



## RETIREMENT PLANNING

Survivor Supplemental Retirement Income  
Funded with Life Insurance

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## RETIREMENT PLANNING

### SURVIVOR SUPPLEMENTAL RETIREMENT INCOME FUNDED WITH LIFE INSURANCE

## SUMMARY

### WHAT IS SURVIVOR SUPPLEMENTAL RETIREMENT INCOME FUNDED WITH LIFE INSURANCE?

This is a strategy a worker can employ to provide a comfortable retirement income for a surviving spouse while maximizing the benefit amount the retiring worker receives for life from an employer pension plan. Instead of splitting the pension benefit with the spouse, the retiree retains the full monthly benefit available. The pension benefit will cease when the retiree dies. To protect the spouse if the retiree dies first, the retiree purchases a life insurance policy payable to the surviving spouse, which can be arranged to provide a monthly benefit.

### WHY IS THIS ALTERNATIVE DESIRABLE?

Under current law, most pension plans are required to automatically provide a joint-and-survivor annuity to married retirees, providing lifetime annuity benefits for both the retiree and a surviving spouse if the retiree dies first. The spouse's lifetime benefit must be no less than 50% and no more than 100% of the retiree's benefit.

The retiree's benefit will always be less with the spousal requirement than it would have been without, and this reduced benefit will not revert to the higher single-life amount if the spouse dies first. In other words, it's quite possible that the retiree will reduce his or her monthly benefit for life and the spouse will never use the spousal benefits.

With survivor supplemental retirement income funded with life insurance, however, there is no need to provide spousal benefits from the pension. Note: To implement this arrangement, the spouse must waive, in writing, the right to receive survivorship benefits. This typically must be accomplished within 90 days of the benefit start date.



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#### HOW DOES IT WORK?

The worker purchases a life insurance policy on his or her life providing a benefit equal to the worker's pension benefit, naming the spouse as beneficiary. The purpose of the policy is to pay proceeds that can become a capital account to pay the spouse a lifetime supplemental income if the retiree dies first. If the spouse prefers, the capital account can pay earnings only, keeping capital intact.

The worker selects a life income option, which provides the full monthly benefit when the worker retires. When the retiree dies, these payments end and the life insurance proceeds provide income to the surviving spouse.

#### WHO CAN BENEFIT FROM THIS ARRANGEMENT?

This arrangement is best suited for healthy people in their 40s or 50s, married, currently employed and covered by an employer pension. The plan can also benefit workers concerned about providing retirement income from a pension plan.

This plan is not suitable for workers very close to retirement, anyone in poor health, or workers whose pension plans provide an inflation-indexed payout.

#### WHAT ARE THE BENEFITS OF THIS ALTERNATIVE?

Life insurance is flexible and can be used for different purposes if changing circumstances require. If the spouse dies first, the retiree can use loans and withdrawals to supplement retirement income.

Alternately, the retiree may continue the policy and change the beneficiary to another individual or a charity. This option is helpful if the retiree remarries, providing benefits for the second spouse that would not have been available with the joint-and-survivor annuity.

A spouse who receives policy benefits has complete control over how they are taken (either in a tax-free lump sum or in installments) and how they are used.



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#### WHAT IS THE TAX SITUATION?

All employer contributions to the pension plan are fully taxable when paid to the retiree or the spouse. However, insurance proceeds paid in a lump sum are not taxable to the spouse (or other beneficiary). If the life insurance benefit is paid under a settlement option, only the interest is taxable to the beneficiary when paid. The portion that represents a return of capital is not taxed.

