Pension Maximization

One of the toughest decisions for participants of employer-sponsored defined benefit pension plans is how to select the payout of their benefits.

Unfortunately, the decision is often made without enough information. Since the decision is irrevocable and affects a couple's total retirement income, care should be exercised before making the election. The most common options are:

1. **LIFE ONLY INCOME OPTION:** The maximum monthly income based on the retiree's life expectancy. Income ends at the retiree's death with no further benefits to the surviving spouse.
2. **JOINT AND 50% INCOME OPTION:** Less monthly income benefit for life of the retiree, but 50% of the benefit will continue for life of the surviving spouse.
3. **JOINT AND 100% SURVIVOR INCOME OPTION:** A lower benefit compared to the other options, but income continues until the second death.

While the Life Only Income Option produces the highest payout, payments end at the retiree's death. Due to this risk, many participants choose one of the Joint Income Options since they provide continuing income until both spouses are deceased. The income for a Joint Income Option is based on the life expectancy of two people. Therefore, the monthly income is less than the Life Only Income Option. The longer you both are expected to live, the lower the monthly income. In assessing your options, life insurance may be considered using a strategy called Pension Maximization. Here, the participant buys life insurance on his or her life, naming the spouse as beneficiary of the policy. The policy is designed so there is enough death benefit to provide income approaching the benefit of a Joint Income Option. With Pension Maximization, the participant can receive higher retirement income with the Life Only Income Option, but provide for the surviving spouse with the insurance proceeds after the retiree's death.

EXAMPLE: Jim (current age 57) and Valerie North (current age 56)

At Jim's request, his employer recently provided him a projection of monthly income benefit for the Life Only and Joint and 100% Survivor Options for his Defined Benefit Pension Plan. Based on his projected income at retirement, the Life Only Income Option at his age 65 will provide a monthly income of $4,723. The Joint and 100% Survivor Income Option will provide a monthly income of $3,600—a difference of $1,123.

See reverse side for important information

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Most couples choose the Joint and Survivor Option to assure that a monthly income will continue until both spouses die. Is this always the best option?

HERE ARE A FEW POSSIBILITIES:

1. Jim dies before Valerie after his retirement begins.
2. Valerie dies before Jim after retirement begins.
3. Jim dies before his planned retirement age of 65.
4. Both Jim and Valerie die soon after retirement begins.
5. Both Jim and Valerie live long into retirement.

How it Works — Pension Maximization

The goal of this strategy is to provide funding at a reasonable cost so that the employee can select the Life Only Option, yet also provide the spouse the same survivor's benefit available in the Joint and 100% Survivor Option:

- *The employee buys life insurance prior to retirement and names his or her spouse as beneficiary.*
- *At retirement, the employee selects the Life Only Income Option as their choice of pension benefit and starts to receive the maximum monthly pension plan benefit (spousal waiver may be required).*
- *Upon the death of the retired employee, assuming the life insurance policy is in effect, the tax-free insurance death benefit proceeds could be invested by the surviving spouse or used to purchase an immediate annuity.*
- *If the retired employee's spouse dies first, the pension plan continues to provide the larger Life Only Income Option benefit from the pension plan. The life insurance policy can be cashed in or the beneficiary changed.*
- *If both retiree and spouse live, they continue to enjoy the larger Life Only benefit from the pension plan. If they die simultaneously, the life insurance death benefit can be paid to any contingent beneficiary (children, charity, etc.).*

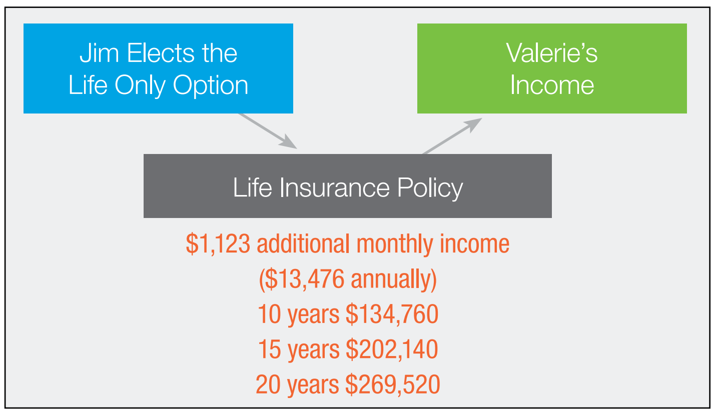
Now let 's look at Jim and Valerie North

At age 65, Jim elects the Life Only Option and begins receiving the maximum benefit. At Jim's death, income would cease from the pension plan.

However, Jim and Valerie chose to purchase a life insurance policy at his age 57 and named Valerie as beneficiary. The death benefit will replace the waived survivor income options since Jim elected the Life Only Income Option at his retirement.

At Jim's death, Valerie receives the death benefit proceeds taxfree. She can elect to invest the proceeds or she can elect to annuitize the death benefit proceeds with a Single Premium Immediate Annuity.

Annuitized death benefit provides guaranteed lifetime income to Valerie.*



*Guarantees and payments are subject to the claims-paying ability of the issuing insurance company.

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