Utah Retirement Systems
P.O. Box 1590
Salt Lake City, UT 84110-1590

Or visit us at
560 East 200 South, Suite 240
Salt Lake City, UT 84102-2021
801-366-7770 • 800-695-4877
TTY 800-877-8339 or 711

Southern Utah Branch
165 North 100 East #9
St. George, UT 84770-2505
435-673-6300 • 800-950-4877

www.urs.org

05/19/16

Utah Retirement Systems
Retiring Soon!

Pension Maximization

Is It for You?

If you plan to retire soon, you could get a call from an insurance agent explaining a way you can receive a bigger pension and leave a larger benefit for your spouse. Sounds good. What's the catch?

As a member of the **Public Employees Retirement System** you have two ways to structure your lifetime pension payments at retirement:

Single Life Only. You have two options: 1 – The highest possible benefit, ceasing when you die. 2 – A slightly reduced benefit, ceasing when you die; any unused member contributions go to your beneficiary.

Continuing Benefit. Four options pay a reduced benefit during your life and a continuing lifetime benefit to your surviving spouse after you die. (*Described above right.*)

In a plan called pension maximization an insurance agent will advise you to select Option 1, which gives you the largest benefit during your life, instead of the reduced payment of a continuing survivor benefit. You would then use that extra money to buy a life insurance policy with your spouse as the beneficiary. When you die, the insurance proceeds will replace the pension for your spouse who, the theory goes, will be better off than under a URS survivor option.

URS Retirement Payout Options

Option 1 — Maximum lifetime benefit.
No monthly payment to spouse after you die.

Option 2 — Reduced lifetime benefit.
Allows any remaining member contribution balance to be paid to choice of beneficiaries.

Option 3 — Reduced lifetime benefit;
same lifetime benefit for spouse after you die.

Option 4 — Reduced lifetime benefit;
50% lifetime benefit for spouse after you die.

Option 5 — Reduced lifetime benefit; same lifetime benefit for spouse after you die.
If spouse dies first, payout reverts to Option 1.

Option 6 — Reduced lifetime benefit; 50% lifetime benefit for spouse after you die.
If spouse dies first, payout reverts to Option 1.

PLSO (Partial Lump-Sum Option)
Select a one-time advance payment equaling 12 or 24 months' worth of your monthly benefit. Reduced lifetime benefit thereafter.

Will it work? Can you really give yourself a bigger paycheck now and provide a superior benefit to your spouse when you die?

Let's just say there are cases where pension max at retirement may work — dual pensions, alternate beneficiaries, spouse's life expectancy being among them. However, for most people it does not measure up to its claims.

(*Continued on page 3.*)

» **The difference in after-tax payout** between Option 1 (single life) and an Option 3 or 5 (continuing benefit) may not be enough at your age to buy a safely adequate insurance policy to replace your spouse's full URS survivor benefit, considering the risks involved.

» **Insurance premiums are paid from your after-tax income,** which reduces your spendable income. Insurance illustrations often begin by comparing your larger *pre-tax* income.

» **By forgoing a URS continuing pension your spouse surrenders the built-in cost-of-living adjustments (COLA).** For a price, certain life insurance annuities will pay increasing amounts each year. Calculate the cost and the annuity payout for 25-30 years to see if it beats your URS COLA over that time.

» **Your age and health will dictate the cost of your insurance.** In reality many retirees can't qualify for the best rates. Make sure you qualify for the insurance you need — *from a highly rated company* — before choosing your URS pension payout option.

To learn more about life insurance, visit www.insurance.utah.gov

Insurance exists to manage risk. Why introduce any risk to your URS pension that's already 100% secure?

» **Insurance sales people can have a direct financial interest** in selling you the product that pays them the highest commission.

» **Is the insurance proposal guaranteed** to work exactly as claimed? Life insurance policies and annuities are often interest rate sensitive, meaning that premiums or cash accumulations can vary from your expectations. Insist on seeing a "worst case" scenario, then use that as your standard.

» **If inflation, illness, or an emergency requires all your resources,** cancelling your costly insurance policy cancels your spouse's retirement income source — the central point of pension max. For a price you may be able to buy a policy that guarantees your premium will be paid, if needed.

» **Will an aged spouse be able** to make prudent investment decisions about the insurance proceeds years after you're gone?

» **Why don't accountants and financial experts champion pension max?** Almost uniformly, professionals who have run the actual figures conclude that the results seldom support its claims, and that its high degree of risk can be detrimental to the retiree and spouse alike.

The URS payout option you choose is final. If after retiring you feel you've erred in selecting Option 1, you cannot convert your payout to cover your spouse.

Compare Your URS Survivor Pension

» Your URS pension is free of commissions and fees. No incentive exists for personal gain by any URS employee.

» There are never misrepresentations about what you can expect.

» You know before you retire how much money you'll receive each month and how much your spouse will receive after you die.

» Interest rates have no bearing on the amount or payment of your URS pension benefit.

» Your URS pension is already paid for. There is zero risk that it will fail to work as promised.

» Old age or health issues will never disqualify you from receiving your URS pension benefit.

» Your URS pension will not be cancelled for non-payment of *anything* when you retire.

» Your URS pension has a built-in cost-of-living adjustment based on the consumer price index.

» Your widowed spouse need never make pension investments or shop for annuities.

» If you should lose everything you own, your URS joint pension benefit will continue without fail to the day you both die.

Despite the agent's or planner's best projections, pension maximization cannot give you these security assurances.

Sources Referenced

» "Watch the Numbers if You're Considering a Switch in Life Insurance" by Jane Bryant Quinn, *Newsweek* magazine.

» "Casualties of Pension Max" by Jane Bryant Quinn, *Newsweek* magazine.

» "Pension Max Issues" by Brian B. Murphy, FSA, Gabriel, Roeder, Smith & Company, benefit consultants and actuaries.

» Elliot Lipson, president of Horizon Financial Advisors, as quoted in *The Wall Street Journal.*

» Albert E. Easton, consulting actuary for Milliman & Robertson; author with Timothy F. Harris of "Actuarial Aspects of Individual Life Insurance and Annuity Contracts."

» James H. Hunt, actuary and former Vermont State Insurance Commissioner; insurance advisor.

» "Why-or Why Not-Choose Pension Max?" by W. John Allen, JD, Allen-Warren, Arvada, CO.

» Leon LaBrecque, CFP, CFA, CPA and attorney specializing in estate planning, Troy, MI.

» "Determining Withdrawal Rates Using Historical Data" by William P. Bengen in the *Journal of Financial Planning.*

» George Paniculam, MBA, CFP; article for the Institute of Certified Financial Planners.

» "Beware of 'Pension Max' Insurance Sales Pitch", by Earl C. Gottschalk, Jr., *The Wall Street Journal.*

» "Pension Maximizer: Boon or Bust" by E.M. Abramson, AARP *Modern Maturity* magazine.

» Ronald W. Roge', MBA, CFP (business pension plans), ref. by Robert Clark, editor, *Worth* magazine; and in "Plain Facts about Pension Max", by Melynda Dovel Wilcox, *Money* magazine.

» Additional sources on file.