CAPITAS FINANCIAL

Pension Maximization

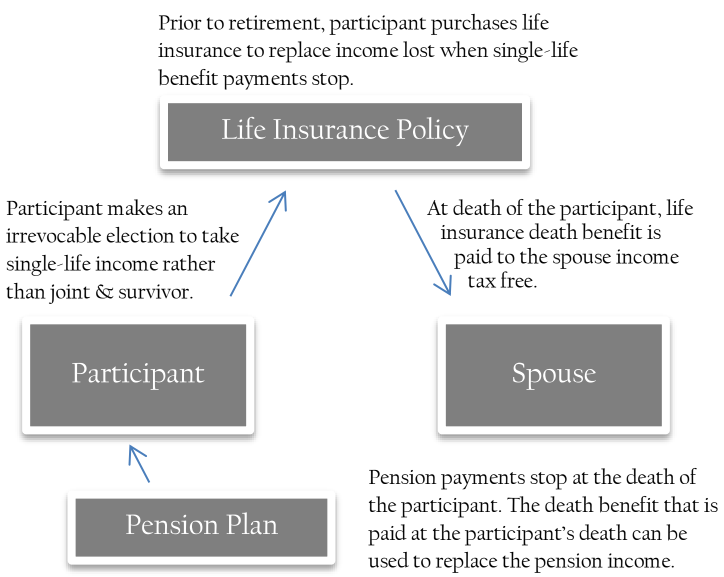
OVERVIEW

Pension maximization is a method used to get the most out of a defined benefit plan payout options. Pension maximization may be a viable option for the client who will receive a defined benefit at retirement and must decide whether to choose a single-life or joint and survivor annuity.

THE DILEMMA

The benefit paid on a joint and survivor option is reduced from the benefit that would be paid with a single-life benefit, in most situations. The single-life benefit option provides a higher benefit payment, but the benefit stops at the death of the participant and leaves the spouse without benefit payment. Conversely, if the joint and survivor option is chosen, an income is guaranteed to the spouse when the participant dies, but if the spouse dies prematurely, the reduced benefit continues to the participant for the remainder of his or her life. The pension maximization attempts to provide a compromise.

HOW IT WORKS



- Before retirement, the participant purchases a sufficient amount of life insurance naming the spouse as beneficiary.
- At retirement, the participant and spouse elect to take the single-life benefit option — receiving the maximum pension benefit as long as the participant lives.
- A portion of the pension benefit is used — the difference between the amount for the single versus the joint and survivor benefit — to pay the life insurance premiums.

POTENTIAL ADVANTAGES

- Maximum pension benefits are paid.
- Should the participant die first, the spouse receives the life insurance death benefit to replace the discontinued pension income.
- The heirs will receive any remaining life insurance death benefit upon the death of the participant's spouse.

DISADVANTAGES

- Medical benefits for the spouse may be tied to survivor pension benefits. A life only option may eliminate medical benefits for the spouse. Related retirement benefits should be thoroughly evaluated before the life only option is selected.
- The surviving spouse may lack investment experience to handle the lump sum death benefit. The life insurance company may offer an alternative settlement option to ensure that the benefit will not be depleted.

CONSIDERATIONS

- The option that is selected should be carefully considered. Both the participant and spouse must make the irrevocable benefit election.
- In the right situation, pension maximization may work well. Some of the factors that need to be taken into consideration include the age and health status of the participant and the spouse, the income difference between the single-life and joint and survivor options, and the cost of the insurance. When there is a large income difference between the two options and the participant is insurable, pension maximization may be an option to consider.

*Shown for illustrative purposes.

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