# PENSION OPTION PLANNING

# Maximizing Your Retirement Income

Jim Lusk, CFP®, CLU®, ChFC®, MED
*President, Retirement Nationwide Inc.*

## *PENSION OPTION PLANNING*

# What's The Largest Asset You Own?

**PENSION OPTION PLANNING**

# How About Your Pension?

**$3,000 month = $36,000 a year = $720,000 in 20 years**

**(And that’s with no COLA!)**

Does it make sense to know your pension options

PENSION OPTION PLANNING

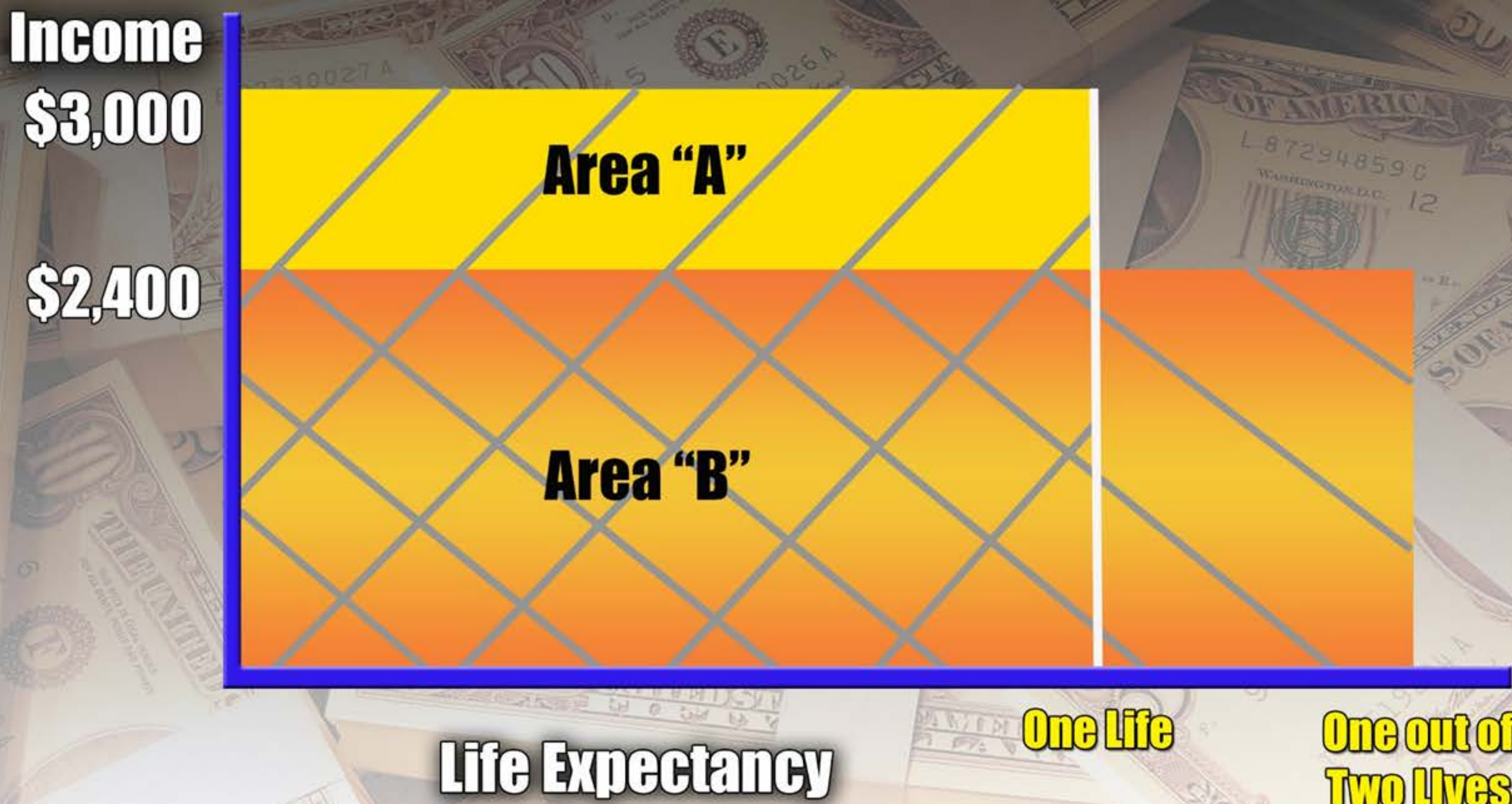
# If You Had To Retire Today Which Check Would You Choose?

| Retiree | Survivor Benefit to Spouse | Definition |
| --- | --- | --- |
| 1. $3,000 Monthly | $0 | Single Life Income |
| 2. $2,400 Monthly | $2,400 | 100% Survivor Income |
| 3. $2,700 Monthly | $1,350 | 50% Survivor Income |
| 4. $2,550 Monthly | $1,700 | 75% Survivor Income |

## PENSION OPTION PLANNING

# Sharing For Two Lives Means Less Income

## WHY? Area A = Area B (Present Values)




# PENSION OPTION PLANNING

# THE PROBLEM:

What's the most flexible and economical method of providing a survivor benefit to your spouse?

**PENSION OPTION PLANNING**

# COMMON SOLUTION

Take a reduced
Survivor option


# ADVANTAGES

1. It's easy. Just check the box and send it in to your pension.

2. No qualifications, i.e. health of retiree

# VERY EXPENSIVE

2. $3,000
-$2,400
Cost = $600 Monthly
$7,200 Yearly
$144,000 In 20 Yrs.

3. $3,000
-$2,700
Cost = $300 Monthly
$3,600 Yearly
$72,000 In 20 Yrs.

4. $3,000
-$2,550
Cost = $450 Monthly
$5,400 Yearly
$108,000 In 20 Yrs.

That's a lot of money spent without comparing, researching or shopping.

# NO FLEXIBILITY

What if your spouse dies first – do you get to change to the biggest check? Any money back?

# NO EQUITY

$600 monthly for 20 years at only 6% is over $177,000!

Could you use the additional asset?

**PENSION OPTION PLANNING**

# DISINHERITS YOUR CHILDREN
# (ESTATE)

What if you both die
(Retiree and Spouse)?
How much continues to your Estate?

# COST OF LIVING – IF ANY - IS ON REDUCED PENSION

Would you rather receive a cost of living on $3,000 or $2,400?

How is inflation going to erode your pension?

**PENSION OPTION PLANNING**

# NO OPTIONS FOR SURVIVING SPOUSE

What if your spouse is terminally ill when you die, will she/he ever recover the cost?

Would you like him or her to have options?

**PENSION OPTION PLANNING**

# DISADVANTAGES

1. It's very costly
2. No Flexibility
3. No Equity
4. Disinherits the Children
5. If cost of living increases, it's on the reduced pension
6. Surviving spouse gets no options

Do you really think that is the best method of providing a survivor benefit?

# MOST RETIREES PURCHASE AN EXTREMELY LARGE DEATH BENEFIT THE DAY THEY RETIRE.

**WITH:**

1. **No Control**
2. **No Shopping or Comparing**
3. **No Information on Alternatives**

**QUESTION:**

***What do you call it when you pay money so that someone receives a benefit when you die?***

# PENSION OPTION PLANNING Defined

Take the largest possible income from your pension and yet still provide a survivor benefit for your spouse through a Private Plan.

# POSSIBLE ALTERNATIVES

1. Cash – Liquid Assets
2. Deferred Comp, TSA, IRA, Etc…
3. Investments
4. Life Insurance

# QUESTION:

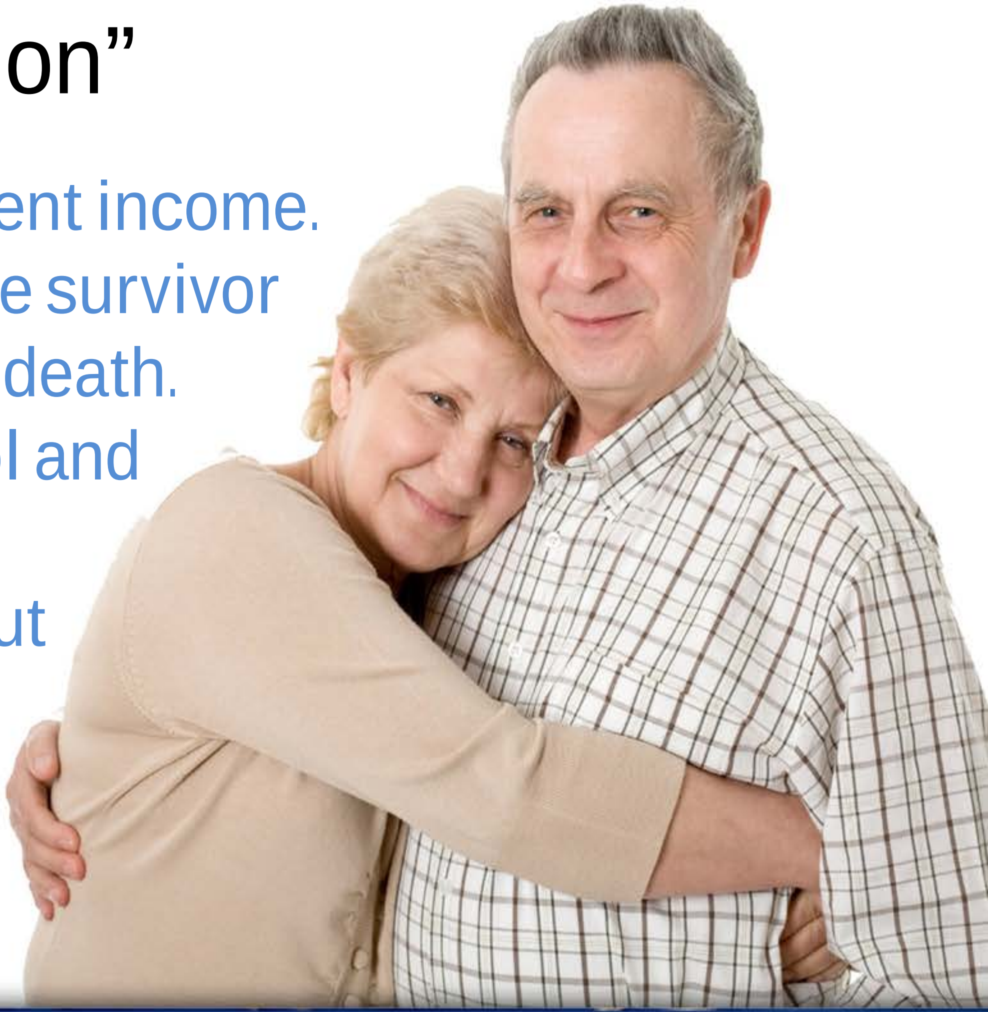
1. Do you have enough assets to provide a survivor benefit equal to the survivor option and yet maximize your pension?
2. Are you leveraging your assets for an alternative survivor option?
3. Are the assets liquid upon death?
4. What are the income tax ramifications if the asset is liquidated?
5. Have you considered inflation in your planning?

# ALTERNATIVE


Why would you want to do the insurance policy?

# ALTERNATIVE:
## The Flexible "Love Option"

1. Take your maximum retirement income.
2. Provide a benefit equal to the survivor option – in the event of your death.
3. Have the flexibility of control and ownership.
4. Accomplish the goals without disinheriting the children (Estate).



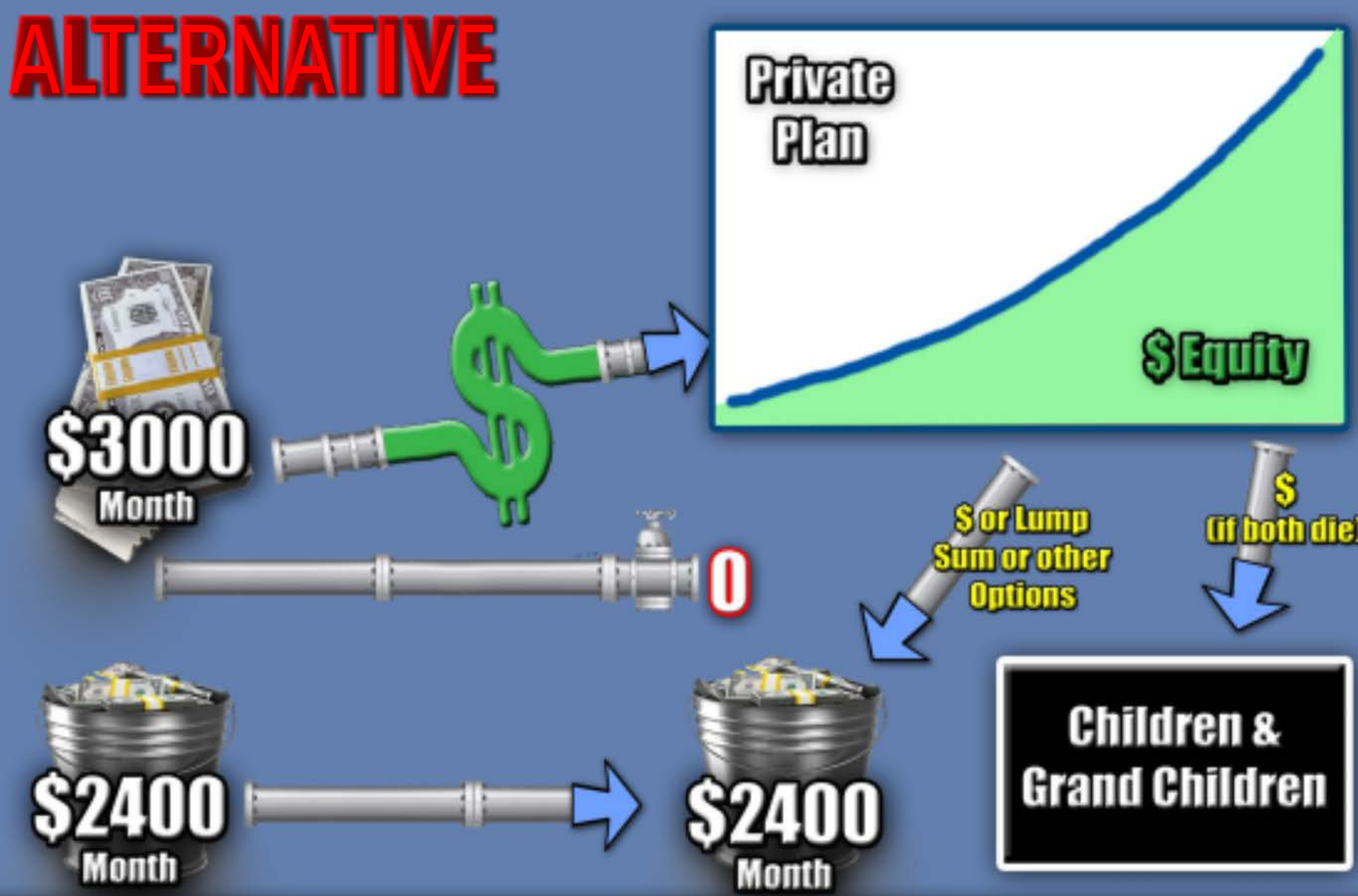
# DISADVANTAGES

1. You must take time to plan and compare.
2. You must be healthy enough to qualify.


# ADVANTAGES

1. Save Money
2. Increase Flexibility
3. Provide Cash Equity Account
4. Pass To Estate Upon Death
5. Cost of Living Built In
6. Give Spouse Settlement Options

**PENSION OPTION PLANNING**




# PENSION OPTION PLANNING

# SURVIVOR BENEFIT SUMMARY

# *Survivor Benefit Summary*

| Benefit Comparisons: | Pension Survivor Option | Max Option With Life Insurance Policy |
| --- | --- | --- |
| 1. Is lump sum Death Benefit available which is Tax-Free to the Beneficiary? | NO | YES |
| 2. Is interest only available? (Preserves Principal) | NO | YES |
| 3. Does simultaneous death protect children against being disinherited? | NO | YES |
| 4. If spouse predeceases annuitant, can retirement income be increased? | NO | YES |
| 5. If annuitant and spouse both live, can the plan be changed? | NO | YES |

Continues . . .

## *Survivor Benefit Summary*

| Benefit Comparisons: | Pension Survivor Option | Max Option With Life Insurance Policy |
|---|---|---|
| 6. Are costs offset by a savings or cash reserve? | NO | YES |
| 7. Can payments be skipped during hard economic times? | NO | YES |
| 8. Can you quit and get all payments back within 8 or 9 years? | NO | YES |
| 9. Do you get a lower premium the healthier and / or younger you are? | NO | YES |
| 10. If there is a cost of living allowance, is it on the maximum check? | NO | YES |

# REASONS TO START EARLY

1. You're younger – lower rates
2. You're healthier – lower rates
3. You're done sooner
4. It's easier to pay – larger preretirement income
5. Preretirement Death Benefit – immediate protection
6. PEACE OF MIND – solves the PROBLEM early.

# PENSION OPTION PLANNING

# Pension Option Planning

*Should be a part of every Planner's tool box.*

# MOST RETIRING PUBLIC EMPLOYEES PURCHASE AN EXTREMELY LARGE DEATH BENEFIT THE DAY THEY RETIRE WITH:

1. No Control
2. No Shopping or Comparing
3. No Information on Alternatives

# What do you call it when you pay a PREMIUM so that someone recieves a benefit when you Die?

PENSION OPTION PLANNING

# THE AVERAGE 55-60 YEAR OLD CHARACTERISTICS

# The Average 55 – 60 Year Old

1. Hasn't reviewed his/her life insurance in over 10 years.
2. Has at least one policy over 20 years old.
3. Doesn't like life insurance.
4. Doesn't think he/she needs life insurance.
5. Doesn't understand life insurance.
6. Won't listen to you or immediately trust you if you mention life insurance or a life insurance company.

# The Average 55 – 60 Year Old

7. Has anxiety and concern about retirement.
8. Is very concerned about death and estate planning.
9. Hates Inflation.
10. Doesn't like fast talkers or smooth salesmen.
11. Likes to pay things off early.
12. Will automatically take a reduced survivor option from his/her pension if married.

# WHY BOTHER?

# Why Bother?

1. Most people over 50 in America have a lot of discretionary income.
2. It's an either/or sale (a reduced pension or a life insurance policy).
3. The average size case is over $5,000 premium.
4. Single-need selling – one problem, one solution.
5. Policies don't lapse.

Continued. . .

# Why Bother?

6. Low if any policy loans.
7. Extremely loyal if trust is earned.
8. Once they understand how much you're helping them, they love to give you referrals.
9. Easy medical close.
10. They don't want to talk to you – low rejection with phoning and approach.

# WOULD YOU BUY A LIFE INSURANCE POLICY WHEN YOU ARE RETIRING?

Pay $600 monthly so that if you die your spouse gets $2,400 monthly for life?

# HOW ABOUT IF IT ALSO HAD THE FOLLOWING PROVISIONS?

1. Once you start you may never cancel.
2. You MUST pay for life.
3. Your spouse is the ONLY beneficiary – if he/she predeceases you, you get nothing back, no one gets any survivor benefit, and you KEEP PAYING premiums for life (Unless your pension has a POP up Clause).

## HOW ABOUT IF IT ALSO HAD THE FOLLOWING PROVISIONS?

4. If you are healthy and live 20 more years, you would have paid in $144,000. Your spouse would have to live five years to get that money back out. That's with no interest compounded on your money! With only 6% interest on deposits it would take more than 14* years for her to recover the money.
5. No asset value – no equity or loans against it.
6. Nothing passes to your estate or children when you and your spouse are both deceased.
7. You pay the same rate as a smoker, 40 lbs over wt.

*600 per month for 20 years invested at 6% compound interest equals $277,000. Amortize that at 6% interest paying out $2,400 monthly would take 14 years.

PENSION OPTION PLANNING

## If you are healthy and insurable, do you really feel that is the best policy available to you?

# THEN DON'T TAKE A SURVIVOR OPTION FROM YOUR PENSION!

OWN PERMANENT INSURANCE NOW FROM A QUALITY HIGHLY RATED LIFE INSURANCE COMPANY, THEN RETIRE WITH YOUR BIGGEST CHECK.

***PENSION OPTION PLANNING***

# WHY DOESN'T EVERYONE BUY?

Only Two Reasons. . .

1. They don't know about it.
   (Referrals)
2. They don't qualify.
   (Medical Close)

**PENSION OPTION PLANNING**

## OTHER EXCUSES:

1. "I can't afford it now."

   *How are they going to afford it after you get a 50% pay cut when you retire?*

2. "I have enough insurance."

   *Why are you taking the survivor option then?*

3. "What about term insurance?"

   *You can't solve a permanent problem with a temporary solution.*

4 "I'll do it when I retire, because that's money I would have spent anyway."

   *If you know you need more insurance, let's do it now while you are younger and healthy enough to get it.*

# MORE EXCUSES:

5. "I definitely want it, but not now."
   *Why don't we take an option on it?*
6. "It's not in the budget now. . ."
   *Let's do a capital transfer. Do a complete S-56 and look for premium dollars.*
7. "I want to go with the State, because I don't trust insurance companies."
   *Need to earn trust and respect for NYLIC – Show company history.*

# PENSION OPTION PLANNING