PENSION MAXIMIZATION

PENSION DECISION TIME CAN BE AGONIZING FOR PRE-RETIREES.

Should they:

1. Take the larger monthly payout for as long as the pensioner lives, leaving the surviving partner with no benefits at the pensioner's death? or
2. Take a reduced income and guarantee those payments as long as either partner lives?

Answer: Ask their advisor and LLIS if there is another option that would maximize the pension.

A LOOK AT THE NUMBERS.

Let's consider the case of Happy Retiree and his wife, Susie. Happy will be 62 in December and he's planning to retire. Susie is also 62. The numbers:

1. Life-only option for the retiree, Happy: guaranteed monthly payout of $5,000
2. Joint & 100% survivor option: guaranteed monthly payout of $3,535

Their current monthly budget: $4,200

If they take the $5,000 life-only payout and Happy dies first, Susie would be left with no income. But the $3,535 joint pension option isn't enough income for both of them, and they plan on the pension funding their retirement.

The solution: Take option #1 and purchase life insurance on Happy to secure Susie's financial future since the term life insurance policy provided by his company ends when his employment ends. They're both in excellent health. They and their advisor ask LLIS:

- How much life insurance will Happy need to provide lifetime income for Susie?
- How much will that coverage cost?
- How does that compare with taking the joint pension option (#2 above)?

CALCULATING THE NEED.

How much death benefit should Susie receive to replace the pension lost when Happy dies? As she ages, the amount she needs decreases:

Age 62: $630,000
Age 72: $500,000
Age 82: $320,000

How do we ensure Susie is covered at each stage and save them from spending too much for that coverage?

THE LLIS SOLUTION: PENSION MAX.

The difference between the life-only option and the joint pension option is $1,465 ($5,000 minus $3,535). If Happy can get a policy for less than $1,465 per month, then buying life insurance is a good decision. Fortunately, Happy qualifies for the preferred underwriting class. LLIS recommends layering three life insurance policies (two term and one permanent) to match Susie's decreasing need for income. Each time a policy ends, the monthly premium decreases and their spendable income increases:

YEARS COVERED	INSURANCE IN PLACE	TOTAL MONTHLY PREMIUM	LIFE-ONLY MONTHLY PENSION INCOME MINUS PREMIUM
1-10	$130K 10-year term $180K 20-year term $320K lifetime UL $630K	$60 $135 $440 $635	$4,365
11-20	$180K 20-year term $320K lifetime UL $500K	$135 $440 $575	$4,425
21-life Guaranteed Lifetime Universal Life (UL) policy	$320K	$440	$4,560

This layering solution would allow Happy and Susie to take the life-only pension option to cover their monthly expenses ($4,200), and still provide the lifetime income Susie needs if Happy pre-deceases her.

What if Susie dies first?

With the joint pension option, Happy would continue to receive $3,535 per month. With Pension Max (the life-only pension option & life insurance), Happy would continue to get the entire $5,000 monthly pension. Since the life insurance is no longer needed, he can stop paying premiums or keep the UL policy to leave a legacy for his children or favorite charity.

Health matters.

If pensioners are healthy non-smokers, this solution is great. But what if they aren't? Then the joint pension option is likely the best choice.

Timing matters.

Ask LLIS for a preliminary underwriting review at least 90 days prior to the election date. This process takes time and the decision can affect other areas of a pre-retiree's financial planning.

Contact us for a personalized Pension Max solution.

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