



Life Insurance Strategies

Session 11: Pension Maximization

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You've worked hard for your pension.

If you are in a defined benefit plan, you will be faced with a difficult decision - should you elect

- the Life Only benefit or
- a Joint and Survivor benefit?

When you retire would you like to . . .

- Obtain the maximum income available to you?
- Provide for your spouse?
- Have the potential to leave something to heirs?
- Have funds available for emergency needs?



Pension Maximization

What is it?

1. Life insurance strategy
Pension Maximization – also referred to as PENSION ENHANCEMENT
2. Provide more attractive benefit for married couples than Joint & Survivor option from a qualified plan.
3. Concept:
 - **Participant selects higher Single Life pension benefit option.**
 - **Purchases Life Insurance to assure financial security of the spouse in the event the participant dies first and pension benefit ceases.**
 - **Difference between the Single Life (SL) pension benefit and the Joint & Survivor (J&S) benefit is available to help pay premiums on the insurance.**



Pension Maximization

What is it?

- Joint & Survivor option is itself a type of 'Insurance' –
 - Essentially buying insurance to assure survivor benefits for the spouse.
 - "Premiums" pay for this protection = difference between Single Life and Joint & Survivor options.

- Example:

Single Life	\$3,000
Joint 50% Survivor	<u>\$2,550</u> / \$1,275

"Monthly premium" (\$ 450)

to ensure spouse will be paid \$1,275 per month in the event participant dies first.



Pension Maximization

When to consider?

1. When more flexible survivor benefit options are desired.
2. When participant's spouse is in poor health.
3. When participant's spouse has income & asset resources that can provide some of the spouse's required income needs if participant predeceases the spouse.
4. When participant already has life insurance in place on his or her life that can provide the bulk of the surviving spouse's retirement income needs if participant predeceases the spouse.
5. A pension maximization strategy is more likely to be feasible if the participant is a female.
 - Unisex mortality factors used for pension benefits.
 - Sex-based mortality factors used for life insurance.



Pension Maximization

Advantages

1. Planning flexibility as compared with the Joint & Survivor benefit from a qualified plan.
2. Unattractive elements of "Insurance" feature of the Joint & Survivor option:
 - a. Plan participant will generally have to continue receiving the lower J&S benefit payment rather than the higher SL benefit, even if the spouse dies first and the survivorship is no longer necessary.
 - b. Lack of flexibility – only choice a couple has with the pension's survivor benefit is to select the survivor benefit ratio – the percentage of the joint benefit that will be payable to the spouse in the event the participant dies first: 50%, 66 2/3%, 75%, or 100%.
 - c. A pensioner generally has no rights to
 1. accelerate benefit payments if the need arises,
 2. choose an alternative or substitute beneficiary if the spouse predeceases the participant, or
 3. wait to select what type of benefit payout pattern will be paid to the surviving spouse if the participant dies first.



Pension Maximization

Advantages

3. A life insurance policy on the participant offers planning flexibility.

If spouse dies first, participant has several alternatives for the life insurance policy:

1. Continue to pay premiums, keep insurance in force, and name a new beneficiary.
2. Suspend premium payments and effectively increase spendable retirement income.
3. If the policy has cash value, may elect to keep policy in force under reduced-face-amount fully-paid-up life policy or full-face-amount term life policy.
4. If the life insurance is no longer needed or desired, surrender the policy and take cash value as a lump sum or nonforfeiture option.

4. A life insurance policy provides more flexibility with respect to options available to the surviving spouse.

1. Life annuity.
2. If spouse is not in good health, select some form of higher-benefit, limited and guaranteed term annuity.
3. Trust to receive life insurance proceeds – Trustee given discretion as to how to distribute to surviving spouse.



Pension Maximization

Advantages

5. A life insurance policy provides more flexibility to handle special or changing needs while both the participant and spouse are alive.

For example:

- If the health of either partner begins to fail, they may borrow cash values from the policy to help pay medical expenses or
- “accelerate” benefits that the couple may enjoy before deteriorating health eliminates that possibility.



Pension Maximization

Disadvantages

1. The premium cost for an adequate amount of life insurance may be greater than the differential between the SL and J&S benefit amounts.
 - a. Whether the additional features and flexibility of the life insurance are worth the additional cost depends on what the couple want their plan to accomplish.
 - b. A Pension Max plan that is implemented some years BEFORE retirement will generally cost less than one implemented later.
2. Premiums will not be paid and the insurance will not be in force when it is needed.
 - a. Pension Max should be employed by those couples who are financially disciplined to see the plan through.
 - b. If the plan is implemented early enough, this risk can be reduced or eliminated by paying up-front to entirely fund the life policy at or soon after retirement.

Pension Maximization

What are the tax implications?

- ❑ Distributions from a qualified plan will generally be subject to income tax in their entirety, unless the participant acquired some nontaxable basis in the plan.
- ❑ Life insurance death proceeds are generally paid free of income tax.
 - a. If the death benefits are used to purchase an annuity, the survivor-annuitant will have a sizeable basis in the annuity. The basis will be recovered pro-rata under IRC Sec. 72, leaving only a portion of each payment subject to income tax.
 - b. Much less insurance is necessary to match the AFTER-TAX survivor payments from the qualified plan than to match the BEFORE-TAX payments from the plan.

Pension Maximization

What are the tax implications?

- The value of the survivor benefit from a qualified plan J&S benefit will be included in the taxable estate of the participant.
 - a. If the spouse is the beneficiary, qualifies for marital exclusion.
 - b. If anyone else is beneficiary, no exclusion applies.

- If the participant retains any incidents of ownership in the life insurance policy, the death proceeds will be included in the estate*.
 - a. If the spouse is the beneficiary, qualifies for marital exclusion.
 - b. If anyone else is beneficiary, proceeds will be included in the estate tax calculation*.

* Without additional estate planning; such as establishing an irrevocable life insurance trust.

Pension Maximization

What information is needed?

- ❑ What survivor elections are available from the pension plan.
- ❑ The monthly dollar amount payable from the pension plan under the
 - ❑ Preferred J&S option and
 - ❑ Single life option
- ❑ Analysis of the current plan, including
 - ❑ does it provide for cost-of-living increases;
 - ❑ does it require a survivor election in order to maintain medical benefits if participant predeceases the spouse.
- ❑ Assessment of spouse's health.
- ❑ Assessment of participant's health & insurability.
 - ❑ Information about participant for insurance: name, sex, date of birth, smoker/non-smoker, physicals, medications, etc.

Factfinder for Pension Maximization Strategy Using Life Insurance

Plan Participant's Name: _____

Date of Birth: _____

Smoker Status: Smoker NonSmoker

Health Status: Excellent Average Poor

Planned Retirement Age: _____

Projected Income Tax Bracket at Retirement: _____

Name of Employer: _____

Retirement Plan Payout Options:

Life Only Monthly Annuity Amount: _____

Joint and Survivor Monthly Annuity Amount: _____

Survivor Benefit Percentage: _____ %

Participant's Spouse's Name: _____

Date of Birth: _____

Other Information:

The Pension Maximization concept works most effectively for married individuals who are currently participants in a defined benefit pension plan, are 10-15 years away from retirement and who are comfortable allocating some of their retirement income to pay premiums on life insurance.

Pension Maximization

What strategy might look like:

Pension Income Options From <Employer>

At retirement, you typically have two basic alternatives from which to choose when selecting how to receive your pension income benefits: The Life Only Option or a Joint and Survivor Option. Following is a comparison of the monthly retirement income available under these options, based on information provided by you about your current pension plan.

Prepared for: Valued Female Client and Valued Male Client
Assumed Age at Retirement: 65

	<u>Valued Female's Monthly Income Options at Retirement Age</u>	<u>Monthly Survivor Income to Valued Male if Valued Female Dies</u>
Life Only Option	\$3,000	\$0
Joint and Survivor Option (50.00% to Survivor)	<u>\$2,550</u>	<u>\$1,275</u>
Cost of Providing Survivor Income		
Monthly Cost	\$450	
Annual Cost	<u>\$5,400</u>	
Total Cost From Retirement To Age 84 - (19 years)	<u>\$102,600</u>	

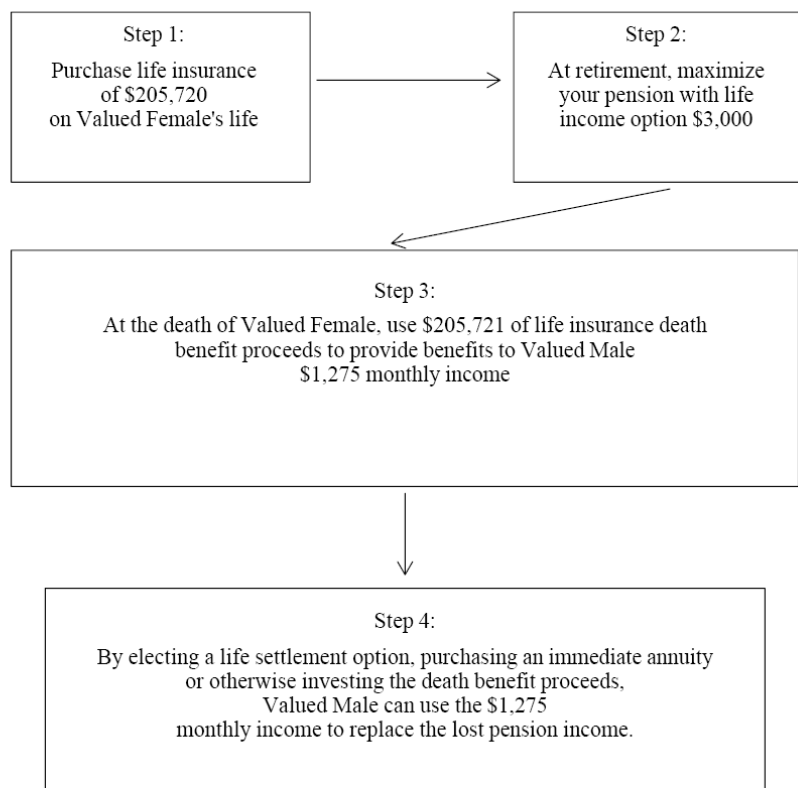
Please see separate handout for footnotes, integral to this presentation, and incorporated herein by reference.

An Alternative

The Pension Maximization Alternative using Life Insurance

Pension Maximization is an alternative that allows you to take the maximum pension income while still providing a survivor death benefit to Valued Male through the use of life insurance. Following are the steps involved:

Prepared for: Valued Female Client and Valued Male Client
Assumed Age at Retirement: 65



Please see separate handout for footnotes, integral to this presentation, and incorporated herein by reference.

Pension Maximization


What strategy might look like:

	JOINT & SURVIVOR Pension Option	PENSION MAXIMIZATION Using Life Insurance Life Only + Insurance	
<u>Before Retirement</u>			
Death Benefit to Valued Male if Valued Female dies.	**	**	\$205,720
<u>After Retirement</u>			
<i>While Valued Female and Valued Male are living:</i>			
Monthly Pension Income	\$2,550	\$3,000	\$0
<i>At Valued Female's Death:</i>			
Monthly Income to Valued Male if Valued Female dies at:			
Age 65	\$1,275	\$0	\$1,306*
Age 70	\$1,478	\$0	\$1,489*
Age 75	\$1,713	\$0	\$1,744*
Age 80	\$1,986	\$0	\$0*
<i>At Valued Male's Death:</i>			
Monthly Income to Valued Female	\$2,550	\$3,000	\$0
Plus			
Life Insurance Cash Value at Valued Female's Age 65	\$0	\$0	\$6,394
<u>On Simultaneous Death of Both Valued Female and Valued Male</u>			
Death Benefit to Heirs	**	**	\$205,720

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Pension Maximization

What strategy might look like:

ING GUARANTEED DEATH BENEFIT UNIVERSAL LIFE II		ING 	
<i>A Flexible Premium Adjustable Life Insurance Policy</i> <i>Security Life of Denver Insurance Company</i>			
NUMERIC SUMMARY			
<i>Prepared for:</i>		Rider Benefits Included:	
Valued Female Client		Accelerated Death Benefit Rider	
Female 55 Preferred No Tobacco State of Issue: California Assumed Policy Date: 04/27/2010 Initial Stated Death Benefit: \$205,720 Initial Death Benefit Option: 1 (Level) Premium Mode: Monthly Initial Monthly Premium: \$206.30			
This summary is based on the premium outlay in the life insurance policy illustration. The Net Cash Surrender Value and Net Death Benefit are shown as of the end of the year.			
	GUARANTEED 4.00% Interest Rate, Maximum Charges	NON-GUARANTEED MIDPOINT Interest and charges halfway between guaranteed and non-guaranteed	NON-GUARANTEED ILLUSTRATED 4.25% Interest Rate, Current Charges
Year 5, Age 60			
Net Cash Surrender Value:	0	0	0
Net Death Benefit:	205,720	205,720	205,720
Year 10, Age 65			
Net Cash Surrender Value:	0	1,857	6,394
Net Death Benefit:	205,720	205,720	205,720
Year 15, Age 70			
Net Cash Surrender Value:	0	4,433	15,200
Net Death Benefit:	205,720	205,720	205,720
Year 20, Age 75			
Net Cash Surrender Value:	0	1,963	23,825
Net Death Benefit:	205,720	205,720	205,720
Projected Age when Net Death Benefit Ends:	Does not end	Does not end	Does not end

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What are the Advantages of Life Insurance:

- ✓ Income Tax Free Death Benefit
- ✓ Tax Deferred Growth
 - No income taxes are payable while your money is accumulating
- ✓ Tax Free Income
 - Withdrawal of cost basis, then policy loans
- ✓ Flexible Contributions
- ✓ No Distribution Requirements or Penalties
 - Distributions can occur before age 59 ½ without penalty, and there is no Required Minimum Distribution at age 70 ½.
- ✓ Complete Control
 - You, not your employer or the government, decide how and when money goes into or comes out of your policy.
- ✓ Will not affect Social Security
 - Wages after retirement could cause you to lose Social Security Benefits, or to be taxed on them; income from life insurance will not affect these benefits.

Life insurance offers a potentially powerful combination of benefits, protections and advantages

I wish to Thank You for attending.
And now, Questions

For Case Design and Life Product assistance,
contact an **Imeriti Representative** at 800.921.3100

