Take pension benefits to the max

Opinion

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With 10,000 boomers turning 65 every day, it's time for many of them to realize their pension benefits. Married pension plan participants are facing tough choices. They either have to refuse survivor benefits for their spouse to receive the maximum amount, or they can take the survivor benefit but accept a reduced payment, often as much as 30 percent less. For advisors whose clients are facing these difficult decisions, it's time to take another look at a tried-and-true approach: pension maximization with life insurance.

Pension maximization provides that third option: maximum **pension** payout and survivor benefits for the spouse — the best of both worlds. Instead of taking a reduced benefit, the pension participant can take the full pension amount and use just part of that difference to purchase a life insurance policy.

A simple example

If the full payout is $1,000 per month and the reduced benefit that came with survivor benefits is $700 per month, the pension participant could likely afford a substantial permanent life policy with a portion of the remaining $300. A well-funded life insurance policy can provide pension replacement for a surviving spouse should the participant pass away first, without the risk of the opposite happening — the participant living for decades with a reduced pension.

Advisors aren't strangers to pension maximization, but as more and more boomers **retire** and make decisions about their pensions, it's wise to review some sticking points of pension maximization in order to provide the best advice to clients. After all, while pension replacement through life insurance sounds like a no-brainer, it might not be the best choice for everyone. Here are two points to consider:

1. **The age and health of the pension recipient.** This will have a big effect on the cost of life insurance. It's important that the cost of the insurance be less than the difference between the full pension and the pension with survivor benefits.

2. **Taxes.** Life insurance death benefits won't be taxed, but the higher pension benefit could be subject to higher income taxes. To compare the net effect of these choices on a client's income, calculate how much the pension is worth after taxes.

If pension maximization truly is in your clients' best interests, advise them of the advantages. Not only can both spouses be guaranteed a full and stable income no matter who passes first, life insurance can also benefit the couple's heirs. A survivor benefit pension ends when the surviving spouse dies, but if the insured spouse dies second, the **life insurance** policy can leave a death benefit to the children or estate.

With more and more boomers realizing their pensions, it's important they are advised of their options. A well-built pension maximization plan can be the "best of both worlds" plan they didn't know was possible. By revisiting the ins and outs of pension replacement through life insurance, you can serve your clients' needs — and your practice as well.

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