

Your Spouse And Your Pension

You face a tough dilemma if you're in line for a pension at retirement. It could cost you and your spouse thousands of dollars and take a big chunk out of your children's inheritance.

It's called the "pension dilemma," because you may end up making a trade-off on your pension — deciding whether to take your full pension benefit and expose your spouse to a loss of benefits at your death, or taking less than your maximum benefit in exchange for continuing benefits after you die for your spouse.

As an example, let's say you'll be eligible for a \$1,000 monthly pension benefit at retirement. That's the value of your benefit and the amount you will receive under the "single life option." The only problem is that your benefits will be paid only as long as you live. At your death, your pension benefits die with you. That's fine if you're single, but not if you're married. Should you die first, your spouse not only loses you, but also \$12,000 a year in income.

That's why, if you're like most married people, you will select a "joint and survivor option," which pays benefits as long as either of you is alive. Since your spouse has a legal claim to your benefits, this is the option automatically offered by law to married retirees. Before you can elect another option, you must both agree in writing.

However, the cost can be high. Though the actual number depends on a number of factors, a typical \$1,000 monthly benefit could be reduced significantly. For the sake of discussion, if a "joint and full survivor option" is selected, that "single life option" benefit of \$1,000 could be reduced by as much as \$250. That adds up to \$3,000 a year - \$30,000 over a ten-year period - in lost benefits.

There are obviously advantages and disadvantages to both scenarios. There are pension maximization strategies that can be employed that utilize other financial and/or insurance products. Like any strategy, there are many factors that need to be taken into consideration, including you and your spouse's ages, health status, actual pension benefit, and costs.

Your financial or tax advisor can explain what your options are and help you determine which strategy is most appropriate for your situation. Plan provisions may also affect your strategy, so be sure to check with your plan provider for additional information.