



**pensionmax.com**

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**Retirement Option Planning - Pension Maximization (ROP)©  
An Alternative Approach to Pension Options**

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*Prepared for:*

**John Smith  
&  
Jane Smith**

**Employer: Anytown School District**

**John's Target Retirement Date                      9/1/2010**

*Presented by:*

**John Doe**

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**(xxx) xxx-xxxx**

**Prepared on:**

**6/21/2010**

# Points to Ponder about "PensionMax"

## 3 Primary Objectives are Common to All of Our Clients:

1. **Security** - They want to know that their family future is secure. They want assurance that their survivor receives enough income whether it is through their pension plan or from life insurance proceeds.

We advise clients to ask their life insurance agent or financial advisor if the life insurance policy they are presented is fully insured and placed with an AM Best Rated insurance company.

2. **Financial Flexibility** - The ability to control their destiny and adjust their plans as needs change. As you will see in the following pages, our approach is more flexible than what your pension plan's survivor option offers. The following are examples:

A. If your beneficiary should die first, you can surrender the life insurance policy and receive any cash value that has accumulated. You can also change your beneficiary without a recalculation in your pension income.

B. If you both die at or around the same time, your full survivor benefit can be passed on to your estate.

C. Your life insurance policy may build cash value over time for your disposal.

3. **Income** - This is the largest single concern of our clients. They want the largest possible income for themselves and their family.

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Many factors need to be objectively evaluated such as health, wealth, future plans, budgets, restrictions and limitations. Any previous financial planning should be factored into your decision. Continuation of health insurance coverage through your employer that may be available to your survivor from a pension survivor option is not available through our approach. However, we can increase your beneficiary's death benefit to offset health insurance premiums.

The software we use to assist you is actuarially certified. It does not mean that the assumptions we use are going to be present all of the time. However, we use reasonable investment rates of return and the most current mortality tables to calculate the most accurate insurance death benefit for your survivor to replicate what your pension would have offered.

Unfortunately, through the years, many financial planners misused the pension maximization concept. They employed approaches that were either too costly for the retiree and over insured them or they used unrealistic rates of return on life insurance proceeds, in excess of 6%, which left the beneficiary with an inadequate death benefit. They have also failed to consider pension cost of living adjustments and after-income tax ramifications.

Our software calculates how much life insurance coverage you need in every year of retirement to be comparable to what your pension offers. Cost of living adjustments and after-tax income are factored into our software and stated in our presentation.

The following pages are based upon your pension plan estimates. They illustrate your desired pension option offered by your pension plan and what we offer as an alternative. They are preliminary and the final recommendations will be based upon the life insurance underwriting and input from your legal counsel, financial advisors and tax advisor. This study only attempts to assist them in evaluating your pension settlement options. It is not intended to replace any other plans. Additional retirement planning may be required.

# Retirement Option Planning (ROP) Software- What it Offers You

**The Key to Pension Maximization- The right amount of life insurance at the right time for the right price.**

**Our Retirement Option Planning - Pension Maximization (ROP)© software calculates 2 vitals pieces to helping you maximize your pension income:**

1. How much life insurance is required, on a year by year basis, to provide an income for your survivor similar to what is offered through your pension. As you age, your need for insurance coverage will change.
2. A life insurance premium schedule that is indexed to any cost of living adjustment offered by your pension. It allows your premium payment to remain proportionate to your pension income.

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## ***Life Insurance Coverage***

Do you need the same insurance coverage at age 60 as you do at age 80? The answer is no.

As long as you and your beneficiary are both alive in retirement, your beneficiary will receive less accumulated income payments from your pension. Therefore, the need for insurance coverage drops over time.

However, cost of living adjustments to your pension income and increases in your expected ages of death will raise the need for coverage.

**Our actuarially certified software considers all of these factors in calculating your life insurance in ALL years of retirement.**

**The result is an income stream for your survivor in the form of life insurance proceeds that approximates what your pension offers, if you should die at any time during your retirement.**

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## ***Life Insurance Cost***

If your pension plan offers you a cost of living adjustment (COLA) to your income, the insurance premium will increase at the same percent as your (COLA). **This pay-as-you go approach allows you to keep more of your income now by keeping the premium payments proportionate to your pension income.**

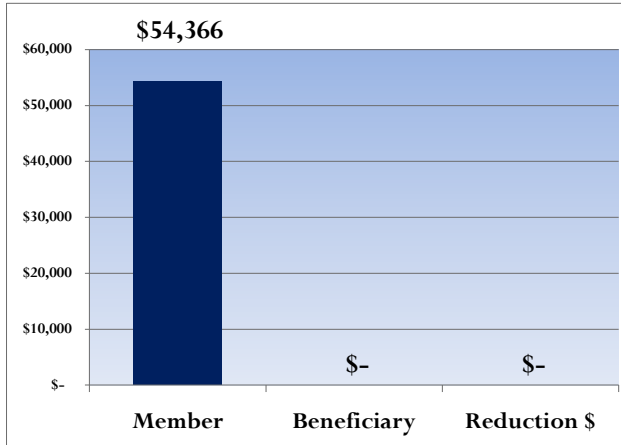
If your pension doesn't have a cost of living adjustment, your insurance premium will stay level.

# Pension Plan Options

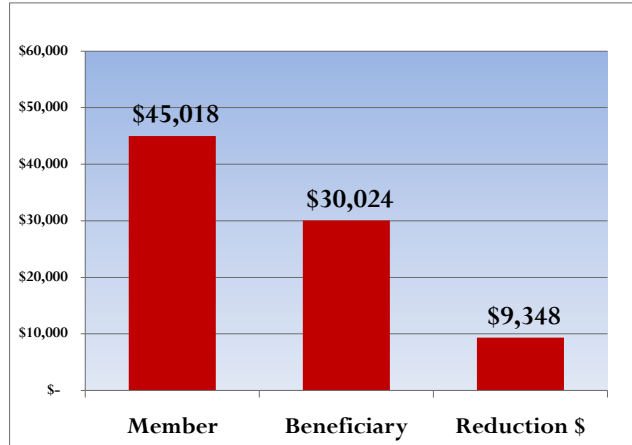
**John Smith**

**Employer: Anytown School District**

## Single Life (Full Pension)



## 67% Survivor (Reduced Pension)



### Single Life (Full Pension)

	<u>Member</u>	<u>Beneficiary</u>	<u>Reduction \$</u>
<b>Monthly</b>	\$ 4,531	\$ -	\$ -
<b>Annual</b>	\$ 54,366	\$ -	\$ -

### 67% Survivor (Reduced Pension)

	<u>Member</u>	<u>Beneficiary</u>	<u>Reduction \$</u>
<b>Monthly</b>	\$ 3,752	\$ 2,502	\$ 779
<b>Annual</b>	\$ 45,018	\$ 30,024	\$ 9,348

If John dies first, pension survivor options (any option other than 'Single Life') may include eligibility for health insurance benefits through the pension plan for Jane. Check with your pension plan administrator to determine this.

In our effort to help you evaluate your options, we rely on the advice found in Jane Bryant Quinn's book Making the Most of Your Money Now, Simon & Schuster, pages 1019-1020. It urges you to consider the after-tax implications of selecting a PensionMax approach.

The following pages include after-tax income effects from selecting our ROP approach. Only federal income taxes are estimated. State income tax estimates are not included. Check with your tax advisor to determine your estimated full income tax liability.

# Pension Cost vs. Retirement Option Planning (ROP)

## How the ROP approach works:

1. John chooses the maximum income 'Single Life' pension option instead of a reduced income survivor pension option.
2. With a portion of the additional income he receives, John purchases a life insurance policy on his life naming Jane as the beneficiary.

This insurance policy is customized to provide Jane with a survivor income that is similar to what the pension offers and a cost schedule that will allow maximum income in every year of John's retirement.

## Income proportionate life insurance premiums

John's pension has a yearly 3% cost of living adjustment.

The difference between his full pension income and reduced pension income increases at the same percent every year.

John's life insurance premium is scheduled to increase every year as well at 3%.

This allows his insurance premium payment to remain proportionate to his pension income.

With our approach, John can truly maximize pension income in every year of retirement.

	<u>Year</u> <u>Age</u>		Pension Plan Income			Life Insurance Policy		
			<i>Single Life</i>	<i>66% Survivor</i>	<i>Income Reduction</i>	<i>Premium</i>	<i>Savings</i>	<i>Cash Value</i>
Pre-Retirement								
Retirement	1	64	\$ 54,366	\$ 45,018	\$ 9,348	\$ 7,104	\$ 2,244	See  Life Insurance Ledger  For Values
	6	69	\$ 62,521	\$ 51,771	\$ 10,750	\$ 8,170	\$ 2,580	
	11	74	\$ 70,676	\$ 58,523	\$ 12,152	\$ 9,236	\$ 2,917	
	16	79	\$ 78,831	\$ 65,276	\$ 13,555	\$ 10,301	\$ 3,253	
	21	84	\$ 86,986	\$ 72,029	\$ 14,957	\$ 11,367	\$ 3,590	
	26	89	\$ 95,140	\$ 78,782	\$ 16,359	\$ 12,433	\$ 3,926	
	31	94	\$ 103,295	\$ 85,534	\$ 17,761	\$ 13,499	\$ 4,263	
	35	98	\$ 109,819	\$ 90,936	\$ 18,883	\$ 14,351	\$ 4,532	
			<b>Totals</b>		<b>\$ 494,042</b>	<b>\$ 375,472</b>	<b>\$ 118,570</b>	
			<b>After-Tax Totals*</b>		<b>\$ 384,754</b>	<b>\$ 375,472</b>	<b>\$ 9,283</b>	

\* using IRS tax table Y- married households filing jointly

## Additional Benefit with the ROP Approach

John's life insurance policy will also build cash value over time. His pension's survivor option doesn't offer this feature.

# An Actuarially Certified Life Insurance Alternative

Our copyrighted, actuarially certified software has calculated the following life insurance death benefit schedule needed to replicate what Jane would receive in survivor income from John's pension.

The software's 287 step algorithm considers factors such as any pension cost of living adjustment and Jane's life expectancy at every year in John's retirement.

We utilize the most recent CSO mortality tables for the survivor's gender and assume reasonable rates of return from the insurance death benefit proceeds.

The insurance death benefit declines over time because as the couple ages, Jane will receive less accumulated payments from John's pension.

Pension Plan's Annual Cost of Living Adjustment	3 %
Life Mortality Tables Used:	CSO 2001 FEMALE
Death Benefit Investment Rate:	6 %

\* The Death Benefit Investment Rate is the investment rate of return Jane would need to receive on the lump sum life insurance death benefit to replicate what she would have received from the pension.

<i>Jane's Income</i>			<i>Pension</i>	<i>ROP</i>
<i>Year</i>	<i>Age</i>	<i>Annuity Factor</i>	<i>Annual Income</i>	<i>Insurance Death Benefit*</i>
2010	56	18.1983	\$30,024	\$547,230
2011	57	17.4293	\$30,925	\$547,230
2012	58	17.0401	\$31,825	\$547,230
2013	59	16.6471	\$32,726	\$547,230
2014	60	16.2500	\$33,627	\$547,230
2015	61	15.8491	\$34,528	\$547,230
2016	62	15.4442	\$35,428	\$547,163
2017	63	15.0354	\$36,329	\$546,222
2018	64	14.6228	\$37,230	\$544,405
2019	65	14.2068	\$38,130	\$541,710
2020	66	13.7874	\$39,031	\$538,139
2021	67	13.3652	\$39,932	\$533,698
2022	68	12.9406	\$40,833	\$528,400
2023	69	12.5140	\$41,733	\$522,251
2024	70	12.0861	\$42,634	\$515,280
2025	71	11.6583	\$43,535	\$507,540
2026	72	11.2310	\$44,436	\$499,057
2027	73	10.8048	\$45,336	\$489,849
2028	74	10.3801	\$46,237	\$479,945
2029	75	9.9573	\$47,138	\$469,362
2030	76	9.5367	\$48,038	\$458,126
2031	77	9.1186	\$48,939	\$446,257
2032	78	8.7036	\$49,840	\$433,784
2033	79	8.2917	\$50,741	\$420,727
2034	80	7.8833	\$51,641	\$407,105
2035	81	7.4874	\$52,542	\$393,402
2036	82	7.1053	\$53,443	\$379,726
2037	83	6.7338	\$54,343	\$365,939
2038	84	6.3738	\$55,244	\$352,114
2039	85	6.0264	\$56,145	\$338,353
2040	86	5.6836	\$57,046	\$324,226
2041	87	5.3618	\$57,946	\$310,696
2042	88	5.0599	\$58,847	\$297,761
2043	89	4.7781	\$59,748	\$285,481
2044	90	4.5069	\$60,648	\$273,334

# 5 Post Retirement Scenarios

The Following Illustration Compares All 5 Scenarios in the 1st Year of Retirement:

**J&S Option:** Reduced pension income while John is alive and 66% pension income for Jane.

**ROP:** Maximum pension income while John is alive and life insurance policy for Jane.

The following are annual figures

## 1. Both Live Long Lives

	J&S Option	ROP	1st Year Savings
Pension income	\$ 45,018	\$ 54,366	
Less Federal Income Tax	\$ 5,918	\$ 7,320	
Less Insurance Premium	\$ -	\$ 7,104	
Adjusted Gross Income	\$ 39,100	\$ 39,942	\$ 841

**ROP Is Better**

## 2. John Dies First

	J&S Option	ROP	1st Year Savings
Lump Sum Option	\$ -	\$ 547,230	
Or - Income Option	\$ 30,024	\$ 30,024	
Less Federal Income Tax	\$ 4,086	\$ 1,154	
Adjusted Gross Income	\$ 25,938	\$ 28,870	\$ 2,932

**ROP Is Better**

Lump Sum is tax free  
or  
Tax Exclusion Amount\*  
\$18,487.51

## 3. Jane Dies First \*\*

	J&S Option	ROP	1st Year Savings
Pension Income	\$ 45,018	\$ 54,366	
Less Federal Income Tax	\$ 5,918	\$ 7,320	
Adjusted Gross Income	\$ 39,100	\$ 47,046	\$ 7,946

**ROP Is Better**

## 4. Both John & Jane Die At Or About The Same Time

	J&S Option	ROP
Money Passed to Estate	\$ -	\$ 547,230
Adjusted Gross Income	\$ -	\$ 547,230

**ROP Is Better**

## 5. Emergencies Or Opportunities May Occur That Require Additional Cash.

	Year	J&S Option	ROP
Cash Surrender (CSV)	5	\$ -	***
	10	\$ -	***
	15	\$ -	***
	20	\$ -	***
	25	\$ -	***
	30	\$ -	***

See  
Accompanying  
Life  
Insurance  
Ledger  
For  
Values

\*\*\* See Insurance Illustration for Cash Surrender Value - ROP is better

\* Due to the exclusion allowance on life insurance annuity payouts, Jane's income tax is effectively lower.

\*\* If Jane dies first, John owns the life insurance policy and any cash surrender value within the policy.

# Input Data

	<u>Member</u>	<u>Beneficiary</u>
First Name	John	Jane
Last Name	Smith	Smith
Gender (M , F)	M	F
Date of Birth:	10/21/1946	5/25/1954
Member's Target Retire Date:	9/1/2010	
Retirement Age:	63.9	56.3
Employer:	Anytown School District	
Report Preparation Date	6/21/2010	

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## Pension Plan or Annuity Income

Member's full pension income (monthly)	\$ 4,530.50
Member's reduced survivor option income (monthly)	\$ 3,751.50
Beneficiary's income if member dies (monthly)	\$ 2,502.00
Member's income if beneficiary dies first (monthly)	\$ 3,751.50
Cost of Living Adjustment (COLA) %	3.0%
Compounded COLA Interest Rate (yes=1, no=0)	0

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## Pension Plan Survivor Option

	Option Name	% to Survivor	Reduction Factor
<i>Comparison Option</i>	2	67%	82.8%

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## Life Insurance

Target Insurance Premium % of Pension Reduction 76.0%

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## Agent/Financial Planner Contact Information:

Agent: John Doe  
E-mail address: xxx@abc.com  
Phone: (xxx) xxx-xxxx



## For Agents Use Only

Member	John Smith	Gender	M
Target Retirement Date	9/1/2010	Insurance Age	63.7

Agent Instructions: Insert the premium & death benefit figures into your insurance browser starting with year 1.

To simplify the process, rows highlighted in yellow are 5 years apart after retirement date.

You can enter these figures into your insurance browser and keep them level for 5 years.

Example:	Years	1-5	6-10	11-15
	Premium	\$7,104	\$8,170	\$9,236
	Death Benefit	\$547,230	\$547,230	\$538,139

Once you reach the end of the premium and death benefit schedules, keep the premium and death benefit figures level until age 119.

	Year	Cal. Year	Premium Schedule	Death Benefit Schedule
Pre-Retirement				
Retirement	1	2010	\$7,104	\$547,230
	2	2011	\$7,318	\$547,230
	3	2012	\$7,531	\$547,230
	4	2013	\$7,744	\$547,230
	5	2014	\$7,957	\$547,230
	6	2015	\$8,170	\$547,230
	7	2016	\$8,383	\$547,163
	8	2017	\$8,596	\$546,222
	9	2018	\$8,810	\$544,405
	10	2019	\$9,023	\$541,710
	11	2020	\$9,236	\$538,139
	12	2021	\$9,449	\$533,698
	13	2022	\$9,662	\$528,400
	14	2023	\$9,875	\$522,251
	15	2024	\$10,088	\$515,280
	16	2025	\$10,301	\$507,540
	17	2026	\$10,515	\$499,057
	18	2027	\$10,728	\$489,849
	19	2028	\$10,941	\$479,945
	20	2029	\$11,154	\$469,362
	21	2030	\$11,367	\$458,126
	22	2031	\$11,580	\$446,257
	23	2032	\$11,793	\$433,784
	24	2033	\$12,007	\$420,727
	25	2034	\$12,220	\$407,105
	26	2035	\$12,433	\$393,402
	27	2036	\$12,646	\$379,726
	28	2037	\$12,859	\$365,939
	29	2038	\$13,072	\$352,114
	30	2039	\$13,285	\$338,353
	31	2040	\$13,499	\$324,226
	32	2041	\$13,712	\$310,696
	33	2042	\$13,925	\$297,761
	34	2043	\$14,138	\$285,481
	35	2044	\$14,351	\$273,334