



Retirement

Guidebook for Employees of Lockheed Martin

Contents

Empower 401(K)	2
Retirement Income Plan	5
Universal Life Insurance	12
Retiree Health Plan	14

Retirement Guidebook for Employees of Lockheed Martin

You've had a long and successful career with Lockheed Martin. You've played an active part in designing and building technology systems that will keep your fellow Americans safe every day for generations to come. On a more personal note, you've taken strides to prepare yourself and your family for a chapter in life beyond full-time employment. Your hard work and earnings have supported your family to this point; benefits such as your Pension, 401(k), and Social Security will receive the baton from here. This Guidebook is designed to highlight some actionable strategies to leverage the full capabilities of your comprehensive Lockheed Martin retirement benefits package.



Empower 401(k)

Over the years, a slow-and-steady approach of living below your means, socking away a portion of your earnings into the PSP, SSP, and/or CAP, (and collecting the full Employer Match along the way!) has hopefully left you with a healthy balance in your account. After you walk out the door for the final time, one of your biggest retirement account decisions will be whether you'd like to keep your balance inside your 401(k), or roll the funds to an Individual Retirement Account (IRA). Here are the most important points to consider regarding this important decision.

Features of the Empower 401(k) Post-Retirement

- Investment Options include 15 Core Mutual Funds spread across various asset classes (Cash, Bonds, Stocks, Commodities) and 13 Target Date Funds

	Empower 401(k)	Rollover IRA
Investment Options	<ul style="list-style-type: none"> • 14 Core Mutual Funds spread across various asset classes (Cash, Bonds, Stocks, Commodities) • 13 Target Date Funds • Lockheed Martin Company Stock 	<ul style="list-style-type: none"> • IRA can be opened at virtually any major brokerage firm (i.e. Fidelity) or bank (i.e. JP Morgan). Therefore, significant investment flexibility is available depending on the company chosen. • Individual stocks, Mutual Funds, Exchange-Traded Funds (ETFs), CDs, and Annuities are all possible options for an IRA
Withdrawals of Pre-Tax Balance Prior to age 59 ½	If you retire in or after the year you turn 55, you can withdrawal directly from your 401(k) without a 10% tax penalty	<p>A 10% tax penalty would generally apply. You may take a series of “Substantially Equal Payments” for at least five years to avoid the penalty. Click this link for more info:</p> <p>https://www.investopedia.com/articles/retirement/02/112602.asp</p>

	Empower 401(k)	Rollover IRA
Withdrawals of Pre-Tax Balance After age 59 ½	Federal (and State where applicable) income tax due. No 10% penalty.	Federal (and State where applicable) income tax due. No 10% penalty.
Federal Tax Withholding of Pre-Tax Distribution	Mandatory 20%	Each institution may have their own procedures, however, generally the account holder can specify tax withholding rates from any distribution.
Investment Transfer Restrictions	If you transfer all or a portion of your existing account balance out of any investment option, you are not able to make a transfer back into that investment for 30 days	Each institution may have their own trading rules and restrictions, however, most of the major brokerage firms allow for unlimited purchases and sales of available securities.
Professional Investment Management	There is an optional program to enroll your 401(k) into the “Professional Management Program” directed by Financial Engines. The annual fee structure is based on the plan balance: <ul style="list-style-type: none"> • First \$50,000: 0.40% • Next \$50,000: 0.30% • Next \$50,000: 0.20% • Greater than \$150,000: 0.10% 	Many Registered Investment Advisors and Brokers are available to professionally manage an IRA. Strategies, services, and fee structure will vary significantly.
Required Minimum Distributions	Must be taken annually starting at age 72 unless still employed.	Must be taken annually starting at age 72.

Here are some other important points to consider upon retiring with a 401(k):

1. If you have an outstanding loan, the balance will become due and payable in full on the date you retire from the Company. In order to avoid defaulting on your loan and paying taxes on it as a distribution from the Plan, and also to be able to roll over the full amount of your account balance, you must pay off your loan in full.
2. Many of the investment options within the Core Empower Fund Lineup can be re-created within an IRA. The **S&P 500 Indexed Equity** is an example of a mutual fund that has many similar options outside of the 401(k).

Account Type	Empower 401(k)	Vanguard IRA
Fund Name	S&P 500 Indexed Equity	S&P 500 Index (VOO)
Expense Ratio	0.03%	0.03%
1-yr Performance as of 6/30/20	+7.45%	+7.51%
5-yr Performance as of 6/30/20	+10.69%	+10.68%

For more conservative investors however, it is more difficult to find a guaranteed savings vehicle in an IRA with the same level of yield and liquidity that is provided by the **Stable Value Fund**.

Account Type	Empower 401(k)	Vanguard IRA
Fund Name	Stable Value Fund	Vanguard Prime Money Market Fund (VMRXX)
Expense Ratio	0.27%	0.10%
1-yr Performance as of 6/30/20	+2.40%	+1.58%
5-yr Performance as of 6/30/20	+2.08%	+1.31%

3. If you have balances in either the "Roth 401(k)" or the "After-Tax 401(k)", rolling these out of Empower will require opening an entirely separate account at the IRA custodian called a Roth IRA. Doing so will preserve the favorable "Post-Tax" status, and also allow for any future earnings on the balance to also be tax free. Any balance kept in an "After-Tax 401(k)" at Empower is actually very tax-unfavorable, as growth in those investments will still be subject to future taxation. This can be avoided by processing an "In-plan Roth Conversion" at Empower, or by rolling to a Roth IRA.



Lockheed Martin Corp Retirement Income Plan (Pension Plan)

With all of the uncertainty in the economy and the financial markets, a guaranteed monthly income stream for the remainder of your life sounds pretty appealing. The pension plan was specifically designed to provide a predictable source of retirement income. You are a member in a selective club, as very few private-sector employees are entitled to such a benefit. As you are aware, Lockheed has decided to freeze this plan, joining the vast majority of employers by instead focusing solely on the 401(k) as the singular retirement account going forward. The size of the monthly pension benefit was primarily based on two factors: average earnings and years of service. Phase One of the pension freeze began in 2016 by no longer counting earnings increases in the formula. The pension was fully frozen on January 1, 2020 as years of service no longer accrued additional benefits. Certain bargaining units (i.e. ASPEP, IUE, IFPTE) may have different rules governing their pension freezes. Fortunately, as the pension has been fully phased out, the maximum Lockheed Martin contribution to the 401(k) going forward has increased from 4% to 10% for non-represented employees.

How much will my monthly pension benefit be?

Most employees have access to a robust pension estimator tool within the LM Employee Service Center intranet. Here, you are able to model various commencement dates and compare claiming options. This is how your LM pension is calculated:

Step 1: Determine your “Final Average Pay (FAP)”. For most employees, this is found by calculating the average of your three highest annual compensation values prior to 2016.

Step 2: Determine your “Credited Years of Service (CYS)”. For most current employees, this is the found by determining the length of time between your start date, and the date the pension was fully frozen, December 31, 2019.

Step 3: Look up your “Social Security Covered Compensation (SSCC)”. This is found on a government-provided table and used in the pension formula. This link shows the SSCC, updated for 2020 <https://www.dataair.com/2020CovComp.htm>

Step 4: Calculate your “Benefit per Year of Service”. If your FAP is less than your SSCC, then the formula is simply: $FAP * 0.0125$. Otherwise, the formula is: $(SSCC * 0.0125) + ((FAP - SSCC) * 0.015)$.

Step 5: Calculate your “Monthly Accrued Benefit”. Multiply your “Benefit per Year of Service” (result of Step 3) by your Credited Years of Service (CYS) and divide by 12. Employees whose CYS is greater than 35 will have a slightly higher benefit. Employees commencing a benefit prior to age 60 may also be subject to an Early Retirement Penalty.

Step 6: Calculate your “Lockheed Martin Monthly Pension Benefit”. Depending on your age at your retirement, as well as your age at pension benefit commencement, your pension may be subject to an Early Retirement Penalty. Refer to the two tables below to see if this circumstance applies. If so, you must reduce your “Monthly Accrued Benefit” by the applicable Reduction Factor:

Early Retirement Reduction Table for Retirement from Active Service at or after Age 55

Commencement Age	Benefit Reduction
60-65	none
59	5%
58	10%
57	15%
56	20%
55	25%

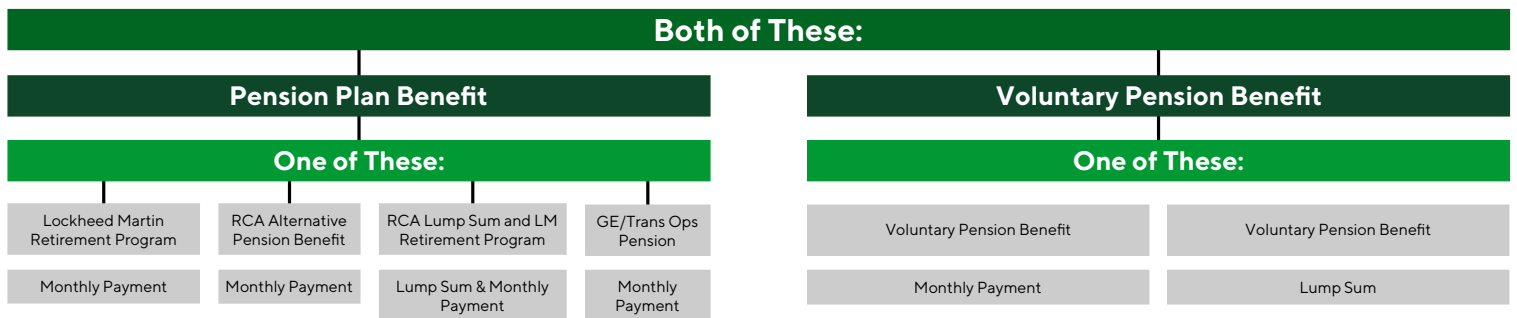
Early Retirement Reduction Table for Terminated Vested Employees Separating Prior To Age 55

Commencement Age	Benefit Reduction
65	none
64	10.1%
63	19.4%
62	27.9%
61	35.6%
60	42.5%
59	48.5%
58	53.9%
57	58.4%
56	62.1%
55	65.0%

How do I interpret the various components of the LM Pension Estimate (Moorestown Location Specific)?

The career path of Lockheed Martin – Moorestown employees does not follow a consistent timeline. Many have worked at the site during its legacy operators, General Electric and RCA. On a separate vein, many employees have spent some time represented by a bargaining unit and some as a non-represented employee. Each of these circumstances has a significant impact on your eventual pension benefit. As well, the detailed pension estimate report can be very confusing to interpret based on these dynamics. Either/Or? or Both?...

If you've worked at the Moorestown site since the 1980's, your pension benefit will likely show some components referencing an "RCA Alternate Pension", "RCA Lump Sum", "GE/Trans Ops Pension", as well as a "PPA/VPA Benefit". This following chart outlines which combination of benefits you may be entitled to concurrently:



If your employment is split between represented and non-represented, your pension estimate will be split, showing two different benefits, each covering those time periods. It is important to take note of the "Years of Credited Service" figure in your estimate. That will help you understand which portion of your work history that particular section is based upon. Ultimately, you will receive both benefits, which in total make up the pension you accrued during your entire eligible career.

How do I choose a specific Claiming Option?

While most components do not offer a lump sum, a few do. The choice to claim a monthly annuity or the lump sum is tailored to be basically mathematically equivalent; one is not clearly superior than the other in terms of the expected value to you. However, here are some factors that might guide you in the decision of a lump sum versus monthly income stream:

	Pension Annuity Benefit	Lump Sum Benefit	Advantage
Investment Risk	Employer Assumes	Employer Assumes	Annuity Benefit
Predictive Ability of Retirement Benefit	Based on formula- Very Accurate	Based on investment performance - Variable	Annuity Benefit
Flexibility to Receive Benefits	Must be an annuity	Can take benefits as necessary, or annuity	Lump Sum Benefit
Benefits to Heirs	Limited to reduced spousal benefit and unspent previous benefits	Account is an asset that can be passed on at death	Lump Sum Benefit
Inflation Protection	Monthly benefits do not increase over time	Distributions levels can be increased with inflation, investment risk involved	Lump Sum Benefit

Within the monthly annuity options the choices are complex. They can basically be broken down into the following categories:

- 1. Life Only** – This choice is typically the highest monthly benefit; however, payments cease upon your death. If you are married or have other dependents, you must thoughtfully consider what additional resources (such as life insurance or investments) you would leave behind if you passed away unexpectedly early.
- 2. Life with X-Year guarantee** – If you die before the end of this period, your spouse or other beneficiaries will receive the remainder of the guaranteed payments.

- 3. Level Income** – This is a two-tier benefit designed to be coordinated with Social Security. The benefit begins by providing a higher monthly benefit in early years and then dropping once you're assumed to begin collecting Social Security benefits at age 65. The intention is that the combination of the SS benefits and reduced pension would be equivalent to that initial higher pension by itself, thus creating a "Level Income". Unless it is otherwise stated on your pension estimate or package, the Level Income benefit ceases upon your death, thus creating some risk for your spouse or dependents with an unexpectedly early death.
- 4. Joint and Survivor** – The monthly amount you will receive is slightly less than the "Life Only" option. However, upon your death, your surviving spouse receives a monthly lifetime benefit equal to the specified percentage of your monthly benefit. Note, your Joint and Survivor option may list a feature called a "Pop-up". With this feature, if your spouse dies within the specified Pop-up period (typically 5 years), your benefit will be restored to the Life Only amount for which you would have been eligible when your benefit commenced.

An example of the relative levels of these claiming options is as follows:

Claiming Strategy	Payment Adjustment Factor	Benefit Payable to You	Benefit Payable to Your Beneficiary if you pass Away First
Life Only	1.00	\$2 000	\$0
Life with 5-Year Guarantee	0.99	\$1 980	\$1 980 for the remainder of the 5 years
Life with 10-Year Guarantee	0.95	\$1 900	\$1 900 for the remainder of the 10 years
Level Income	N/A	\$4 201 Prior to age 65 \$1 686 After age 65	\$0
50% joint and Survivor with 5-yr Pop-Up	0.91	\$1 820	\$910
75% joint and Survivor with 5-yr Pop-Up	0.87	\$1 740	\$1 305
100% joint and Survivor with 5-yr Pop-Up	0.84	\$1 680	\$1 680

**Note, the relative levels of these various strategies will vary between LM employees based on their DOB, work history, and other factors. The above table is for illustrative purposes only.*

If I am married, what are the most important factors to consider when choosing a claiming option?

Now that you have a more thorough understanding of the mechanics of the various pension options, let's consider how to select one. The driving goal behind the decision is to maximize the total benefit you receive from the plan, while ensuring your spouse would have enough resources to maintain his or her lifestyle if you passed away first.

- Based on your relative ages and health histories, what is the likelihood of your spouse outliving you by a significant time period? The higher the likelihood, the more you will want to lean toward a high Survivor payout, such as the 100% Joint and Survivor option.
- How well do your other resources, such as Social Security and Investments, cover your spouse's desired lifestyle? Keep in mind that when you pass away, your spouse will be entitled to the greater of your benefit or hers, but that is still a smaller amount than receiving both at the same time. In general, the greater the reliance upon this pension benefit to maintain your spouse's desired lifestyle, the more you will want to lean toward a high Survivor payout.
- Do you have a life insurance policy that you can maintain throughout most or all of your post-retirement life, or can you procure one at a modest cost? The more you can protect your spouse through a life insurance death benefit, the more you can lean toward a Life Only benefit.



Lockheed Martin Corp Group Universal Life Insurance

Earlier in your career, you may have had a spouse and children depending on your earnings. Fortunately, Lockheed Martin has offered a flexible, low-cost group life insurance program to provide for your loved ones if the worst were to happen. Now that you are entering retirement, you may wish to continue to have some type of continued life insurance coverage.

What is my option through the company once I've retired?

As an employee, you have two parallel, optional coverages to consider during each open enrollment period: 1) Employee Optional Life Insurance and 2) Group Universal Life (GUL) Insurance. Lockheed Martin does NOT subsidize the cost of the GUL, you pay the full premium. The Group Universal Life is “portable”, meaning you can keep your existing policy in force even after you leave the company. You are also given a separate option to “convert” your existing group life insurance coverage into a permanent individual policy. These are two separate options with different costs and features. A helpful website outlining the features is: www.prudential.com/giconversions.

How does the Group Universal “Portability” work?

While employed, you may choose a coverage level of a minimum of 1x your annual base pay and a maximum of 8x your annual base pay. If you leave the company, you may continue 100%, 75%, 50%, or 25% of the coverage level in effect through the portability option. The premium rates you will pay are based on your eligibility for retirement at the time of your termination. If you separate from the company while considered “eligible for retirement”, you will continue to pay the active employee rate, which is based on the ages and claims experiences of all the participants in the group plan and is subject to change. If you separate from service when you are not eligible for retirement, your premium rate will be 125% of the active employee rate. Just as it works while employed, this policy's premiums are based on your age band and will increase when you attain age 60, 65, and 70. This program is administered by Marsh, and the policy is issued by Prudential Insurance. Updated information and current rates can be obtained by contacting them directly at 800-729-3014.

How can I decide if I even need coverage, how much, and what type?

Now that you understand the various options available to you inside and outside the Lockheed Benefits program, here are some factors to consider when finalizing a decision at retirement.

- There is no rule written in stone that says you NEED to have Life Insurance at all stages of life, especially retirement. There may be some advantages estate planning reasons to carry permanent life insurance, that you would want to confirm with a financial advisor or attorney. However, from a pure insurance needs standpoint, retirement is typically a phase of life when a death benefit may not even be necessary. If your kids are grown, mortgage is low or paid off, retirement accounts are of a significant size, there might be enough assets and income stream to cover your final expenses and provide for your loved ones without a separate life insurance policy. A financial planner can help create a model of this scenario to determine a true need.
- If you do need life insurance, you may find that it is only for a limited basis. Perhaps until you've paid off all your debts, or to simply bridge the initial stages of retirement while you'd be more active. If the time is more limited, you would want to either utilize the "Portability" option from LM or purchase a private term life insurance policy. The decision would come down to cost, which would be based on your health status, as discussed earlier.
- If you have a specific need for life insurance permanently, perhaps because you have limited savings, a significant need where loved ones depend on your Social Security or pension, or for estate planning purposes, you would want a Permanent Insurance policy. This would be best accomplished by converting your Group Life insurance with Prudential, or applying for a Whole Life Insurance policy with a trusted insurance agent. Again, the more cost-effective option will be based on health status.



Lockheed Martin Retiree Health Plan

As one of the largest expenses you will have in retirement, healthcare planning should be carefully considered prior to your last day on the job. The insurance landscape is very complex and daunting. Fortunately, Lockheed has partnered with a benefits administrator called Via Benefits. Many of the questions you may have about Medicare, supplemental insurances, and plan options are answered on their website <https://my.viabenefits.com/lockheedmartin/>. Specifically, there is a helpful presentation accessible on this home page within the section “Review the Lockheed Martin Retiree Presentation.” To assist you in this decision process, below are some common questions and thoughtful strategies to consider.

What action steps can I take prior to retiring?

Recently, the company switched to a high deductible health insurance plan, which allows for a tax-advantaged savings program called a Health Savings Account (HSA). If your budget allows, we strongly recommend contributing as much funds as possible each year to this account. The maximum amounts for 2020 are as follows:

	Employee Only Coverage	Family Coverage
Employee under age 55	\$3 550	\$7 100
Employee age 55 and older	\$4 550	\$8 100

Contributions into this account are tax deductible, similar to a pre-tax 401(k). These funds can also be invested within the Benefit Wallet platform. Although these funds can be used to reimburse any out-of-pocket healthcare costs while working, any amount not used in the current year can continue to grow and eventually be used in retirement for future healthcare costs. The icing on the cake is that qualified withdrawals from these accounts are also tax-free, which is not the case for 401(k)'s. In effect, if used properly, these are the most tax-advantaged accounts available and you should seek to use them as heavily as possible.

What are my health insurance options prior to reaching Medicare age of 65?

Generally, if you are seeking to retire prior to age 65, there are four health insurance options to compare and consider:

- 1. COBRA** – this is a Federal law that allows a retiree the ability to continue participating in their employer-provided health plan for up to 18 months after separating from service. The employee is responsible for the full cost of the preferable group rate (plus a 2% administrative fee) as this is unsubsidized by the company.
- 2. LMHealthWorks for retirees** – Unlike COBRA, this is coverage that can last through to age 65. They both are administered identically to the employee health plan. Depending on your years of “Retiree Medical Contribution Service”, the premium you must pay will possibly be subsidized by the company. A firm estimate of these costs for the three plan levels (Broad Network Plan 1, 2 and 3) can be found at the end of your LM Pension Estimate.
- 3. Private Healthcare Insurance Marketplace (Affordable Care Act ACA)** – The healthcare.gov marketplace can quickly show you a variety of plans for private insurance companies serving your geographic area. There are four metal tiers, platinum, gold, silver and bronze. Each refers to a different portion of medical costs you will have to pay in addition to your premiums. High premium plans cover the largest portion of bills, leaving you with lowest out-of-pocket costs. These plans can also offer a subsidy from the Federal government if your income post retirement falls below a certain threshold, 400% of the Federal Poverty Level. For 2020, that limit is \$49,960 for an individual and \$67,640 for a married couple. You would need to enter your personal information on the healthcare.gov website to see the actual plans and prices, including a potential income-based subsidy. In general, if you can keep your income low enough to qualify for a subsidy, these plans have been shown to provide a better value than a typical Lockheed Martin retiree option. However, if your pension, Social Security, and other taxable income will push you over this threshold, it is likely that the Lockheed Martin retiree option would be more cost effective.

- 4. Other group insurance plan such as spouse employer or Tricare military** – If you are fortunate enough to have a subsidized health plan outside of Lockheed Martin at your disposal, this will likely be a very cost-effective option through to age 65.

What are my health insurance options after reaching age 65?

If you are retired and reach age 65, you will begin receiving Medicare benefits. More detailed information on this government-sponsored program can be found on medicare.gov or within the VIA Benefits Lockheed Martin Presentation mentioned above. Medicare Parts A (Hospital Insurance) has no premium and B (Medical Insurance) has a standard premium of \$144.60 per month. Beyond these two programs, most retirees choose to layer on an additional insurance called “Medicare Advantage” or “Medigap”. You are strongly recommended to consult with a VIA Benefits insurance broker to assist with policy selection, there are no fees for their service.

What is the subsidy that Lockheed Martin provides to eligible retirees over 65?

Most employees who have spent a large portion of their careers with the company are eligible to receive an annual Credit toward their medical expenses. The program is technically called a Health Reimbursement Arrangement (HRA) and the annual credit is generally \$900 for each participating retiree and participating spouse. Benefit credits that are not used by participants in each plan year are carried over and may be used in subsequent years throughout each participant's lifetime. The \$900 limit is typically easy to hit as it can be applied toward medical, prescription drug, dental and vision insurance premiums, as well as out-of-pocket healthcare expenses. You would pay the bill first and the Lockheed HRA will reimburse you tax-free. The only way to access this reimbursement account is to enroll in a medical plan through Via Benefits or have military-sponsored Tricare For Life.

Cypress Financial Planning Team



Dave Armbruster, CFP®



Jeff Jones, CFP®



Benjamin Pitts



Kurt Ruoff, CFP® CRPC®



Evan Powers, CFP®

Why We Created This Lockheed Martin Retirement Guide

The Lockheed Martin Retirement Guidebook is the culmination of more than a decade of experience serving Lockheed Martin employees and retirees. Shortly after Jeff Jones, CFP® founded Cypress Financial Planning in 2009, he was afforded the unique opportunity to return to the same Lockheed Martin facility where he started his career as a young mechanical engineer, in a new role. While Jeff loved his work at Lockheed, he was able to find more personal satisfaction using his skills and experiences to help his former colleagues engineer their financial lives.

Jeff began by offering a series of on-site seminars to groups of Lockheed engineers, operators, and others about retirement planning, investing, college savings, and other important personal financial topics. He and his Cypress colleagues have since been fortunate to translate those seminars into direct one-on-one work with Lockheed employees and retirees as clients, and many of the 200+ client relationships at Cypress are with Lockheed team members. The opportunity to work closely with those individuals and families has allowed us to develop deep expertise and familiarity with the entire suite of Lockheed retirement and benefits programs. We hope you find this guide informative and practical in engineering your own life, and we welcome the opportunity to guide you through some of these pivotal decisions.

Cypress Financial Planning, an independent, boutique financial planning and investment advisory firm based in Cherry Hill, NJ and Charlottesville, VA. As fee-only fiduciaries, we do not accept commissions or sell any investment or insurance products, and every recommendation we make is solely in our clients' best interest.

Comprehensive Planning for Complex Lives

Cypress Financial Planning, an independent, boutique financial planning and investment advisory firm based in Cherry Hill, NJ and Charlottesville, VA. As fee-only fiduciaries, we do not accept commissions or sell any investment or insurance products, and every recommendation we make is solely in our clients' best interest.

Contact Us



Cherry Hill, NJ

1500 Kings Highway N, Suite B-204
Cherry Hill, NJ 08034
856.720.0029



Charlottesville, VA

700 Harris Street, Suite 201-E
Charlottesville, VA 22903
434.270.0079



www.cypressplanning.com



info@cypressplanning.com



Cypress
Financial Planning, LLC