

Retirement Planning

The Pension Payout Puzzle

Many couples find themselves confronted with a dilemma as retirement nears. If you plan to collect your pension on a monthly basis (rather than in a lump sum), you must decide whether you would prefer to receive a higher payment during your lifetime alone (the **life option**) or a lower payment that will span the lifetimes of both you and your spouse (the **joint and survivor option**).

In choosing between these options, you will need to consider such things as the current and anticipated health of both you and your spouse, how long you each expect to live, your financial situation, and your income requirements. Here is a brief look at how each of these options works:

Life Option. With this option, let's assume you receive \$1,700 per month. This will be higher than the amount you would receive with joint and survivor benefits, say by \$475. If you live to a ripe old age, this extra \$475 per month will undoubtedly come in handy. On the other hand, once you die, payments to your surviving spouse, who may live for many more years, will stop. This could have a significant impact on his or her standard of living. For that reason, this can only be selected if your spouse consents to it.

Joint and Survivor Option. If, like many people, you select joint and survivor benefits, suppose you receive \$1,225 per month (\$475 less than with the life option). If you die first, payments to your surviving spouse will continue. This may help provide critical income for your surviving spouse, especially if he or she outlives you by many years. However, if your spouse dies before you, you cannot go back and change your decision even though your reason for choosing the lower monthly benefit—to protect your spouse's long-term income—no longer exists.

The Best of Both Worlds

Deciding between these options may leave you and your spouse feeling as though you are betting on each other's lives. But, you need not be locked into an "either-or" dilemma. With proper planning you can have it both ways—a higher monthly benefit now, *plus* continuing income for your surviving spouse in the event you die first.

In structuring this approach, you would select the life option and use a portion of the higher monthly benefit to purchase a **life insurance** policy on yourself. If you should die first, your surviving spouse can manage the insurance proceeds to help generate the monthly income he or she needs. On the other hand, if your spouse should predecease you, you can simply cancel the policy and continue receiving the higher monthly benefit.

This strategy also offers some added benefits: 1) you can tap the policy's cash value while you are alive; 2) after your death, your spouse can manage the insurance proceeds according to his or her needs; and 3) you can change the policy's beneficiary if you so choose.

Despite its advantages, this strategy requires disciplined money management to achieve the desired results. First, your life insurance policy may lapse if the premiums are not

paid. Second, a lump sum death benefit must be properly managed to yield the anticipated income. Third, by waiving the spousal provision, your spouse may lose other pension—related benefits, such as cost-of-living adjustments or company—sponsored health insurance. Fourth, the issuance of a insurance policy is not guaranteed. You should proceed carefully with this approach until a policy has been issued in your name.

Consider All Your Options

When faced with the dilemma of choosing between the life option or the joint and survivor payout options, coupling the life option with an insurance policy may provide the best of both worlds. It is always important to consider your overall retirement plan to help determine which approach may work best for you.