

Expectation vs Reality

Utilizing a Retirement Healthcare Funding Plan
To Help Close the Gap between the two!

Presented By:

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MEET YOUR PRESENTER



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Anita Kochar

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20+

Years in retirement
planning

300+

Municipalities served by
her teams

Series 6/63/65

Securities licenses + CFS
designation

- ▶ Licensed Registered Representative since 2003
- ▶ Joined NPPFA Benefits in 2019
- ▶ Leads a 10-person Support Team and a 4-person Service Team
- ▶ B.S., Business Management, Central Connecticut State University

NATIONAL PUBLIC PENSION FUND

Not-for-profit organization

A not-for-profit organization, founded in 1985 by an Illinois police officer, whose primary function is the education of Public Pension Fund Trustees.

Over 300 units

Currently over 300 units of government participating nationally with nearly \$1 billion of AUM

Over \$1 Trillion of AUM.

Board of Trustees provide oversight that collectively represent over \$1 Trillion of AUM

Created Wise Choice co-op suite of products w/ the following priorities:

- Lower Administrative & Investment Fees
- Provide Single Pricing for all units of government, regardless of size
- Provide Financial Education
- Provide Ongoing Fiduciary Oversight and Compliance

Wise Choice co-op includes:

- 457(b)-2001
- Retirement Healthcare Funding plan - 2004
- 403(b)/457(b)- 2008
- 401(a) - 2010

What is a 401a?

> What is a 401(a) Plan?

A qualified defined contribution plan (IRC Section 401(a)) used by many Pennsylvania townships, boroughs, and authorities, often for non-uniformed staff or alongside the municipal pension.



Employer-Driven: Unlike the 457(b), which is usually voluntary, the 401(a) is the primary vehicle for **employer contributions** and mandatory participation.



Tax Advantage: Contributions and investment growth are tax-deferred until withdrawal, typically at retirement.



401(a) vs. 457(b) — HOW PENNSYLVANIA TAXES THEM

401(a)

Employer Defined Contribution Plan

- Employer contributions set by plan document or contract.
- Employer contributions are NOT subject to PA income tax going in.
- Mandatory employee (pick-up) contributions ARE PA-taxed when made.
- Growth is tax-deferred; federal tax is due on withdrawal.
- PA does not tax distributions after retirement — employer dollars can avoid PA tax entirely.
- 2026 limit: up to \$72,000 in total annual additions.

457(b)

Deferred Compensation Plan

- Voluntary — you choose the amount through payroll deduction.
- Pre-tax deferrals lower FEDERAL tax only — PA taxes them going in (3.07% + local EIT).
- Roth deferrals: taxed going in, tax-free coming out if rules are met.
- PA does not tax distributions after retirement.
- 2026 limit: \$24,500 under age 50; up to \$49,000 with catch-up.
- Separate limit — you can max a 457(b) on top of your 401(a).

In PA, pre-tax 457(b) saves federal tax only — which makes the Roth 457(b) worth a close look. Use BOTH plans.

457(b) BASICS: PRE-TAX vs. ROTH — WHEN DO YOU PAY

THE TAX? *Same money in, same growth. The only question is which end the tax comes out.*

GOING IN



IT GROWS



COMING OUT

PRE-TAX



No tax going in



Grows tax-deferred



Taxed as income

ROTH



Pay tax now



Grows tax-free



100% tax-free*

Pre-tax pays on the way **out**. Roth pays on the way **in**.



Where's the red coin? That's when you pay.

PRE-TAX vs. ROTH: SO WHICH ONE IS RIGHT FOR YOU?

It's a bet on your future tax rate. Here's how to read your own situation.

LEAN PRE-TAX

Tax break now, taxed later

- ✓ You're in a high bracket today
- ✓ You expect a LOWER bracket in retirement
- ✓ You want to lower this year's taxable pay

LEAN ROTH

No break now, tax-free later

- ✓ You're earlier in your career / lower bracket
- ✓ You expect the SAME or HIGHER bracket later
- ✓ You want tax-free income you never owe on

FOR OFFICERS -Retiring in your 50s with a strong pension? Your retirement bracket may not actually drop — which is why many officers **split contributions across both** to stay flexible and hedge against future tax-rate changes.

HOW MUCH CAN I CONTRIBUTE IN 2026?

\$24,500 (under Age 50)
or **100% of**
compensation,
whichever is less

Catch-Up

Age 50-January of the year you turn age 50-59

- An Additional **\$8,000** to total of **\$32,500**
- Age 60 to 63 **\$11,250** to a total of **\$35,750**

Special 457(b) Catch-Up (Final 3 Years)

- Starts 3 yrs before plan's normal ret. age
- e.g., Act 600 police, NRA 55 → start at 52
- If eligible, up to **\$49,000**
 - Cannot utilize Special Catch-up In year of retirement
 - Cannot utilize both Special and Age 50 in same year

457(b) IN-PLAN ROTH CONVERSIONS

Pennsylvania does not tax retirement plan distributions once you retire.

- But PA does tax your 457(b) contributions going in (3.07% PA income tax + local EIT), so in Pennsylvania, pre-tax deferrals save federal tax only.
- Any amount you convert to the Roth 457(b) will be taxed as ordinary federal income.
- If your 2026 taxable income is \$100,800–\$211,400 filing jointly (22% bracket) and you convert \$20,000 into the Roth 457(b), that could mean a \$4,400 federal tax bill.



ACCESSING YOUR MONEY

➤ **Loans: Can borrow 50% of your account balance up to \$50,000. (The lesser of the two)**

- Personal Loan: 1-5-year(s) repayment window (your choice, no additional information is needed)
- Residential Loan: 1–15-year(s) repayment window (must be for the purchase of your primary residence, can not be an investment property). Proof required for a residential loan.
- Interest Rate: You pay yourself back with interest.
 - Principal+ Interest goes back to you. NPPFA does not keep any of the interest on your loan.
 - Current Interest Rate – 8%

➤ **59.5 Years Of Age:**

- Can Access your money while still working as a distribution if you are 59.5 years of age.

• **Hardships: Unforeseeable Emergency (IRS**

➤ **rules, proof required)**

- Illness or Accident (Medical Expenses) Not covered by insurance or other reimbursements
- Illness or Accident (Loss of Income)
- Property Loss Due to Casualty
- Foreclosure/Eviction (Only approvable twice in a rolling 12-month period)
- Extraordinary/Unforeseen Circumstance: Provide proof of unforeseen circumstance beyond your control

➤ **Separation of Service*: Can access pretax 457 money at separation of service regardless of age. 401(a) money is also available at separation, but a 10% IRS penalty may apply if you separate before 55 (50 for public safety).**

- *Roth 457 money: Must be 59.5, first deposit must have been in the account for 5 years. (IRS rules)

THE DAYDREAM RETIREMENT WHILE ON THE JOB

THE STORY

Every public sector employee has done it — paused between shifts, lessons, or calls and imagined the day the pension kicks in. The assumption is simple: serve now, relax later. But what does "later" really look like?



THE REALITY

HEALTHCARE COSTS AND INFLATION



THE STORY

- You may have more than 15 years of healthcare premiums before Medicare kicks in
- Premiums need to be paid with AFTER-TAX money
- Medicare isn't free
- Pensions don't keep pace with inflation

EXAMPLE PENSION CHECK

\$100,000 Salary x 30 YOS = 75%

Pension = \$6,250.00/month

Monthly Gross Pension Check	\$6,250
Taxes Withheld	\$1,125
Net Check	\$5,125
Health Insurance Premiums Withheld	\$1,500
Net Check	\$3,625
Insurance and Taxes Consumes	42% of monthly check

18% Federal Withholding and 0% State Withholding
(PA does not tax pension income)

PREMIUM COSTS IN RETIREMENT FROM AGE 55-64

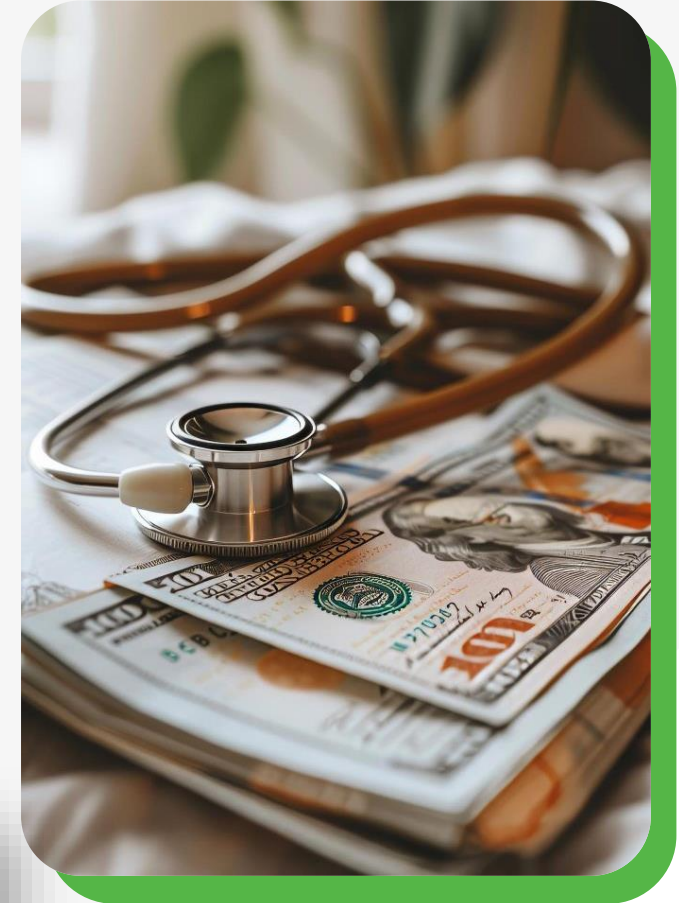
Monthly Premium Today	10 Year Cost From Age 55-64	After-Tax Dollars Needed*
\$800	\$122,817	\$153,521
\$1,000	\$153,522	\$191,903
\$1,250	\$191,902	\$239,878
\$1,500	\$230,283	\$287,854
\$2,000	\$307,044	\$383,805
\$2,500	\$383,804	\$479,755

*Assumes 20% total incomes taxes for state and federal in retirement

5.27% Annual Increase in premium Cost

THE REALITY OF RETIREMENT HEALTH COSTS

- Pre-Medicare premiums from ages 55–64 can cost **\$700–\$4,400/month** — paid with after-tax dollars.
- Medicare is NOT free — premiums, deductibles, and co-pays begin the moment you retire. Medicare Part B premiums have increased **6.7%** annually over the past 6 years.
- A retired couple in 2025 may need approximately **\$345,000** (after tax) just for healthcare. Women may need **\$252,000** and men **\$212,000** saved by their 65th birthday — Total of **\$464,000** just for Medicare gaps (EBRI, March 2026).
- Nearly **70%** of people turning 65 today will need long-term care in their remaining years (HHS).



\$345,000+

Estimated Savings Needed

\$9,000+

LTC Costs/Month

6.7%/yr

Part B Premium Growth

PREMIUM ONLY FROM 55-64 AND ESTIMATED MEDICARE COSTS AFTER-TAX

**Premiums
from 55-64**

\$287,854

**Estimated
Money
Needed for
Medicare**

\$345,000 - \$464,000

Total

\$630,854 - \$751,854

MEDICARE GAPS — WHAT YOUR RHFP CAN FUND

Medicare does NOT cover these common expenses — but your RHFP does, tax-free:



Dental Care

Dentures, implants, major procedures



Vision & Hearing

Eyeglasses, contacts, hearing aids



Medicare Premiums

Part B, Part D — out-of-pocket



Long-Term Care

Memory care ~\$9K–\$11K/month



Co-pays & Deductibles

All out-of-pocket cost-sharing



Prescription Drugs

Significant Part D gaps



Care Outside U.S.

Medical care while traveling



Chiropractic Care

Not covered under standard Medicare

Your RHFP covers ALL of the above — 100% TAX-FREE for you, your spouse, and qualified dependents.

LONG TERM CARE NEEDS - Uncle AL

- **\$296** per day in 2023 current rate is **\$355** per day
- **\$108,000** annually current annual amount **\$129,575**
- **\$9,000** per month current monthly is **\$10,797**
- When they needed additional assistance during Aunt Birdie's final 23 months, that added an additional \$2,500 per month

The average memory care facility cost
\$11,000 per month



THE SOLUTION

A RETIREMENT HEALTHCARE FUNDING PLAN



What you daydreamed about is achievable!

Retirement Healthcare Funding Plan helps you close the gap.

RHFP vs. 457(b) — **KNOW YOUR TOOLS**

RHFP

Retirement Healthcare Funding Plan

- Pre-fund future retiree medical expenses starting today.
- Contributions made before federal, state, and payroll taxes.
- Tax-free investment growth over your entire career.
- Distributions for qualified medical expenses are completely tax-free.
- Covers dental, vision, long-term care, premiums, co-pays.
- No contribution cap based on income or age for sick time deposits.

457(b)

Deferred Compensation Plan

- Supplemental retirement income savings — use for any expense.
- Pre-tax (Traditional) or after-tax (Roth) contributions.
- Tax-deferred or tax-free growth depending on contribution type.
- Traditional distributions taxed as income; Roth tax-free if rules met.
- 2026 limit: \$24,500 under age 50; up to \$49,000 with catch-up.
- Flexible — can fund any retirement living expense.

Use BOTH — the 457(b) builds retirement income, the RHFP protects your health. Together they are unbeatable.

TRIPLE TAX-FREE ADVANTAGE

How the RHFP Triple Tax Advantage Works:



- No “use it or lose it” rule — unlike an FSA, your balance carries forward and grows every year.
- Covers you, your spouse, and any qualified tax dependents.
- Employer also saves payroll taxes on every dollar contributed — making it a true win-win.

Contributions IN tax-free ▶ Growth tax-free ▶ Distributions OUT tax-free

DEATH AND 115 TRUST

- If you die with a tax-dependent, the account is retitled in the dependent's name and they have immediate access to the funds for qualified medical expenses as if the member separated service
- If you die without a tax-dependent, the account is liquidated after any final claims are paid and the funds are remitted to a beneficiary of your choice (NPPFA Benefits Only)
 - Funds are tax-free to the recipient
 - Funds are available for use for anything



OPEB/EMPLOYEE **BENEFITS**

Aligning Benefits and Compensation

Are your employees saying the following?

“Sick Day’s are for vacation, vacation days are for buy-back”

- Overtime
- Sick Time Abuse
- With Every Pay Increase, the OPEB liability increases

SICK DAY BANKS

Why are employees accumulating large sick day banks?

- You would never lend money to a friend for 3% taxable interest over 30 years
- Why are you willing to make that deal with your employer?

What is going to increase faster?

- Wages?
- Investment Account?

RHFP ADVANTAGE:

\$270,419 MORE OVER A LIFETIME

The RHFP Advantage: Maximizing Your Sick Leave Value

- By directing sick leave value into an RHFP, you convert a taxable asset into a much larger, triple-tax-free health benefit.
- The financial advantage can be hundreds of thousands of dollars — covering significantly more years of health premiums.
- The example below uses a 46-year-old retiring in 9 years, 2,200+ hours of sick time, and 8% investment return.

\$149,672

Taxable Sick Time Payout

\$420,092

RHFP Lifetime Value

\$270,419

RHFP Advantage

**Covers 3.75 yrs of premiums vs. Covers 9.17 yrs of premiums
that's 5+ MORE years of protected healthcare.**

457(b) vs. RHFP: WHO DECIDES HOW MUCH GOES IN?

One is your personal dial. The other is one formula applied to a whole group.

457(b) DEFERRED COMP

— INDIVIDUAL



YOU DECIDE

You choose how much, pre-tax or Roth, and how it's invested.

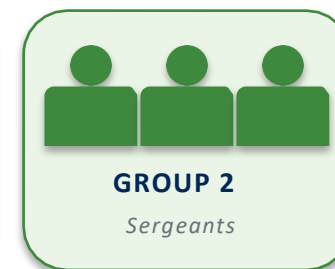
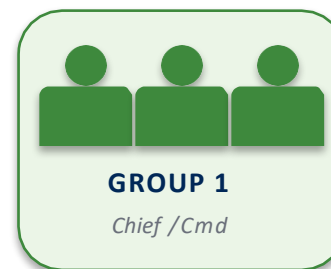
Amount

Pre-tax / Roth

Investments

RHFP / 115 TRUST

— GROUP-BASED



THE FORMULA DECIDES

One written formula sets the amount for an entire class — not any one person.

By rank

By tenure

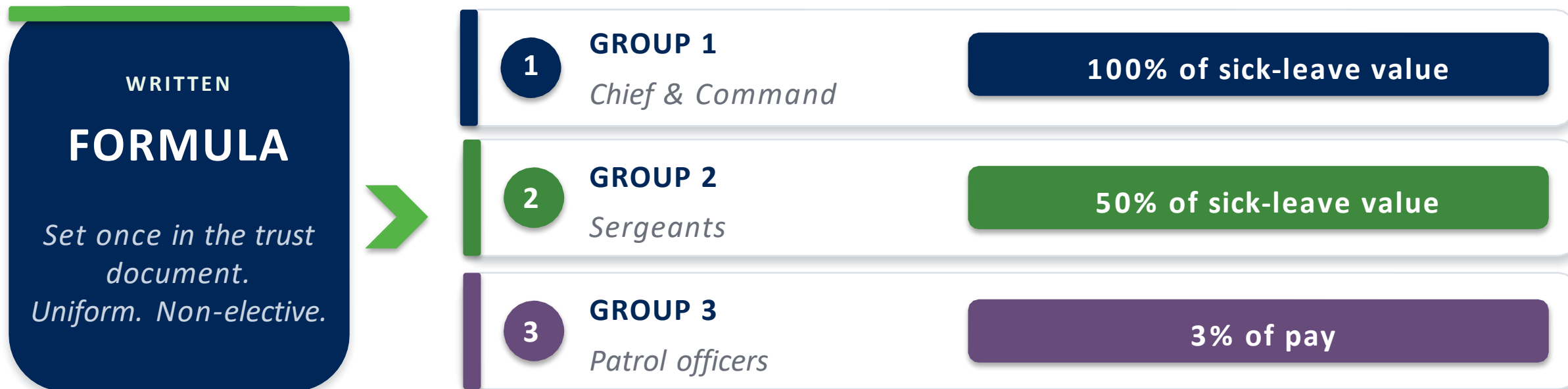
Bargaining Unit

457(b) = your personal dial.

RHFP = one formula, applied to everyone in the group.

THE RHFP FORMULA: ONE RULE, APPLIED TO EVERY GROUP

Groups are created, then one written formula is applied uniformly to each class.



WHY GROUPS & A FORMULA? IRS RULES.

If individuals could pick their own amount, the IRS would treat it as taxable income (**constructive receipt**). A uniform, non-elective formula across defined groups is what keeps those healthcare dollars **tax-free**. The group structure isn't red tape — it's the legal engine that protects the benefit.

PLAN EXAMPLE – SICK BANK CAP



- When the sick bank accumulates over 720 hours, all hours over 720 are deposited into the Plan at 100% of value.
- Upon retirement, all accumulated sick day and vacation time automatically is deposited into the Plan within 30 days of retirement.
- 3% of Salary

PLAN EXAMPLE – OPEB

- Township pays for retiree health insurance and has funded the \$10.6 million-dollar OPEB through a RHFP and “pays itself back annually”
- Account has all the tax-free benefits of individual account
 - **Reduces OPEB**
 - **Township received discount on OPEB Liability**
 - **Improves Annual Cash Flow**
 - **RHFP has average 8% ROR over the past decade**

WITH THE PLAN

Officer Smith: 25-year career, 5% of pay + \$50K end-of-career deposit.

CONTRIBUTED OVER 25 YEARS

\$152,473

*5% of pay (\$102,473) + \$50,000
end-of-career*

TAX-FREE GROWTH

+ \$169,956

*Compounded at 8% — never
taxed*

BALANCE AT RETIREMENT

\$322,429

*Available 100% tax-free for
qualified medical*

THE BOTTOM LINE

A good part of your retirement healthcare covered — **without touching the pension check**

WITH BOTTOM LINE

Same contributions. Same growth rate. Different tax treatment.

TAXABLE RETIREMENT ACCOUNT

\$207,153

Contributions taxed as income. Growth taxed at 22% annually. What's left after a 25-year career.

RHFP (TRIPLE TAX-FREE)

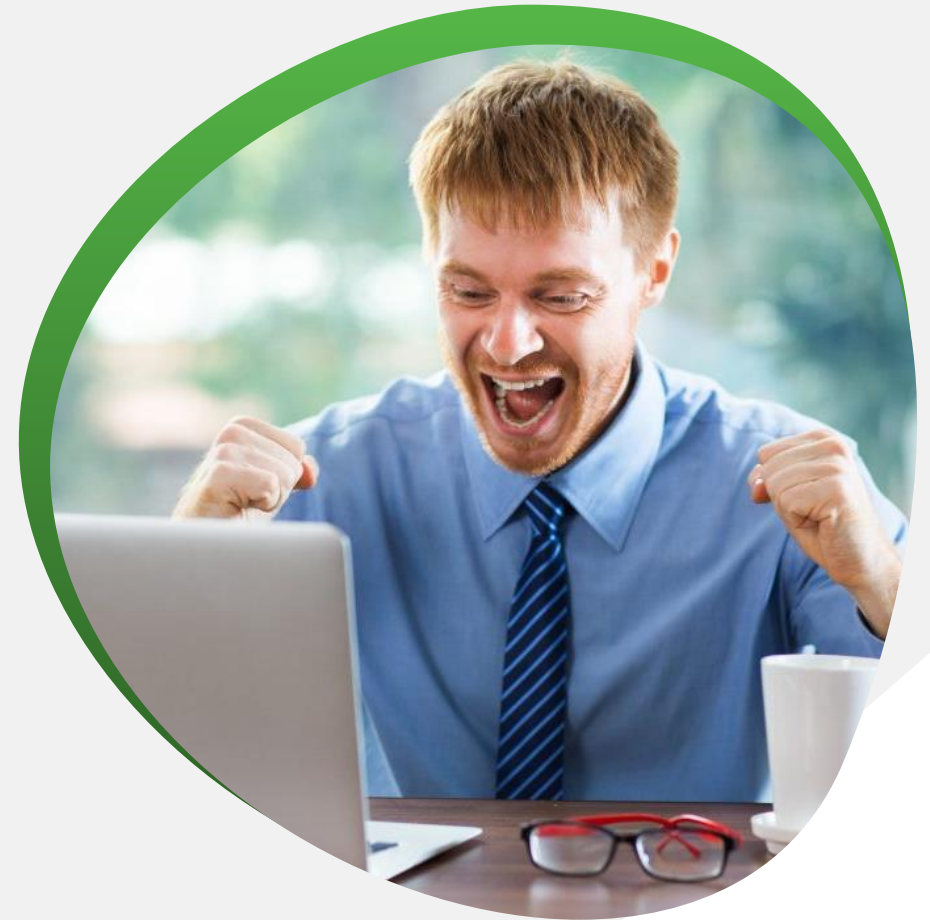
\$322,429

Contributions tax-free. Growth tax-free. Withdrawals tax-free for qualified medical expenses.

The RHFP keeps **\$115,276 more** in the employee's pocket — a **56% advantage** from the triple tax benefit alone.

WIN - WIN

- Win-Win
- Triple Tax Free
- Employer saves payroll taxes
 - “Above The Line Deduction”
- Basically an FSA for retirement without the use it or lose it feature
- Discourages the abuse of Sick Time



WHAT IS NEEDED **TO IMPLEMENT?**



Contract Language



Plan Documents



Resolutions to adoption

NEXT STEPS — SECURE YOUR RETIREMENT

Plan Today for Tomorrow and for your dreams to become a reality

- Schedule an RHFP educational session with your union or HR department.
- Talk to your union representative or benefits coordinator about adding RHFP to your contract language.
- Discuss with your family — this plan covers your spouse and all qualified dependents too.

The best time to start is TODAY. Every year you wait is a year of triple-tax-free growth you cannot get back.

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THANK YOU