

# **R**ETIREMENT **P**ENSION **O**PTIONS

**2026 Edition**

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## INTRODUCTION

This booklet is designed to help retiring employees plan one of the most significant decisions they will ever face; one that will have a profound effect on the rest of their lives. This booklet is specifically designed for participants of qualified pension plans. It is based on common decisions which retirees will face. Specific information regarding public pensions or other private pensions is available upon request. This booklet was finalized in April of 1986 (updated yearly through 2018) and is intended to help educate retirees and stimulate their interest and motivation toward “maximizing their pensions.”

There are basically two types of retirement plans: either you have a “**defined benefit**” plan or a “**defined contribution**” plan. You may even have both. A “defined benefit” plan is one where your retirement benefit is “defined” or based on factors, such as your final salary and years of service rather than on the amount of contributions to the plan. A common plan defines the benefit based on one or two percent of your final average salary for each year of service credit. This will be explained later. A “defined contribution” plan is one that provides for an individual account for each participant and for benefits based solely on employee and employer contributions to the plan, plus earnings on the investments.

Too many people think that all they have to do is wait until a month before they retire, spend a couple of hours sorting out their retirement packet from their pension, check the appropriate boxes on the forms, and send them back; thereby making a decision that will affect the rest of their lives. Your pension is possibly the largest asset you own. Doesn't it make sense to develop a plan to “**maximize your pension income?**”

This booklet is intended to be a summary of retirement planning options, but it is not intended to provide individual tax or legal advice. In addition, given the variety of types of retirement plans offered by employers, the term “pension” will often be used generically to describe employer sponsored retirement plans. However, for the purpose of the discussion in this material, the term “pension” will refer to defined benefit plans. For information specific to your individual circumstances, you should consult your tax and legal advisor.

Pension maximization is a concept and is not in any way supported, promoted or endorsed by your employer. Your employer offers options for its pension, and this booklet is intended to show you a way to utilize one of those options to your advantage.

## TYPES OF RETIREMENT PLANS

### Defined Benefit Plan

Many large firms have this type of pension plan. Your retirement income is based on factors, such as your salary and years of service. A common formula is called a unit-benefit, which is based on:

1. Final average salary-could be 2 years on average-all the way to the highest five year average.

AND

2. Years of service.

### EXAMPLE

Your pension plan may have a 1 ½ % formula, which means that you receive 1 ½% of your highest average salary for every year that you work. Suppose you have 30 years of service and a final average salary of \$50,000. You could calculate your maximum benefit by multiplying:

$1\frac{1}{2}\% \times 30 \text{ years} \times \$50,000 = \$22,500$  annual benefit for life.

Other defined benefit plans are based on years of service credited, multiplied by a contribution rate. This is independent of the final salary. Some nationally known labor unions and other associations use this type of formula. There are plans which offer a benefit based on final average salary only that do not take into consideration your years of service. You should know the formula used in your employer's pension plan and how your pension is calculated. The administrator of your pension generally must provide an annual "summary plan description." Be sure to read it carefully, clarify any questions you may have with the plan administrator, and keep a copy for your records.

### Defined Contribution Plan

Your employer may also have a plan in which the benefit is based on how much is contributed and the interest earned. Your benefit under these plans is not based on your salary, but only on how much is contributed and accumulated under the plan. Some plans are entirely employer funded and others are entirely employee funded. Many allow contributions by both employer and employee. Examples of these are Profit Sharing Plans, 401(k) Plans, Money Purchase Plans, 457 Plans and 403b Plans.

If you have the option of either contributing to a plan or not, should you? This is an individual decision, however, remember: **IF YOU BELIEVE THAT INCOME TAX RATES WILL BE HIGHER IN THE FUTURE, VEHICLES LIKE ROTH IRAS AND LIRPS** might be better alternatives, because the income later is **TAX FREE**. Remember your entire DB pension and probably 85% of your Social Security is already going to be taxed.

Certain amounts you contribute to the plan will not be subject to Federal income tax at the time you make the contribution and the accumulation is tax-deferred, **BUT WITHDRAWALS ARE TAXABLE WHEN WITHDRAWN**. Many individuals have not trusted their pension and yet have run out and made the pre-tax contributions. **PLEASE CONSIDER “TAX-DIVERSIFYING”** your contributions to after tax vehicles if you believe, like I do, that income tax rates will be much higher in the future.

	<u>IRA</u>	<u>401(k)/403b</u>	<u>Roth IRA</u>	<u>LIRP</u>
Pre Tax Contributions	Yes	Yes	No	No
Pre 59 ½ Penalty*	Yes	Yes	Yes	No
Borrowing Privileges**	No	Yes	No	Yes
Contribution Limit***	\$7,500	\$24,500	\$7,500	No Fed Limit
Age 50+ Limit	\$8,600	\$32,500	\$8,600	No Fed Limit

This is for general informational purposes only, other variations and limitations exist. You should seek professional tax advice regarding the tax consequences of either course of action.

\* Withdrawals taken prior to age 59 ½ are subject to 10% IRS tax penalty, unless 72T  
 \*\* Subject to pension document limitations.  
 \*\*\* Elective Deferral limit for 2026. Subject to future cost-of-living increases. LIRP subject to MEC limitations.

# **TWO MAJOR DECISIONS:**

I. What to do with your Money?

II. What Is the Best Survivor Option for your Spouse?

I.

WHAT TO

DO

WITH YOUR

MONEY?

## **1 What to do with your Money?**

“Your Money:” It is your “vested” benefit that has been credited to your account. “Vesting” is required with all pensions and “vesting” represents your interest in the pension. If you resigned or terminated employment tomorrow, your “vested” benefit goes with you. If you have only been a participant in the pension plan for a short time, you may not have any “vested” benefit. Most pension plans have a vesting schedule that starts at “0” and by a certain time you are 100% “vested.” It is important to research your pension. Knowledge of your pension plan’s vesting schedule can help you tremendously. Many employees have left their employment too early and lost thousands of dollars that never became “vested.”

Your contributions to your pension, 457, 403b or 401(k), if any, are 100% “vested” immediately, so you can always get back whatever was deducted from your salary adjusted for any investment gains or losses. However, many large corporations provide a benefit that is funded more by the corporation than the employee. So, although your contributions are 100% “vested,” your contributions are only a portion of the total benefit. Again, check with the plan administrator of your pension plan for details.

The question arises in most cases as to whether or not to withdraw your money from the plan if you terminate employment or retire. This option is available with many pension plans, and you have to look at the total picture. It is very enticing to take the money and run, rather than spread the benefit over a number of years. You really have to determine what is best by evaluating both methods of leaving your money in the plan and receiving periodic payments versus withdrawing your money in one lump sum. Ask us about details on this important planning concept.

## **How do “Take Home” Retirements Compare?**

Suppose you are retiring with a benefit that is 60% of your average salary over the last five years. “Are you really only taking home 60% of your income?”

If you compare your retirement income after taxes, it may give you more than 60% of your “net” take-home pay before retirement. The reason for this is that, unlike your salary, your retirement benefit is not reduced by Social Security, Association dues, retirement contributions, etc. It is important that you estimate your “take-home” pay and not just your gross income.

### **Hypothetical Illustration**

Retirement after 30 years of service with an average final compensation of \$60,000.00

<u>Pre-Retirement Income</u>	<u>During Retirement</u>	<u>% of Pre-Retirement Income</u>
\$8,333.00 Monthly Gross Income*	\$5,000.00	60%
-\$ 637.00 Social Security	\$ 0.00	0%
-\$ 500.00 Retirement Contribution	\$ 0.00	0%
-\$ 40.00 Association Dues	\$ 0.00	0%
-\$ 1,000.00 Income Tax*	-\$ 600.00	0%
<u>-\$ 200.00 Misc. (Job related Exp.)</u>	<u>\$ 0.00</u>	<u>0%</u>
\$5,956.00	\$4,400.00	74%

This is a hypothetical example intended for illustrative purposes only and is not indicative of the actual performance of any particular product. Your individual results will vary.

\*Based on married, filing joint return, with no other dependents or taxable income other than that shown, in a 12% marginal tax rate (2025 rates).

Some companies provide medical insurance before retirement, but you may have to pay or contribute towards medical insurance premiums after retirement. That would reduce the percentage above. Please consider this when determining your options.

## ADDITIONAL CASE

You face a difficult decision if you quit work before you are eligible for retirement. Should you withdraw your money or leave it in and wait until age 65 to take a distribution from the plan? Remember, you can generally defer receiving a distribution of your accrued benefit to age 65. If you have only worked for an employer for a few years and are many years from retirement, it may be more advantageous to withdraw your money (if permissible under your plan) to seek higher interest rates. However, there are cases where the retiree has 15-20 years of service, is over age 50 and may forfeit the employer's portion of the contributions, should the retiree's money be withdrawn. You should seek professional advice before taking action.

Let's look at this example: Suppose you are a 57 year old who has 18 years of service and consider quitting now because your spouse is retiring and you want to travel together. Let's also suppose "Your Money" is \$100,000.00 at the age of 57, you are not eligible to receive the retirement benefit, but at age 65 you would be eligible to receive \$1,500.00 monthly income for life from your defined benefit plan (pension). The question is, "should you take your \$100,000.00 now, roll it into an IRA or wait until age 65 to draw \$1,500.00 per month for life?"

Along with other considerations, a lot depends on your health. If you are healthy and believe you will live to normal life expectancy, you could try to invest your \$100,000 over the next 8 years, seeking to end up with the same value (average annuity rate for age 65). To do this, your \$100,000 would have to grow to over \$350,000.00 by age 65. That would require an average rate of return of about 17%! Since this is unlikely, without high risk, you are probably better off leaving your money in the pension plan. This doesn't include the fact that the pension plan also has a COLA built in.

Suppose, on the other hand, that you are a long time from retirement and have switched careers. The best course of action might be vastly different from the example above. Again, the decisions you have to make depend on many factors, including your objectives and unique situation. Please seek professional advice here, it could mean thousands of dollars difference during retirement. We can also help you here.

II.

What is the Best  
Survivor Option  
for your  
Spouse?

## **2 Is the Survivor Option right for your spouse?**

This decision is more difficult than the first one, not only because there are so many other factors to be considered, but also because most retirees are not aware of the results of this decision. It is a shock to many people that in most cases: **IF YOU WANT YOUR SPOUSE TO HAVE A SURVIVOR BENEFIT IN THE EVENT OF YOUR DEATH, MOST PENSION PLANS WILL HAVE TO PAY A REDUCED BENEFIT.** Many people think that if they die, the maximum pension continues to their spouse. This is not true with most pensions. If you want a continuing survivor pension, you may have to take a reduction in your pension payment, and in essence, pay for that option. Too many people automatically take the reduced pension without realizing that there might be other options to provide that survivor income to their spouse.

Most pensions give you at least two basic survivor options. The first is generally automatic and provides for the same amount that you were receiving to continue to your beneficiary. The other option provides for half of the amount that you were receiving to continue to your spouse.

This “joint and 50% survivor option” generally pays an initial benefit higher than the straight joint and 100% survivor option. Some pensions have other survivor options, but generally, the more you provide to your spouse, the more it will cost you by way or reduction in your monthly retirement benefit. When available, most married retirees take the 100% option so that if either one dies, the survivor will continue with the same payment rather than only half. You must ask yourself, “is that the most **ECONOMICAL** and **FLEXIBLE** method of providing that benefit?”

The hypothetical examples shown in the further pages are intended for illustrative purposes only and are not indicative of the actual performance of any particular product. Please contact the plan administrator to get important facts for a person’s particular situation so that a personalized company pension maximization illustration can be created.

The amount of reduction for the benefit you choose usually varies depending on the relative age of the retiree and his or her beneficiary. This table is condensed just to show some average pension reduction base. Again, let's assume a maximum monthly pension of \$5,000.00 per month.

**Monthly Pension Amounts based on \$3,000.00 per month (max. benefit)**

	<u>100% Survivor Option</u>	<u>50% Survivor Option</u>
Spouse 10 yrs older	\$4,400.00/month	\$4,700.00/month
Spouse 5 yrs older	\$4,200.00/month	\$4,600.00/month
<b>Spouse the same age</b>	<b>\$4,000.00/month</b>	<b>\$4,500.00/month</b>
Spouse 5 yrs younger	\$3,800.00/month	\$4,400.00/month
Spouse 10 yrs younger	\$3,600.00/month	\$4,300.00/month

Not only do you take less income, but also, so does your spouse. For example: Let's assume our retiree has a spouse the same age and has a maximum benefit of \$5,000.00 per month with no survivor benefit. The 100% survivor option could be 80% of \$4,000.00, which is \$4,000.00 per month with the survivor benefit being an equal amount. It makes sense to take the survivor benefit, until you analyze it. It is a reduction of \$4,000.00 per month for that benefit.

	<u>No Survivor Option</u>	<u>100% Survivor Option</u>
	\$5,000.00	\$4,000.00 (monthly cost \$1,000.00)
Survivor benefit to Spouse	\$ 0.00	\$4,000.00

NOTE: Retiree is receiving benefit reduced by \$1,000.00 monthly, so that his or her surviving spouse will continue to have a \$4,000.00 per month survivor benefit.

There are advantages and disadvantages to consider when choosing these survivor options, depending on your individual circumstances. Some of these are discussed on the following pages...

## SURVIVOR OPTION ADVANTAGES

1. It's convenient! Just check the box and send in the form! The pension has to provide survivor options and in many cases the reduction is not as significant as our example.
2. There are no qualifications; everyone gets the same rates regardless of health or other factors. This could be a valuable advantage if you have health problems and are unable to qualify for life insurance. This also provides "peace of mind," knowing that your spouse can receive survivor benefits regardless of your health.
3. Your company's pension benefits are guaranteed by the Pension Benefit Guarantee Corporation Fund, so you can trust that the benefits will be there and outlive both you and your spouse.
4. Some pensions require the surviving spouse to be receiving a survivor benefit from the pension in order to be eligible for post-retirement group medical insurance benefits. Note: FIND OUT IF THIS IS APPLICABLE IN YOUR SITUATION\_ BEFORE YOU CHOOSE AN OPTION. Discuss this with your Pension Plan Administrator.
5. Your spouse cannot outlive the income. Some retirees do not solve this problem properly and too little money is available for the spouse's annuity. If you are in doubt here, the reduced survivor benefit could be a better choice.

## SURVIVOR OPTION DISADVANTAGES

1. **REDUCED BENEFIT:** In the example on the previous page: \$1,000.00 per month equals \$12,000.00 per year, which is \$240,000.00 after 20 years. If you are healthy, you may give up \$240,000.00 only to guarantee that if you die, your spouse will receive 4,000.00 per month for his/her life. If you die shortly after you begin receiving payments, it could be a valuable benefit, because for just a few years of payments at \$12,000.00 per year, your spouse could receive many years of survivor income at \$4,000.00 per month or \$48,000.00 per year. If you have health problems which are considered to be life shortening, this may be the best option for you, as you may not be able to qualify for the Private Plan.

This doesn't factor in the increased cost with a COLA and living 30 or more years.

## SURVIVOR OPTION DISADVANTAGES (Cont...)

2. **LIMITED FLEXIBILITY:** In many cases, if you take a survivor option, it is a permanent reduction in your pension payment. You cannot revert back to the maximum payment once you start receiving your retirement income. Suppose you took the \$4,000.00 survivor monthly payment instead of the \$5,000.00, and your spouse died first? In this case your benefit will be permanently reduced by \$1,000.00 per month or \$12,000.00 per year for the rest of your life. Nobody will get the survivor benefit! You are going to receive \$4,000.00 per month instead of \$5,000.00. There are some unfortunate cases of retirees who still chose a survivor option, even though their spouses had a terminal illness, because they did not know what their alternatives were.

There are many pensions, such as the Federal Government, most State Pensions, the Military, most unions, and others, that have a “pop-up” clause. This means that if your beneficiary dies first, you get “pop-up” to your maximum benefit. “Pop-up” clauses are rare in private pensions, as there is an actuarial cost to do that. The problem with them is that even though you “pop-up,” there is NO REFUND of the money spent. However, with proper planning, it is possible to have a “pop-up” with a refund. This will be explained later.

3. **NO CASH VALUE (Equity):** You will give up \$1,000.00 per month, \$12,000.00 per year, and \$240,000.00 over 20 years in order to provide the survivor benefit for your spouse. What if you need the money for an emergency? If you both live a long time and decide that you chose the wrong option and want some money back or some equity to show for it, NONE OF IT IS AVAILABLE. What if you need funds for a catastrophic illness or long term care, could you use some of that?.....NO

This reduction is permanent, (irrevocable) and there is not an account value with Your Name ON IT. The money just goes into the Pension Pool to fund those survivor pensions who live a long time. The pension is supposed to balance actuarially, so this is a pure cost to you. Think about it, you live 30 years after retirement and give up hundreds of thousands of dollars with NO EQUITY.

## **SURVIVOR OPTION DISADVANTAGES (Cont...)**

- 4. DISINHERIT YOUR CHILDREN (or estate) :** If you take a reduced survivor pension, you can only name ONE beneficiary. If both you and your spouse die, nothing continues to your estate or family. We say “it disinherits your children or estate”. Again, you and your spouse could live a long time and give up a lot of money for a benefit that ceases once you both die. If we refer to our example, in 20 years you would give up \$240,000.00, and if you both die, your estate doesn’t get a dime! The only exception to this is a guaranteed period of 5, 10, or 15 years, available with some pensions, which state that if you both die within that period, the payments will continue to your estate for the remainder of that guaranteed period. If you want to provide additional money, an estate after both you and your spouse die, your pension benefit is probably not the right choice for you.
- 5. REDUCED COST OF LIVING ALLOWANCE (COLA):** Many pensions do have a cost of living allowance in the plan. If you receive \$4,000.00 per month today, that is what you will receive 10 to 20 years from now, unless your pension administration opts to change your benefit. With a 3% inflation rate, your \$4,000.00 pension will have the purchasing power of only \$2,215.00 in 20 years. In other words, with 3% inflation, \$4,000.00 in 20 years will be worth what \$2,215.00 is worth today.

If you have a pension with a “COLA” built in, “COLA” will be on a smaller monthly benefit, rather than the maximum benefit. You’re electing to receive reduced payments and reduced “COLA’s” in the future. Again, the Federal Government and most State Pensions have this “COLA” or “Cost of Living Allowance” provision. Check with your plan administrator to see if your plan includes this benefit.

Also, with COLA pensions, by taking a reduced benefit, you voluntarily take a reduced COLA for life. 3% times \$3,000 is \$90 and 3% times \$2,400 is \$72. That’s just the first year. Every year after, the compounding COLA is larger and larger for the “big check” that you opted out of. So, in twenty years, with the example we’ve been using, with a COLA pension the reduction could be over \$300,000 vs the \$240,000 ... That’s \$60,000 more because the COLA is on the reduced pension!

## **SURVIVOR OPTION DISADVANTAGES (Cont...)**

- 6. SURVIVOR HAS ONLY ONE SETTLEMENT OPTION:** A reduced survivor option states that when you die, if your spouse is living, he or she will only receive a monthly benefit. In our example, let's suppose that you live 20 years and give up \$1,000.00 per month or \$240,000.00 total over 20 years (no COLA), and when you die your spouse is terminally ill. It's possible that your spouse may not recover the \$240,000.00 that you have given up. He/she may prefer to have a lump sum settlement or an interest payment with the balance paid to the estate. However, neither of these options is available under a pension plan. With the survivor options of most pensions, if you die, your spouse, if living, will only receive a taxable monthly lifetime benefit that stops upon his or her death. In fact, the longer you live, the greater chance that this may happen.

Throw in the COLA and it just compounds the problem because of the additional loss of income.

The alternative to purchase the Private Protection Plan rather than the survivor option provides many different options to beneficiaries, including a lump sum income-tax free settlement, refund annuities, guaranteed period annuities, and more. These will be discussed on the pages to follow.

We want to solve all 6 of the problems discussed in the previous pages and all you have to do is be healthy enough to qualify.

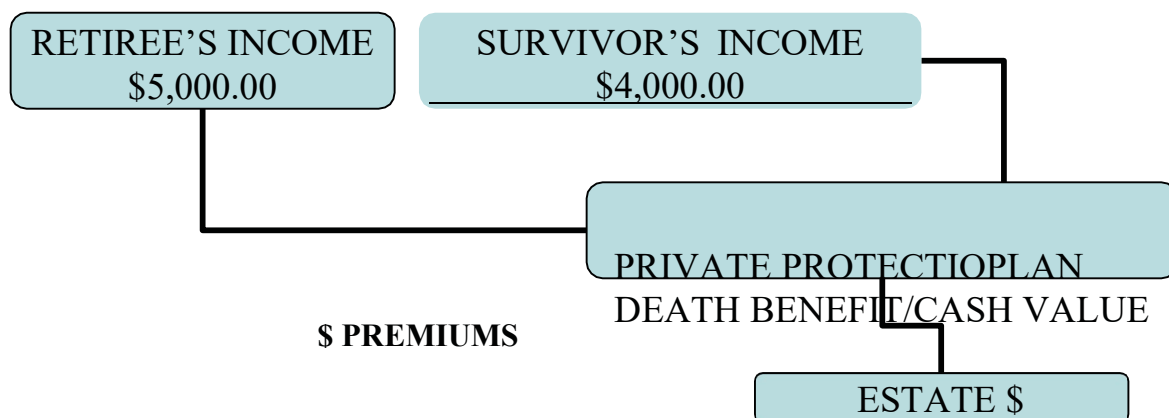
**Alternative  
Solution:  
Protect your  
Spouse with a**

**PRIVATE  
PROTECTION  
PLAN**

## **RECOMMENDATIONS FOR SURVIVOR BENEFIT**

1. You might want to consider “Maximizing Your Pension.” Elect the largest pension benefit you are eligible to receive, so that you can provide for your spouse with a Private Plan survivor benefit. The drawback here is that when you purchase the Private Plan, you usually have to show evidence of insurability, which may include a physical examination and underwriting. If you have health problems, you may not be able to qualify, and a survivor option from your pension plan may be your only choice. Remember, that is one advantage of choosing a survivor option from your pension plan; you don’t need qualify for it with your health or avocation.
2. However, if you are healthy and live a low-risk life, **YOU SHOULD CONSIDER PRIVATE PLAN** as an alternative to survivor option from your pension. The Private Plan may save you thousands of dollars and may eliminate one or more of the six disadvantages mentioned on the previous pages. Take your largest pension option and consider purchasing life insurance policy to provide a survivor benefit for you and your spouse. You don’t want to call just any company or agent, however; you need a very qualified agent who can help determine if an alternative program will be able to equal the survivor income your spouse could receive from your pension. You need a quality company that has a proven track record, and you need a highly qualified agent who can provide your spouse with the needed guidance and professionalism to settle the claim and provide his or her survivor income. The diagram on the next page illustrates this. We will be using the same example mentioned previously.

## ALTERNATIVE PRIVATE PROTECTION PLAN



**Goal:** Provide a survivor benefit equal to the survivor benefit available from your pension plan in the most economical and flexible manner as possible.

**Pension Option Planning:** Plan to elect the largest pension you are eligible to receive and provide for your spouse through a Private Protection Plan.

### DISADVANTAGES OF PURCHASING PRIVATE PROTECTION PLAN RATHER THAN CHOOSING THE SURVIVOR OPTION

1. You must take some time to plan and compare.
2. You must qualify for Private Protection Plan and pay premiums.
3. Medical insurance for a surviving spouse may be dependent upon receiving benefits from the pension. Your pension may require that you take the survivor benefit to continue medical insurance for your spouse. This is a vitally important consideration, but rare for most pensions. There are strategies to take the minimum survivor benefit from the pension (like the military), and supplement the additional amount desired Privately. This is our expertise.

## FEATURES OF AN ALTERNATIVE PRIVATE PLAN

1. **SAVE MONEY:** This is the goal. Remember, you're paying for this anyway and in most cases, increasing by the COLA for your entire life! Why not pay a lot less?
  
2. **FLEXIBILITY:** If your spouse dies first you can surrender the policy. This is very important, because you would continue with the \$5,000.00 per month from your pension, instead of the \$4,000.00 per month reduced benefit.
  
3. **CASH VALUE:** The cash value is available as it accumulates in a Private Plan. You can borrow against it TAX FREE. You can surrender it or use it as collateral for policy loans. This can be extremely beneficial in emergencies. However, it is normally not advisable to access your cash value via loans (which accrue interest) or withdrawals because it will reduce the death benefit intended for the survivor.
  
4. **CONTINGENT BENEFICIARIES:** If you and your spouse both die, your estate would receive the entire death benefit. This could be substantial, depending on the size of your policy. These benefits are received FEDERAL INCOME TAX FREE. Doesn't it make sense to pass it on to the heirs of YOUR ESTATE, rather than back to the pension fund? For state employees, I say, "pass it to YOUR ESTATE, rather than THE STATE."
  
5. **INCREASE INCOME:** If you purchase a Private Plan, it can be less outlay than the reduction in the survivor option. With COLA pensions, we design level premiums on the private plan vs increasing annual cost because of the COLA See the illustration below using a 3% COLA. We would be happy to discuss how this arrangement will impact the various components of your policy.

### EXAMPLE

<u>Year</u>	<u>Max Check</u>	<u>Premium</u>	<u>Net Income- Private Protection Plan</u>	vs.	<u>Reduced Survivor Option</u>
1	\$5,000.00	-\$800.00	=\$4,200/month	vs.	\$4,000.00/month
10	\$6,720.00	-\$800.00	=\$5,920/month	vs.	\$5,376/month
20	\$9,031.00	-\$800.00	=\$8,231/month	vs.	\$7,224/month
30	\$12,136.00	-\$800.00	=\$11,336/month	vs.	\$9,710/month

**6. SURVIVOR OPTIONS:** The surviving spouse has many options, including matching the monthly benefit of the pension survivor option. The spouse could take a lump sum, income tax-free benefit instead, or one of several other options available. Some examples are shown below. Using our previous example (for illustration only, actual rates may vary and current rates are available upon request).

1. \$800,000.00 lump sum, income tax-free, available to save or use as needed. This amount of benefit is difficult to determine, and you should seek advice from an advisor who specializes in this field.
2. \$4,000 monthly income for life, no beneficiaries (single life annuity).
3. \$3,872.00 monthly income for life with a refund of the unused portion of the \$800,000.00, if premature death occurs (Refund Annuity).
4. \$3,915.00 monthly income for life with a guaranteed 10-year period. If death occurs before 10 years, the remaining payments of the 10 years are continued to your beneficiary you can name (10-year Certain Annuity).
5. \$3,724.00 monthly income for life with a guaranteed 20-year period. If death occurs before 20 years, the remaining portion of the 20 years are continued to your beneficiary you can name (20-year Certain Annuity).
6. \$2,667 monthly income without depleting the principal sum (assumes 4% earnings on \$800,000).(interest only option)

**NOTE: Annuity values above are for illustrative purposes only. Actual annuity rates are dependent upon prevailing rates and may be lower or higher than these examples.**

Regardless of which of the above options are attractive to you now, your spouse has several alternatives, and one of most important reasons for “pension option planning” is that the surviving spouse’s survivor option DOESN’T HAVE TO BE CHOSEN UNTIL YOUR DEATH, RATHER THAN THE DAY YOU RETIRE. Doesn’t it make sense to give your spouse the flexibility of choosing a benefit based on his or her needs at the time of your death and yet always having AT LEAST what the state would’ve provided her.

## SUMMARY OF THE ALTERNATIVE PRIVATE PROTECTION PLAN

Your goal is to MAXIMIZE YOUR PENSION INCOME and still leave a survivor benefit for your spouse at least equal to what a reduced survivor option would provide by purchasing the Private Protection Plan.

**-PLUS-**

1. **ADDITIONAL RETIREMENT INCOME**—Our goal is that by purchasing the Private Protection Plan, you will end up with much more retirement benefits.
2. **FLEXIBILITY**—If your spouse predeceases you, you can surrender the policy and receive the cash value and continue with your maximum pension benefits, or if you choose, consider keeping the policy for your kids and let them pay for it (after you borrow most of the cash value. This is amazing and what I plan to do.
3. **CASH VALUE**—the Private Protection Plan builds cash value most of which is accessible during your life time with NO TAXES if done properly.
4. **PASSES TO YOUR ESTATE**—If both you and your spouse die, the policy death benefit passes to the beneficiary you name, rather than being absorbed by the pension reserves, as it would under the reduced survivor option from your pension. This benefit is passed income TAX FREE to your estate.
5. **SURVIVOR OPTIONS**—At minimum, your spouse can receive the same survivor benefit as he or she would have received from a reduced survivor option. In addition, your spouse has many other options, including a lump sum “income tax-free” death benefit. The most important benefit is that the choice **does not need to be made until your death**, rather than at the time of your retirement.
6. **AGE**—The age of the client at the time of the purchase is critical. Private Protection Plan premiums are more expensive the older you are. Start early and have that guarantee of insurability locked in at a younger age.
7. **PREMIUMS**—The policy must be kept in force in order for the Pension Option Planning concept to work. Premiums must be paid in order for the spouse to be protected. But remember, you took the biggest pension income and the additional income usually covers the premiums. Even if it doesn't, the NET COST can be hundreds of thousands of dollars less over time
8. **PEACE OF MIND**—You have provided for the optimum benefits for you and your spouse, regardless of who dies first.

**PRIVATE PROTECTION PLAN  
POLICY: THE FLEXIBLE “LOVE  
OPTION”**

## ADDITIONAL QUESTIONS

By now, I hope you agree that you could be better off electing to receive the maximum monthly benefit from your pension, while providing for your spouse with an alternative private plan policy. Many questions come to mind which are frequently asked by our clients:

- I. **HOW DO I KNOW IF I CAN QUALIFY FOR THE PRIVATE PROTECTION PLAN?** You don't know. In order to find out if you qualify, you must apply to the appropriate life insurance company. The company will make a determination and either offer you insurance or decline you. There is no cost or obligation to find out if you qualify through a qualified insurance professional.
- II. **WHY SHOULDN'T I JUST WAIT UNTIL I RETIRE AND THEN APPLY FOR THE PRIVATE PROTECTION PLAN?** That is one option, but you are risking being able to qualify, as your health may change while you are waiting. The sooner you put the policy in force the better. You never know about your health. You risk becoming unqualified. Also, the younger you are, the lower the premiums will be. However, **make sure you have a policy in force before you opt out** of the guaranteed survivor option from your pension.
- III. **WHY WOULD I WANT TO START EARLY, WHEN I DON'T HAVE TO START THE SURVIVOR PLAN UNTIL I RETIRE?** This is probably our most frequently asked question. We feel there are about five reasons to start early:
  2. **YOU ARE PROBABLY HEALTHIER NOW.** Right now, you may probably get the most favorable rates you will ever be able to get. If you are like many people over age 50, your health will get worse rather than better. By starting early, you can lock into today's rates, which will be better than later.
  3. **YOU ARE YOUNGER NOW.** Even if you are just as healthy as five years from now, you are older and the rates for the policy then will be higher, because you are older.

## **ADDITIONAL QUESTIONS (Cont...)**

4. **IT'S EASIER TO PAY NOW.** It is likely that today you are taking home more income than you will after you have retired. It should be easier to pay premiums using your larger pre-retirement dollars rather than reduce your after-retirement income. However, premiums will still be required after retirement.
5. **PRE-RETIREMENT DEATH BENEFIT.** If you start the policy early, the policy is in force. If you die before retirement, your spouse will receive both the policy death benefit and a benefit from your pension.
6. **PEACE OF MIND.** Probably one of the most important parts of estate planning is to start as soon as possible, so that you won't have to solve the problem later. What a relief it will be to retire, knowing that you will receive the maximum monthly pension payments and have a policy already in force to provide for your spouse.

### **IV. WHERE SHOULD I GO TO LEARN MORE ABOUT THIS ALTERNATIVE?**

Obviously, we hope you will come to us, because of our knowledge and experience in pre-retirement planning. However, other agents are familiar with this concept and there are many good companies from which to choose. You need to decide how you are going to get the service you deserve. Therefore, you need to make sure the company you choose has a proven track record. We strongly recommend buying a life insurance policy based on performance records rather than promises. Rating agencies such as A.M. Best, Moody's, Standard and Poor's and Fitch are recognized as authorities in comparing insurance companies. We highly recommend mutual companies (because you have part ownership) not younger than 140 years old. Make sure the company has a good track record even through difficult economic times, like World Wars or the "Great Depression."

## ADDITIONAL QUESTIONS (Cont...)

- V. WHAT KIND OF INSURANCE WILL PROVIDE PROTECTION PLAN SURVIVOR BENEFIT?** There are really two basic kinds of insurance: Term and Permanent (whole life or universal life). Term insurance has the advantage of lower premiums in the early policy years, but the premium either goes up or the amount of coverage goes down, because each year you are a higher risk. Term insurance also expires after a “term,” or period of time. Permanent Insurance offers higher level premiums and provides a lifetime of protection, which is what you need in order to provide for your spouse. Dividends or interest, as declared are not guaranteed, may be used to shorten the premium paying period, as long as the premiums are paid when due. Remember that “you can’t solve a permanent problem with a temporary solution”. NOTE: If cash flow is tight and you have a few years until retirement, we recommend at least “freezing your health” with a convertible term insurance policy with the RIGHT company. We call this strategy a LEASE OPTION to buy later. **We specialize in this and want to evaluate yearly until we have all permanent insurance.**
- VI. CAN’T I DO BETTER WITH MY MONEY?** You might be able to do better than the cash value growth, but remember the death benefit is a BALLOON payment, even if death is immediate and can be many times greater than your payments. Also, proceeds are received INCOME TAX-FREE to your beneficiary. Life insurance is not just an accumulation tool. It provides the guarantees that you need. It is doubtful that you could purchase enough assets by the time of your death to produce an adequate short term survivor benefit; and the risk would be yours! The further that you are from retirement, the more possibilities that exist. Also, if you die shortly after retirement you need an immediate payment for your spouse that is large enough to purchase an annuity equivalent to the survivor benefit available from your pension. A permanent life insurance policy is the most appropriate means for accomplishing this goal. “Tax Free Dollars for Pennies Apiece” ...Ben Feldman

## SUMMARY

Planning for retirement takes time, and understanding your pension benefit should be a high priority. You should not have any surprises when you retire. It should be a time of celebration and rewards, rather than a shock of unwelcome news.

I believe in the “Private Life Insurance Policy” for healthy, married retirees. By this I mean electing to receive the maximum monthly benefit from your pension. However, if you have a spouse, I know that you will have a difficult decision to make in providing him or her a survivor benefit. I recommend, “If you qualify, **TAKE YOUR MAXIMUM PENSION BENEFIT AND PURCHASE AN PRIVATE PROTECTION PLAN FOR YOUR SPOUSE**. If you cannot qualify for an insurance policy, then the traditional survivor option that your pension automatically provides may be the best alternative you have to provide for your spouse with a survivor benefit.

I also believe that this decision is too complicated for the average retiree to consider on his or her own. I recommend professional advice from a qualified financial professional, and we, at Retirement Nationwide, Inc. welcome your business.

**BY FAILING TO PLAN YOU COULD BE  
PLANNING TO FAIL!**

## **IS PENSION OPTION PLANNING FEASIBLE FOR YOU?**

Every situation is unique. Electing a “single life” pension and using life insurance is a serious and complex decision.

A qualified agent can help you make the decision. You will need to provide the following information:

1. Names—you and your spouse.
2. Sex—you and your spouse.
3. Date of birth—you and your spouse.
4. Smoker/Non-Smoker-Retiree
5. Any existing health concerns (all medications)-Retiree
6. Pension details—estimated amount of retirement benefits from your employer (both single life and survivorship options.)
7. Does your plan provide for cost-of-living increases?
8. Does your plan require the surviving spouse election in order for him/her to maintain medical benefits?
9. Does your plan provide a reversion feature (or “pop-up” clause?)

## PRIVATE PROTECTION PLAN REQUEST FORM

Name: \_\_\_\_\_ Birth Date: \_\_\_\_\_  
Beneficiary Name: \_\_\_\_\_ Birth Date: \_\_\_\_\_  
Address: \_\_\_\_\_ Home Phone: \_\_\_\_\_  
Retirement System: \_\_\_\_\_  
Retirement Date: \_\_\_\_\_ Alternate Date: \_\_\_\_\_  
Representative: \_\_\_\_\_

### Please provide me with information about an alternative PRIVATE PROTECTION PLAN

1. \_\_\_\_\_ Largest benefit to you (no survivor upon your death.)
2. \_\_\_\_\_ Reduced benefit that continues to beneficiary upon your death.
3. \_\_\_\_\_ Amount continuing to your survivor from the reduced pension above

Complete and send to:

**Jim Lusk, CFP, CLU, ChFC, CFC**  
**President**  
**RETIREMENT NATIONWIDE, INC.**  
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**Spokane, Wa. 99037**  
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