North American Company for Life and Health Insurance Since 1886 | Life

Case study

Using life insurance for pension maximization

Helping clients capitalize on their pensions

QUICK LOOK

Pension maximization using life insurance is a way to help your clients gain death benefit protection while offering an opportunity to maximize pension benefits. Those with defined benefit pension plans need to make an important decision as they near retirement—to decide on the life only benefit or a joint and survivor benefit on their pension plans. This is an irrevocable choice that can have a significant financial impact on the rest of their lives.

Life only option

- **Benefit:** Offers a larger monthly benefit amount than the joint and survivor option(s).
- Downside: The surviving spouse receives nothing upon the participant's death.

Joint and survivor option

- **Benefit:** Provides the surviving spouse with income until death.
- Downside: Benefits may be significantly less than the life only benefit.

The pension maximization strategy using life insurance offers a way to take the maximum monthly income provided by the life only option while still protecting the income for the spouse.

THE SITUATION

Walter is a 62-year-old public school teacher who's been teaching history for nearly 30 years. His wife, Sue, works as an administrative assistant at a local car dealership, and the couple has three adult children.

Walter is looking forward to retirement and joining his former colleagues who have recently retired. From conversations with these friends, Walter knows he must decide on how his pension benefits will be paid. He would like to retire in three years, and he wants to make the right financial moves now to prepare him and his wife for their retirement years.

Walter and Sue have been fairly disciplined at saving for retirement over the years, but he's looking to get the most out of his pension plan. Additionally, he wants to be able to financially help his three children if needed, as they start their own families.

Is there a way to help Walter gain financial protection while making the most out of his pension plan?

A SOLUTION

Walter meets a life insurance agent recommended to him by a close family friend. Walter and his wife discuss their life insurance needs with the financial representative and explore a few options to help them with their financial goals. The financial representative recommends considering a pension maximization strategy using life insurance. Here's why:

- **Immediate death benefit protection.** The policy offers Walter death benefit protection should he die before retirement or soon after retirement.
- **Maximum pension income.** By selecting the life only option, Walter receives a larger benefit. Should Sue die first, he isn't left with a reduced benefit if he had chosen the Joint and Survivor option. Under this scenario, Walter may also access a permanent life insurance policy's cash values through loans or withdrawals[1,2] to help supplement his retirement income.
- **Death benefit for plan participant's spouse.** When Walter dies his beneficiary, Sue, receives the life insurance policy's death benefit generally income tax-free,[3] which replaces the discontinued pension income.
- **Possible inheritance for heirs.** If Sue predeceases Walter, and Walter keeps the life insurance policy in force, he could change the beneficiary designation to his children and they would receive any remaining life insurance death benefit.

CONSIDERATIONS

- **Possible loss of spousal benefits.** Walter needs to talk with his pension plan's administrator and consider if selecting the life only option will disqualify Sue from medical or other benefits that would be provided with the Joint and Survivor option.
- **Lapse of life insurance policy.** Walter's financial representative stresses that it is highly important to keep the life insurance policy in force. Purchasing a guaranteed death benefit product may help reduce the risk of lapse as long as Walter pays the required premiums.
- **Inadequate death benefit amount.** The couple understands that the life insurance death benefit amount needs to be sufficient for Sue to have enough funds to meet financial needs. The couple decides to base the death benefit amount on the worst-case scenario in which Walter dies soon after retirement. This can help ensure that Sue has adequate funds to last her lifetime.

Need help with your pension maximization cases?

Contact sales development today at 800-800-3656 ext. 10411 or email salessupport@nacolah.com.

1 In some situations, loans and withdrawals may be subject to federal taxes. Clients should be instructed to consult with and rely on their own tax advisor or attorney for advice on their specific situation.

2 Income and growth on accumulated cash values is generally taxable only upon withdrawal. Adverse tax consequences may result if withdrawals exceed premiums paid into the policy. Withdrawals or surrenders made during a Surrender Charge period will be subject to surrender charges and may reduce the ultimate death benefit and cash value. Surrender charges vary by product, issue age, sex, underwriting class and policy year.

3 Neither North American Company for Life and Health Insurance nor its agents give tax advice. Please advise your customers to consult with and rely on a qualified legal or tax advisor before entering into or paying additional premiums with respect to such arrangements.

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