $ ______________________________
2. Rate on mortgage: $ ______________________________
3. Credit Card balances: $ ______________________________
4. Car note balances: $ ______________________________
5. Other debts: $ ______________________________

**CASH FLOW:**

1. Anticipated future cash flows necessary: ______________________________
2. Any future college costs?: ______________________________
   a. How much?: $ ______________________________
   b. When?: ______________________________
3. Any future inheritances?: ______________________________
   If yes to #3, approximately how much?: $ ______________________________

# Guns & Hoses resources at

**sequoia-financial.com/guns-hoses**

### Deferred Compensation & Defined Contribution Guide

A guide on how to optimize your plan while working and how to withdraw from it at retirement.


### Work or Retire?

A 'bottom-line' analysis of a paycheck to a pension check to provide guidance on retirement decisions. Different scenarios are used including comparing both checks after all deductions as well as alternate scenarios such as a pay cut, additional medical co-pays or additional contributions to the pension.

### Estate Planning Guide

Let's face it, police and fire personnel put their lives on the line day after day. This guide provides an explanation of estate planning tools that help you control and protect your estate—even after you pass.


### Retirement Guides Customized for MSP Employees

Helping MSP employees understand the difference between the §457 and 401(k) plans, what to do with DROP and more. (Trooper (before June 2012)/Pension Plus Trooper (after June 2012)/Civilian and Motor Carrier.)


### State of Michigan Conservation Officer Retirement Guide

A customized retirement guide to help Michigan Conservation Officers better understand and maximize their 401(k) and §457 plans, how to take distributions, naming beneficiaries and more.

### Additional Resources

- Retirement Checklist
  Things to think about at retirement....or a few years before.

- Social Security Windfall Elimination
  An explanation of the reduction in Social Security benefits from those receiving pensions from an exempt system.

- The DROP Retirement Guide For Michigan Law Enforcement Officers & Firefighters
  Planning tips and options for when you're done with your DROP and have separated service from your department.

## Sequoia Financial Group

### A Registered Investment Advisory Firm Serving Law Enforcement Officers and Firefighters throughout the State of Michigan

Sequoia Financial Group is a comprehensive wealth management firm that provides independent financial planning, retirement, tax*, estate* and advisory services. We are a diverse group of professionals who conduct an integrated approach to financial goal achievement.

**Our services include:**

- Fee-only advisory services to law enforcement and firefighters
- Complimentary one-hour consultation to law enforcement and firefighters
- Deferred Retirement Option Plan (DROP) rollover guidance and counseling
- Informational website page dedicated to law enforcement officers and firefighters at www.sequoia-financial.com/guns-hoses
- Annuity withdrawal guidance, including new Roth rollover planning
- Estate planning*: including review of Wills, Trusts and Durable Powers
- §457 review and analysis
- Investment management
- Tax planning and return preparation options*
- Advisors with over 20 years of public safety retirement experience

Detailed information about these services can be found in our client brochure and is also available on our website (or upon request).

For a no-obligation review of your investments, retirement options or estate plan, please contact our Troy, MI office at 248.641.7400 to schedule an appointment.

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* Third party preparers.
Investment advisory services offered through Sequoia Financial Advisors, LLC, an SEC Registered Investment Advisor. Registration as an investment advisor does not imply a certain level of skill or training.