Financial Planning Insights

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Carnick & Company
Personal Financial Advisors

Recently, a number of our clients have reached the point where they need to make important decisions regarding employee retirement benefits. The choices they face often involve their 401k plans and retiree medical benefits as well as pension benefit payment options. As part of a continuous effort to share our financial planning knowledge, we'd like to offer you some insights related to this aspect of retirement planning.

Several pension payment options are often available, but the best choice for some isn't necessarily a good fit for others. Do you know which option would be best for you? We've helped clients evaluate pension options based on their asset mixes, projected tax rates and lifestyles.

Take Bill and Jennifer for example. As Bill approached retirement, he found himself deciding between several pension payment options. We considered a number of factors when helping him with this decision including his and Jennifer's health, life expectancies, other income sources, living expenses, assets, tax bracket, and life insurance policies.

One of the first decisions you may face when nearing retirement is whether to choose a lump-sum distribution (one-time payment) or a lifetime monthly annuity (series of payments over time). Initially you'll need to compare the value of the lump-sum to the monthly pension payments over your estimated life expectancy. Other factors you'll want to take into account are your health, your employer's ability to make future pension payments, and whether or not your pension offsets inflation and cost of living increases.

If the lump-sum in not appealing, or in Bill's case not offered at all, it's important to identify the benefits your spouse would receive from the other options. Joint Survivor pension plans offer lower payments but guarantee income for the spouse if the pension holder dies, whereas Single-Life annuities provide larger payments but only guarantee them for the life of the pension holder.

For Bill, ensuring income for Jennifer in the event of his death was an important factor. Because he didn't have adequate life insurance, we considered purchasing additional insurance with the higher payments he'd receive from of a Single-Life annuity. This option was eliminated however when the expense of additional insurance combined with the higher taxes on Single-Life annuity payments proved too costly. Considering the fact that Bill and Jennifer had sufficient assets and the ability to generate retirement income from other sources, we determined that they could self-insure and opt for a higher payment guaranteed for ten years. If Bill were to die unexpectedly in the first few years, the 10-Year Certain option ensured that the payment wouldn't decrease as it would with the couple's other options. This is shown in the table below.

Annual Pension Income for Spouse after Pension Holder's Death

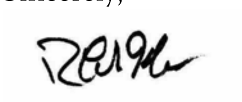
10-Year Certain & Life	50 % Joint Survivor	Single-Life Annuity
$31,000	$14,500	$0

In the end, Bill and Jennifer achieved peace of mind knowing their retirement income and asset growth would be maximized and that no matter what happened to Bill, Jennifer would have the means to maintain her standard of living.

This story highlights the importance of taking a comprehensive approach to financial planning. It's critical to realize that individual financial decisions made in isolation can impact other financial aspects of your life. In order to make an educated decision, you must recognize that taxes, lifestyle, asset type and size are all intertwined.

Please feel free to give us a call if you have questions about your retirement benefits or if we can help you in any other way. My number is 579-8000, extension 5.

Sincerely,



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