Pension Maximization for Your Pre-Retirement Clients

If you have baby-boomer clients reaching retirement age, you know they agonize over their pension distribution choices. In addition, more long-time corporate employees are being offered early- out packages and they want to know how to plan. Should they take the larger monthly payout for as long as they live and ignore the possibility that benefits would cease for a surviving spouse, or should they take a reduced income and guarantee those payments as long as either spouse lives?

Defining the Pre-Retirement Problem

Please consider the case of Happy Retiree and his wife Susie. Happy will be 62 in December and he's been offered an early retirement program .from his company. Susie is also 62. The Retiree-Life-Only option for Happy has a guaranteed payout of $5,000 per month. The Joint and 100% Survivor monthly benefit is $3,535. Their current budget requires $4,200 per month, so they really liked the idea of the $5,000 monthly benefit.

The only life insurance Happy owns is the term provided by his company and that ends when his employment ends. If they take the $5,000 pay-out, Susie would be left without income if Happy dies first. But the $3,535 Joint Survivor option isn't enough income for both of them and they are relying primarily on their pension for their retirement funds. What could the advisor recommend to maximize Happy's pension?

The advisor asked LLlS to research the following:

1. How much life insurance does Happy need to insure a lifetime income for Susie,
2. How much will that coverage cost, and
3. How does that compare with taking the joint life option?

Since the difference between the Life Only option and the Joint Life option is $1,465 ($5000 minus $3,535), if life insurance in an amount that meets their needs can be purchased for less than $1,465 per month, then buying life insurance is sound.

Calculating the Life Insurance Need

We solved for Single Premium Immediate Annuity amounts that would be needed today at different ages to guarantee Susie's income if Happy died. At age 62, Susie would need $630,000 to guarantee an income for life. But as times passes and her life expectancy shortens, that amount decreases. At age 72, she needs $500,000. At age 82, she needs $320,000. How much will this coverage cost?

Funding Layered Coverage

The LLlS solution to this pension max problem was to recommend 3 Layered Life Insurance policies. We assumed that Happy is Preferred for underwriting, but not Preferred Plus. Using varying time durations allows the client to buy the needed coverage in layers to reduce the cost. In this case we recommended 3 layered policies.

Duration	Face Amount	Monthly Premium
10-Year Term	$130,000	$60
20-Year Term	$180,000	$135
Guaranteed Lifetime	$320,000	$440
Total Insurance	$630,000	$935 for the first 10 years.

After the 10 year term policy ends, the monthly premium drops to $575 and after 20 years, the monthly premium drops to $440. Each time their monthly outlay decreases, their spendable income goes up. Layering the coverage with both term and permanent insurance matches their decreasing need for coverage with the decreasing monthly costs.

This plan would allow Happy and Susie to get the entire $5,000 to live on. Yes, they'd have to pay $935 per month for the first 10 years, but that still gives them a net of $4065 per month. This is $540 per month more than the alternative available with a Joint Life option.

What If Susie Dies First?

If they'd opted for the Joint Life plan, Happy would still get only $3,535 per month. If he no longer has any reason to use life insurance to maximize his pension, then he can simply stop paying premiums and spend the entire $5,000 monthly amount. The permanent policy may even have some cash surrender values that would return part of the premium he's already paid or Happy might choose to keep the permanent policy to leave a legacy for his children or his favorite charity.

Consider the Health Insurability Issues First!

If Happy or your pre-retiree is healthy, this solution works great. But what if Happy isn't healthy, how can you find out if this plan might work? The first place to start is with a Preliminary Underwriting review. Have your client call us for this review as soon as possible before they need to make a decision and you'll know for sure. The younger and healthier your client is, the better.

Call us toll-free at (877) 254-4429 or email JudithMaurer@LLIS.com for a personalized Pension Maximization Solution.