

Pension Maximization Strategy

Using Life Insurance

Get More Out of Your Pension Payment Options



PACIFIC LIFE

AD-OC-703C

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AS RETIREMENT APPROACHES, YOU ARE FACED WITH DECISIONS ABOUT YOUR PENSION

When retiring with pension plan benefits, you and your spouse are faced with the difficult decision of selecting a retirement income payout option. Generally, there are two selections from which to choose:

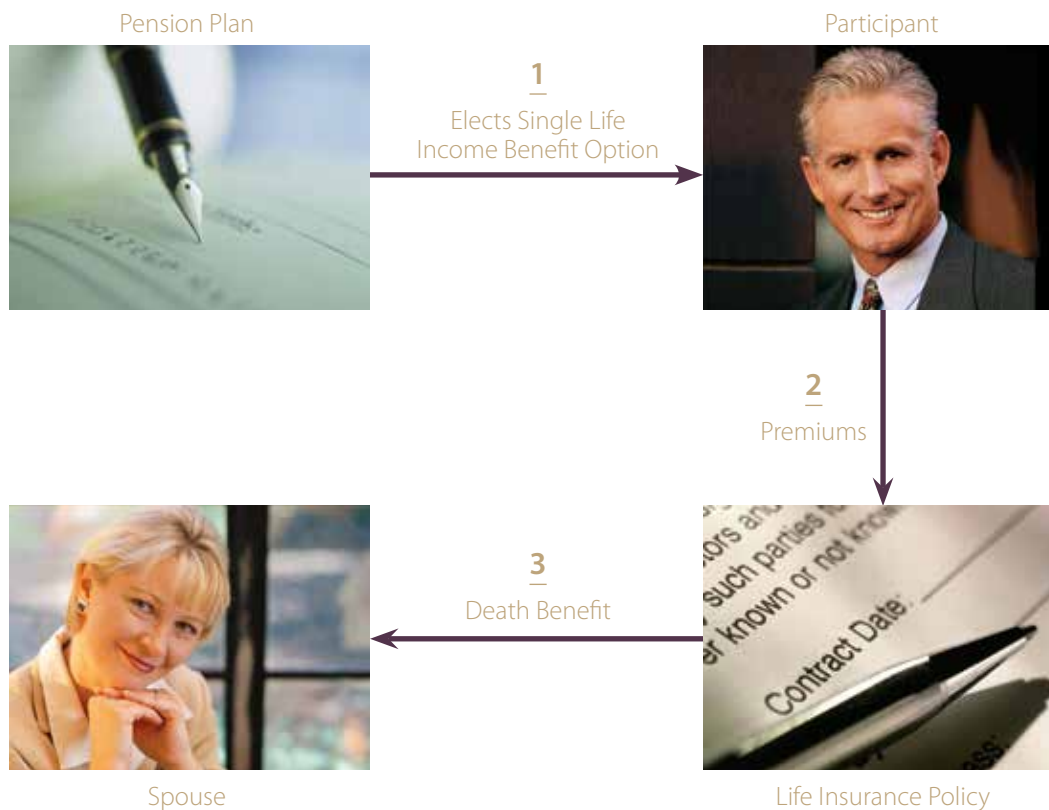
- A single life benefit payout option provides a generally higher monthly income than a joint and survivor benefit during the lifetime of both spouses, but provides no monthly income to the surviving spouse in the event the plan participant dies.
- A joint and survivor benefit payout option provides a reduced monthly income during the lifetime of both spouses and a continuing percentage of that monthly income paid to the survivor in the event that the plan participant dies.

THE PENSION MAXIMIZATION STRATEGY MAY HELP YOU GET MORE PENSION INCOME

The Pension Maximization Strategy uses a combination of your pension payout election and life insurance to help you make the most of the pension income during your lifetime and provide protection for your spouse at your death. You and your spouse choose the single life benefit payout option. This generally results in a larger benefit payment than the joint and survivor benefit payout option. Prior to electing your payment option, you and your spouse purchase a life insurance policy insuring your life and naming your spouse as the beneficiary. In order to have unfettered access to the life insurance policy's cash value during his or her lifetime, the insured will personally own the life insurance policy. At the insured's death, the unlimited marital deduction will allow the insured's spouse to receive the death benefit proceeds estate tax-free.¹ The life insurance death benefit proceeds may now be used to replace the retirement income that your spouse loses upon your death.

¹ According to the American Taxpayer Relief Act of 2012, the federal estate, gift and generation skipping transfer (GST) tax exemption amounts are all \$5,000,000 (indexed for inflation effective for tax years after 2011); the maximum estate, gift and GST tax rates are 40%.

² For federal income tax purposes, life insurance death benefits generally pay income tax-free to beneficiaries pursuant to IRC Sec. 101(a)(1). In certain situations, however, life insurance death benefits may be partially or wholly taxable. Situations include, but are not limited to: the transfer of a life insurance policy for valuable consideration unless the transfer qualifies for an exception under IRC Sec. 101(a)(2) (i.e., the "transfer-for-value rule"); arrangements that lack an insurable interest based on state law; and an employer-owned policy unless the policy qualifies for an exception under IRC Sec. 101(j).



- 1 Benefit Option:** Participant and his or her spouse choose the single life income benefit payment option rather than the joint and survivor benefit payment from his or her pension plan.
- 2 Life Insurance Policy:** Participant purchases and pays premiums on a life insurance policy on his or her life naming his or her spouse as the beneficiary.
- 3 Death of Participant:** Upon the death of the participant, the pension benefits stop. The life insurance death benefit proceeds should be paid to the spouse/beneficiary free from estate and income² taxes. The death benefit proceeds may be used to replace the discontinued pension income to the surviving spouse.

ADVANTAGES INCLUDE:

- At the participant's death, the life insurance death benefit proceeds and any interest earned from the death benefit proceeds may be used to provide the spouse/beneficiary's retirement income.
- The life insurance death benefit proceeds are generally received by the spouse/beneficiary free of estate and income* taxes.
- The spouse may choose to "annuitize" the death benefit proceeds using one of the available options to provide a guaranteed income stream.
- If the spouse dies before the participant, the participant may use the policy's available cash values to supplement the participant's retirement income. When the participant dies, the remaining life insurance death benefit would pass to the heirs.
- If both the participant and the spouse live to life expectancy, they may enjoy the larger retirement income payout provided by the single life benefit payment option.

DISADVANTAGES INCLUDE:

- Spouse's medical benefits may be tied to survivor pension benefits. Electing a single life benefit payment option may eliminate those survivor medical benefits. Careful review of related retirement benefits is needed before adopting this option.
- The spouse may have little or no investment experience and may deplete a lump sum death benefit well in advance of life expectancy. Careful review of the settlement options offered by the life insurance policy with your financial advisors is recommended.
- A single life benefit payout option may not provide sufficient income to provide retirement income and pay the life insurance premiums.
- At the death of both spouses, any remaining life insurance death benefit proceeds may be subject to estate taxes.

* For federal income tax purposes, life insurance death benefits generally pay income tax-free to beneficiaries pursuant to IRC Sec. 101(a)(1). In certain situations, however, life insurance death benefits may be partially or wholly taxable. Situations include, but are not limited to: the transfer of a life insurance policy for valuable consideration unless the transfer qualifies for an exception under IRC Sec. 101(a)(2) (i.e. the "transfer-for-value rule"); arrangements that lack an insurable interest based on state law; and an employer-owned policy unless the policy qualifies for an exception under IRC Sec. 101(j).



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This fact finder is provided to help you and your life insurance producer better understand your goals and objectives. Please return the information to your life insurance producer and not to Pacific Life as we cannot and do not provide financial, legal or tax advice.

Using Life Insurance

VITAL INFORMATION

Participant's Name: _____

Participant's Date of Birth: _____ Sex: M F

Risk Status: Super Preferred NonSmoker Preferred Plus NonSmoker Preferred NonSmoker
 Standard NonSmoker Preferred Smoker Standard Smoker

Participant's Spouse's Name: _____

Participant's Spouse's Date of Birth: _____ Sex: M F

Risk Status: Super Preferred NonSmoker Preferred Plus NonSmoker Preferred NonSmoker
 Standard NonSmoker Preferred Smoker Standard Smoker

Present Income Tax Bracket: _____

Future Income Tax Bracket: _____

Estate Tax Bracket: _____

Pension Plan Balance: _____

Participant's Age at Retirement: _____

What are the pension payout options available from your employer's pension plan?

Single Life: _____

Joint Life: _____

ADDITIONAL NOTES





Pacific Life Insurance Company
Newport Beach, CA
(800) 800-7681 • www.PacificLife.com

Pacific Life & Annuity Company
Newport Beach, CA
(888) 595-6996 • www.PacificLife.com

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Life Insurance Producer's Name

State Insurance License Number
(or affix your business card)