Navigating the Defined Benefit Dilemma:

Which Option Should I Choose?

A Presentation to:

Pennsylvania Conference of Teamsters

The Objective – Pension Maximization

- What is "pension maximization"?
  - Pension maximization refers to a strategy for choosing a payout option at the time of retirement that maximizes the monthly benefit to the retiree while providing financial security for a surviving spouse.
- Who should consider "pension maximization"?
  - Married individuals, nearing retirement, who will receive a benefit under a ***defined benefit*** plan.
- What about those covered under a defined contribution plan?
  - Life insurance and annuity options are available for their consideration

The Dilemma

- The typical defined benefit pension plan is based on the age and years of service of the retiring employee.

- If a pension is to be provided for the surviving spouse as well, the pension income benefit is calculated based on the average life expectancy of both employee and spouse combined, and greatly reduces the accrued monthly benefit

  - sometimes as much as 20-40% ***for life; NOTE:*** different plans have different factors

  - These reductions, to provide a survivorship benefit, are based upon general actuarial and mortality factors governing the Plan and are not always financially beneficial for the individual retiree (especially for a retiree in fairly good health)

- Once a benefit option is selected and benefit payment commences, the chosen option is *<u>irrevocable</u>*, even if life events happen (spouse predeceases member, divorce, etc.)

Example – Reductions to a Single Life Pension to Provide a Survivorship Option

Retiree @ age 62 with a spouse who is 5 years younger - -
--- electing a 100% survivorship option

Single Life	Benefit with 100% survivorship	Monthly Reduction	One Year	5 Years	10 Years	20 Years
$2,000	$1,514	$486	$5,832	$29,160	$58,320	$116,640
$2,500	$1,892	$608	$7,290	$36,450	$72,900	$145,800
$3,000	$2,271	$729	$8,748	$43,740	$87,480	$174,960
$3,500	$2,649	$851	$10,206	$51,030	$102,060	$204,120
$4,000	**$3,028**	**$972**	**$11,664**	**$58,320**	**$116,640**	**$233,280**
$4,500	$3,406	$1,094	$13,122	$65,610	$131,220	$262,440
$5,000	$3,785	$1,215	$14,580	$72,900	$145,800	$291,600

Example – Reductions to a Single Life Pension to Provide a Survivorship Option

Retiree @ age 62 with a spouse who is 5 years younger - -
--- electing a 75% survivorship option

Single Life	Benefit with 75% survivorship	Monthly Reduction	Yearly Reduction	5 Years	10 Years	20 Years
$2,000	$1,605	$395	$4,739	$23,693	$47,387	$94,773
$2,500	$2,006	$494	$5,923	$29,617	$59,233	$118,467
$3,000	$2,408	$592	$7,108	$35,540	$71,080	$142,160
$3,500	$2,809	$691	$8,293	$41,463	$82,927	$165,853
$4,000	**$3,210**	**$790**	**$9,477**	**$47,387**	**$94,773**	**$189,547**
$4,500	$3,612	$888	$10,662	$53,310	$106,620	$213,240
$5,000	$4,013	$987	$11,847	$59,233	$118,467	$236,933

Example – Reductions to a Single Life Pension to Provide a Survivorship Option

Retiree @ age 62 with a spouse who is 5 years younger - -
--- electing a 50% survivorship option

Single Life	Benefit with 50% survivorship	Monthly Reduction	Yearly Reduction	5 Years	10 Years	20 Years
$2,000	$1,719	$281	$3,371	$16,854	$33,708	$67,416
$2,500	$2,149	$351	$4,214	$21,068	$42,135	$84,270
$3,000	$2,579	$421	$5,056	$25,281	$50,562	$101,124
$3,500	$3,008	$492	$5,899	$29,495	$58,989	$117,978
$4,000	**$3,438**	**$562**	**$6,742**	**$33,708**	**$67,416**	**$134,832**
$4,500	$3,868	$632	$7,584	$37,922	$75,843	$151,686
$5,000	$4,298	$702	$8,427	$42,135	$84,270	$168,540

Potential Problems With Selecting a Survivorship Option

- Reduces amount retiree receives during his/her lifetime
- The benefit option, once chosen, is irrevocable
- The option doesn't change if the spouse predeceases the retiree or if the retiree and spouse are divorced after the retirement benefit payment begins
- The surviving spouse has no options

An Alternative --

- Selecting the single life option, BUT providing a survivorship benefit to the spouse through the purchase of life insurance
  - Yearly premium, in most cases, would be less than the reduction taken by electing a survivorship option through the Fund

- More money, more options, more flexibility . . .

Advantages --

- More disposable income during the retiree's lifetime
- The premium can be *guaranteed to be the same, level amount* until age 80, 90, 100 or even 120
- If spouse predeceases the retiree or another life event occurs (i.e., divorce), the policy can be terminated, continued, beneficiary changed, or sold
- Benefits paid to the beneficiary are TAX FREE
- Beneficiary can invest the lump sum or convert to a single life annuity paying him/her a monthly benefit for life
    - And if the beneficiary should die before the principal has been paid out, the balance of the principal is paid to the beneficiary's designated beneficiary or estate

Back to That Example . . .

Option	Spendable Income During Participant's Lifetime	At Participant's Death, Spouse Receives	Cost to Participant in Lost Pension Benefits
Life Only Pension	$4,385/month	$0	$0
Joint and 100% Survivor Option	$3,378/month	$3,378/month	Monthly-$1,007 Annually-$12,084 Over 10 Years-$120,840
Joint and 75% Survivor Option	$3,597/month	$2,698/month	Monthly-$788 Annually-$9,456 Over 10 Years-$94,560
Joint and 50% Survivor Option	$3,847/month	$1,924/month	Monthly-$538 Annually-$6,456 Over 10 Years-$64,560

***Opting for a 75% J&S with a restoration feature further reduces the monthly benefit by an additional $76 and the survivor's benefit by $57 each month ($3,522 for retiree / $2,641 for the spouse)*

Important Factors to be Considered…

	In our example -
Pension options	$4,385/$0; $3,378/$3,378; $3,597/$2,698; $3,847/$1,924
Retiree's life expectancy	22 years
Spouse's life expectancy	28 years
"Second to Die" life expectancy	31 years
Monthly survivorship amount needed/desired (75% survivor option)	$2,700

Looking at the Averages in our Example -

- Spouse will outlive the retiree by 6 years, *on average*
- On a "second to die" basis, spouse might outlive retiree by 9 years, *on average*
- Assuming that the spouse will outlive the retiree by 33% *more* than the average, i.e. 12 years instead of 9, it would require a death benefit of $317,000, invested with a 3.5% return to last 12 years with a monthly draw down of $2700

Cost/Benefit Analysis

- A policy issued to this 62 year old male, with a level premium guaranteed to age 85, with a $317,000 death benefit, would require an annual premium of somewhere between (depending upon Preferred or Standard issue) $4,387 and $5,410
- If the retiree took the 75% survivorship option, he would receive $788 less per month, or $9,456 less per year, than if he opted for the single life option

Cost/Benefit Analysis

- Using pension maximization, the retiree would:
  - have somewhere between $4,046 and $5,069 ***more*** income each year ($9,456 - $5,410 or $9,456 - $4,387)
  - Provide the same level of financial security to his surviving spouse
  - Provide a TAX FREE lump sum benefit of $317,000 to his spouse
  - In the event of an unfortunate life event, have the option to:
    - cancel the policy, or
    - continue the policy & change the beneficiary to someone else, or
    - convert the policy to one with a long term care rider, or
    - Potentially sell the policy

Cost/Benefit Analysis

- Even if the retiree paid the higher Standard premium ($5,410) for 23 years and then died, the premium paid would equal $124,430, but the death benefit of $317,000 exceeds the premium paid by $192,500!
  - *more than <u>double</u> the investment,*
  - *<u>Plus</u> having $93,000 in additional income over 23 years*
  - *<u>Plus</u> having had the security over 23 years of providing income to a surviving spouse*

Which Would You Prefer?

- Being locked in to an irrevocable reduction in your monthly benefit

-or-

- Enjoy $4,000 to $5,000 more each year in your retirement benefit and have the flexibility to make changes in the event that your spouse predeceases you or some other life event occurs?

Why Arbor Group?

- Four decades of experience with a large, satisfied customer base
  - Customized, dedicated service to groups is a cornerstone of their practice
- Well respected in the life insurance , financial planning and estate planning sectors
- Prompt, timely and accurate customer service
- Full range of services – from pension maximization to financial planning to estate planning to assistance to surviving spouse
- Bid all prospective policies to 39 insurance companies, each of which are rated A+ or better

How Does a Member Get Started?

- Obtain pension benefit options from his/her plan
- Contact the Arbor Group Pension Max team:
- Robert Trotenberg (609)820-0943
- Neal Pollack (215) 485-6250

  Provide the following:
  - Name & Spouse's Name,
  - Date of Birth of each,
  - Anticipated retirement date
  - Options obtained from their defined benefit plan
- The member will have the initial pension maximization analysis within two weeks

Retirement Security Isn't Just About Pension Maximization . . .

. . .It's Also About Planning For Long Term Care

- *Why long-term care planning is important*
- *What you need to know about long-term care*
- *How to start to plan for long-term care needs*

So What Exactly Is Long-term Care?

"It's a variety of supports and services designed to help people live as independently and safely as possible when they can no longer do so on their own"

What does it mean to you?

"Ahhh, I won't need it!"

"The government pays for it"

"Too expensive"

"It's like home and auto insurance"

Why Plan For Long Term Care?

- Doesn't the government cover it?
- 70% of people who reach the age of 65 will require long term care during their lifetime.
- The cost of long term care is HUGE!
- The cost of long term care insurance can be HUGE, will continually grow over time and can be challenging to file claims against.

What are the Present and Projected Costs of Long Term Care?

	Present Annual Cost	Duration	2015 Episode Total Cost	1% Annual Inflation 2035 Total Cost	1% Annual Inflation 2045 Total Cost	2% Annual Inflation 2035 Total Cost	2% Annual Inflation 2045 Total Cost
Home Health Care	$41,610	3.9 years	$162,279	$198,011	$218,728	$241,138	$293,946
Adult Day Care	$18,460	3.9 years	$71,994	$87,846	$97,037	$106,979	$130,407
Assisted Living	$41,124	3.9 years	$160,384	$195,698	$216,173	$238,322	$290,513
Nursing Home (Semi-private)	$82,855	3.9 years	$323,135	$394,285	$435,536	$480,161	$585,313
Nursing Home (Private room)	$94,170	3.9 years	$367,263	$448,131	$495,015	$545,733	$665,246
Median Home Value			$236,500	$288,575	$318,766	$351,427	$428,387

Consider This . . .

- How are you going to cover these costs?
- Who is going to care for you? Your spouse?
- While you're receiving care, your spouse still needs financial security
- Will you have to bankrupt/spend down your entire estate to get the care you need . . .or your spouse needs?

Choosing LTC Coverage: What To Look For …

- Is there coverage for all state qualified services
  - Broad language that will cover newly invented care services
- Is there coverage for temporary claims?
- Is the cost structure easy to understand?
- Can policy premiums increase in the future?
- How are claims paid?

LTC Policies Are Available, But . . .

- Premiums are not guaranteed and will increase as you age
- You must incur the costs, then file claims for reimbursement
- Some LTC policies are like auto insurance . . . no accidents, no payout . . .no long-term care needs, no payout
  - Use it or lose it.

Another Option . . .

- Combining LTC coverage with life insurance . . .a life policy with a LTC rider
- If long-term care is needed, the policy pays a set amount each month to you (without the need to incur the claim and file for reimbursement), and the amount paid is deducted from the ultimate death benefit
- If LTC isn't needed, the full death benefit is paid
- Arbor Group can provide a detailed projection of your LTC needs

Key Takeaways . . .

- If you want to live the dream in your retirement, you've got to plan for it . . . and start NOW
- Stay ignorant of your pension plan and its options at your PERIL!
- Budget your expenses now and for the future
- Understand ALL of your pension options, even the ones that your pension plan may not offer
- If you already have life insurance, have the policy reviewed at least every two years
- Chances are you simply won't drop dead, but will require long-term care, so plan for it!

Thanks For Your Attention!