



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.



Joint and Survivor Option

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.

Pension Maximization

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.

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.

Projected Benefits

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.

The Life insurance premium should be less than or equal to the difference between the single and joint and

INCREASING LIFE EXPECTANCY AND ITS IMPACT ON YOUR RETIREMENT PLANS



You've no doubt seen the headlines everywhere you turn. News reports suggest that medical science may soon break the "age barrier" of 120 years, and gene manipulation will allow people to live

140 or even 150 years. Of course, most of this speculation stems from research conducted on lab animals and is probably years away from impacting humans. Nonetheless, the headlines accurately reflect one reality: People are living longer and increasing life expectancies are wreaking havoc on retirement plans.

To understand the potential impact on your retirement plans you need to understand some **basics about life expectancy**.

The life expectancy of Americans increased nearly 30 years during the 20th century. The life expectancy of a male born today is approximately 75 years, while females are expected to live 80 years, according to the National Center for Health Statistics. But that's a misleading statistic for retirees, because if you survive to retirement age, your overall life expectancy becomes longer.

According to the Social Security Administration, a man reaching age 65 can expect to live another 16.1 years. Likewise, a woman reaching age 65 can expect to live at least another 19.1 years. **Every age milestone we reach increases our overall life expectancy.**

But even these figures are misleading, because they represent only averages. Many of the people reaching a particular milestone age will live beyond that age. People living into their 90s is far from rare, and news reporters never seem to have trouble finding people celebrating their 100th birthday. And with married couples, it's even more likely that at least one of you will live beyond your normal life expectancy.

What does this mean for your retirement plans?

Let's say you that you plan to withdraw money from your retirement accounts at a pace that depletes the nest egg roughly by the end of your life expectancy. Yet if you live beyond your normal life expectancy, you will have outlived your nest egg, and the only income remaining would be Social Security benefits and perhaps payments from annuities or pension plans, which would continue indefinitely.

Playing the odds and running out of retirement savings is a gamble most people don't want to take. Financial planners commonly project clients living to age 90 or 95. And for some people, even that isn't long enough.

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.

Don't Procrastinate

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.

So while you may not live to 120 or beyond, the odds are increasing that you will live longer than you might have first thought.

Unfortunately, there is no easy answer.

Long retirements suggest that people may need to be more cautious in their spending during their early years of retirement to stretch their resources further. For others, working full or part-time beyond the traditional retirement age may become necessary. It will be increasingly important to protect against the high expense of late-life health problems by buying long-term care insurance. But most of all, many of us will need to readjust our thinking, and consider the possibility of longer lives and how that impacts our retirement plans.

ANNUITIES CAN HELP RETIREES SURVIVE THE BREWING PERFECT STORM

Researchers at Brigham Young University recently concluded that individuals who use lifetime income annuities could fund a secure retirement with lump sums that are 25% to 40% smaller than they would need with other types of investments.

The basis for this conclusion was a 2007 study of lifetime income annuities that was funded by New York Life Insurance Company. As a part of their research, the researchers outlined five forces converging upon Americans, which they refer to as the perfect storm, that are about to engulf retirees from all sides:

1. **The decreasing levels and importance of Social Security benefits** - People currently in the workforce will receive a much lower return on their Social Security contributions than their parents.
2. **The demise of defined benefit pensions** - During the past 15 years, there has been only one new pension program of any significant size initiated in the United States. The number of pension plans in the U.S. peaked at 175,000 in 1983, and has since declined to less than 25,000. Some of the largest pension programs have been discontinued, closed to new hires, or frozen to all employees. Another 30% face similar fates within the next two years.
3. **The aging of the baby boom generation** - Beginning this year, the first members of this generation will turn 60, with many leaving their jobs and entering retirement. They will continue to exit the workforce over the next twenty years. Currently constituting more than 27% of the U.S. population and 47% of all households, they will become heavily dependent upon Social Security, retirement plans, and any accumulated assets.
4. **The emergence of post boomers** - Generations X and Y will not only be responsible for providing for their own future retirement and health needs, but also with supporting the Social Security and Medicare costs of the boomers. Overall there will be many more people drawing from the Social Security system, with far fewer people contributing.
5. **The increasing longevity of the American population** - Life expectancy for the population at large has increased over the past century.

Based on the impact of these forces on future retirees, researchers found that if people expect their current income and assets to cover their economic needs for the rest of their life, half of them will remain without sufficient funds because they will live longer than their life expectancy.

However, if they plan for an extended life expectancy by purchasing a lifetime income annuity, they will be able to spend at the same rate as long as they live. An income annuity is the only financial product that offers this guarantee.

Trying to replicate the advantage of a secure lifetime income with other investment options will require additional savings. Additionally, you can never ensure a secure lifetime income with other investments, because interest rates could change over the next 30-50 years, giving you less return on your investments than you expected. Utilizing income annuities for basic living expenses can offer retirees more financial flexibility and the ability to take on more investment risk with their other assets.

* Annuity withdrawals are generally taxed as ordinary income and may be subject to surrender charges, in addition to a 10% federal income tax penalty if made prior to age 59 1/2. The guarantees and payments of income are contingent on the claims paying ability of the issuing insurance carrier.



