

Your Spouse and Your Federal Government Pension Plan



Is Pension Maximization
Right for You?



IHC Financial Group, Inc.
Independence Holding Group

What is Pension Maximization?¹

The federal government has created a defined benefit (annuity) retirement program for all CSRS, CSRS offset and FERS employees. This benefit is based on years of service and the age you plan to retire from the federal government. It is also referred to as a basic benefit, basic annuity or pension. CSRS, CSRS offset and FERS contribute each pay period for this benefit and it is matched by the government.

Upon retirement, many federal employees may wish to share a percentage of this basic benefit with their spouse in the event of their (the federal employee's) death during retirement. This is called a survivor benefit. In the CSRS and CSRS offset, a little less than 10% of their basic annuity is given up in order to provide a 55% benefit for their spouse. In the case of a FERS employee, the full 10% of their basic benefit is given up in order to provide their spouse a 50% benefit of their basic annuity. This amount is paid by the federal employee on an annual basis.

Pension Maximization Option 2

1. At retirement, you and your spouse opt to take the single-life option- receiving your maximum pension benefit for as long as the retired federal employee is alive.
2. Upon retirement, you and your spouse opt to take the survivor benefit which pays the surviving spouse in retirement with 50%-55% of the retiree's pension amount in the event the federal employee dies first.
3. Prior to retirement, the federal employee purchases a sufficient amount of life insurance naming the spouse as the primary beneficiary. This life insurance plan is purchased with a portion of the additional pension funds-the difference between the amount for the single-life option and the survivor benefit option.



Pension Maximization Highlights

- Should the spouse die first, the insurance can be cancelled leaving you with more disposable income
- Potentially reduces the cost for federal employee's choosing a survivor option
- Provides for a tax-free spousal income benefit
- Allows for a rebate of costs should the spouse die first, cash values may be accessible
- Tax-free lump sum settlements for your family upon premature death
- Provides necessary risk management to cover tax liabilities on the federal employee's annuity benefit at death
- Allows various options and flexibility to the federal employee, spouse and their family members
- Increases retirement income for federal employees and their spouse or other family members
- Enables federal employees valuable tax-deferred savings options

Are you aware that . . .

Without the surviving spouse benefit option, an early death would cause the entire pension to be wasted?

If your spouse dies first, you lose your survivor benefit. All money allocated to this benefit is lost?

If the retiree lives a short time, the surviving spouse faces a lifetime of reduced benefits?

If both retiree and spouse live a full life and die within a relatively close time of each other, little benefit is realized after years of taking a reduced pension income?

In either case, the children, estate or charity will never inherit any benefits?

The difference between the single life benefit and the surviving spouse benefit can be used today to purchase a permanent life insurance policy that can accumulate cash values? If the spouse precedes the federal employee in death, the retiree can surrender the policy for the cash values or leave the death benefit to another beneficiary of their choice. Upon approval, premiums can be made through federal government payroll deduction?



Monthly Benefit Options at Retirement (Example)

Option #1 Single Life Benefit

- \$3,500 per month paid to retiree until death
- Upon death of retiree, benefits will cease
- Spouse receives nothing

Option #2 Surviving Spouse Benefit

- \$3,150 per month paid to retiree until death
- Upon death of retiree, spouse will receive 50%-55%
- Upon death of spouse, benefits cease
- Spouse receives approximately \$1,837 each month at a cost of \$350.00
- Over a 25 year period this benefit cost the retiree \$105,000.00

Option #3 Pension Maximization

- Select the Single Life Benefit
- Receive \$3,500 per month during your lifetime
- Purchase a permanent life insurance contract with the \$350 monthly difference

**Please note: If the federal employee's spouse wishes to continue the FHIP (Federal Health Insurance Program) in retirement, the federal employee must provide a minimum survivor benefit at the time of their retirement.

- CSRS and CSRS offset – Minimum cost of \$90 annually which provides a \$165.00 monthly benefit
- FERS – Minimum cost is 5% of their basic benefit which provides a 25% benefit to the spouse

Strength. Vision. Stability



IHC Financial Group, Inc.
Independence Holding Group