
MAXIMIZE YOUR PENSION BENEFITS WITH PRE-RETIREMENT PLANNING

People retiring with pension benefits frequently encounter what is known as the “pension dilemma.” They are forced to decide whether to take their full pension benefit, which means zero income to their surviving spouses after their death; or take less than the maximum benefit so that their spouses will continue to receive benefits after they die.

One way to get around this, is to choose a joint and survivor option, which pays benefits as long as either spouse is alive. This option is automatically offered to married retirees; and the law requires that before you can elect anything else, you must both agree in writing. The drawback to this option is that benefit payments will always be less than those under the single life option even if the beneficiary spouse predeceases the participating spouse.

You have another alternative that is often referred to as pension maximization. You start by purchasing a sufficient amount of permanent life insurance on yourself before you retire, and name your spouse as the beneficiary. The income tax-free death benefit is designated to replace the lost pension benefit if you die first. Of course, for this to work you need to be insurable to qualify for the insurance.

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When you retire you and your spouse opt for the single life benefit option. This provides you with the maximum pension benefit for as long as you live. Use the difference in the amount between a single life and joint and survivor benefit to fund the life insurance premiums. Often times you’ll even have money left over after paying the life insurance premiums.

You can determine if this alternative is right for you by meeting with your pension plan administrator and finding out about your projected benefits under the single life and survivorship options. Then ask an insurance agent to show you how much life insurance you will need to replace your pension income, and what it will cost.

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The life insurance premium should be less than or equal to the difference between the single and joint and survivor monthly benefits. You should also choose a permanent policy, such as a whole life or universal life policy, which offers a fixed premium for the rest of your life. Otherwise, if your premiums increase as you age, you may not be able to afford the insurance when you need it the most.

Another important point to determine before you choose pension maximization is whether or not your pension plan requires you to select the joint and survivor option in order for you to receive post-retirement medical benefits.

Finally, keep in mind that if you decide to purchase life insurance under the pension maximization option, rates are based primarily on age. The younger you are when you make this decision, the lower your premium costs.

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