Advanced Markets

enhancing your benefits with pension maximization

Making the right choice between the various pension payout options can mean the difference between a comfortable retirement and one that is financially tight.

Married couples, where one spouse is retiring as a participant in a pension or defined benefit plan, must choose between getting payments for the lifetime of the participant, or receiving smaller payments over the lifetimes of both spouses.

The retiree must grapple with many questions:

1. What is the likelihood that the retiring spouse will die first?
2. Is the difference between the single-life benefit and the joint-life benefit enough to justify the risk of choosing the higher benefit?
3. What strategies are available to mitigate the risk of choosing a single-life benefit?

Those struggling to answer these questions should consider the possibility of choosing the pension maximization (Pension Max) strategy.

The Situation

Let's take a look at Bill and Karen to see how Pension Max may be the right strategy for them. Bill and Karen are age 60 and are five years away from retiring. They have three adult children. Bill is a participant in a defined benefit plan at his current employer. He has asked the employer for the projected retirement benefits that will be paid by the plan. If Bill picks the life-only option, he will be entitled to $3000/month. However, upon Bill's death, that $3000/month ceases. If Bill chooses the 100% joint and survivor benefit, he and Karen will receive $2000/month while at least one of them is still living. For example, if Bill dies, Karen will continue to receive the $2000/month and vice-versa.

	Life Only Benefit with No Suvivorship	100% Joint and Survivor Benefit
Bill's monthly income at retirement at age 65	$3,000/month	$2,000/month

A Strategy

Bill's advisor recommends that he consider taking the larger payout, $3,000 per month, and using a portion of the extra amount to purchase a permanent life plan on Bill's life. His advisor has projected that if Bill were to die at age 65, a death benefit of $338,000 would be able to provide Karen with $2,000[1] per month until her age 90, 25 years. Each year Bill lives beyond age 65 reduces the years between Karen's current age and age 90. As a result, if Bill were to die in a later year, the initial life insurance amount would support a potentially greater annual withdrawal for Karen, ensuring funds available beyond her age 90 or provide an additional legacy for Bill's and Karen's heirs.[2] Bill is in good health and can buy the insurance coverage for $431/month. Assuming Bill's early post-retirement death at age 65, the policy would provide the following options:

- A $338,000 lump sum death benefit that would be available to Karen should she need it, or
- Generate $2,000[1]/month for Karen — exactly equal to the joint and survivor benefit identified above (assuming a 3% interest rate on the invested death benefit) for 25 years,
- Provide Karen with cash for supplemental income during her lifetime if she would rather take a lump sum instead of monthly income at a future date,
- Any amount left at Karen's death would be available for their children, something that wouldn't be available with the pension benefit.

If Karen dies before Bill, he can surrender the policy and continue to get his "life-only" pension amount, supplement his pension with the policy's cash values, or he can choose to continue the policy and increase his childrens' inheritance.

Years	Life Only Annual Pension Increase over J & S Benefit	Premium Per Year	Death Benefit[2]	Potential Monthly Withdrawal Amount[1]
1	$12,000	$6,137	$338,000	0
5	$12,000	$6,137	$338,000	$2,000/month
10	$12,000	$6,137	$338,000	$2,000/month
15	$12,000	$6,137	$338,000	$2,000/month
20	$12,000	$6,137	$338,000	$2,000/month
25	$12,000	$6,137	$338,000	$2,000/month

Even though the premiums begin pre-retirement, the flexibility that the plan offers — as well as the enhanced benefit for Bill and Karen at retirement make Pension Max a good strategy for them.

1 Before Tax Equivalent assuming a 28% Tax Bracket.
2 This is a supplemental illustration and must be read in conjunction with the basic illustration. The basic illustration contains values using the same underwriting assumptions as this supplement at both guaranteed charges and guaranteed interest rates and contains other important information. The values represented here are for a $338,000 BrightLife Protect® Policy with level death benefit on a 60-year-old man preferred non-smoker and assumes current charges. If they were to receive a 0% gross rate of return and maximum charges were assessed on the policy, the policy would fail in year 30, by which point $184,110 of cumulative premium would have been paid. The values here are intended to offer a hypothetical representation based on illustrated rates when this marketing item went to print in May 2017. Actual results will vary based on the underwriting classification and crediting rate offered when an illustration is on a different date. Please review a basic illustration containing values based on your own individual age and underwriting class containing both guaranteed charges and guaranteed interest rates as well as other important information. Your financial professional can provide you a copy of the basic illustration.

Pension Max is not a fit for every situation. It works best where:

- Clients are in the 55–60-year-old (pre-retirement) age group where there is a defined benefit pension benefit.
- There is a significant difference between the single-life and joint-life benefit amounts.
- The participant spouse is healthy and can buy insurance at a reasonable price.
- Only a portion of the single-life benefit amount will be needed for life insurance.
- The life insurance on the plan participant can be purchased at a reasonable price.
- There are no valuable benefits that an employer provides that hinge on choosing the joint and survivor benefit.

Is Pension Maximization Right for You?

It depends on a number of factors, such as your financial situation, health, objectives, and the options and benefits you have under your employer's retirement plan. Your financial, legal and tax advisors can assist you with your decisions and in developing the strategy that is most appropriate for you.

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