

RETIREMENT REPORT

Your Guide to a Richer Retirement

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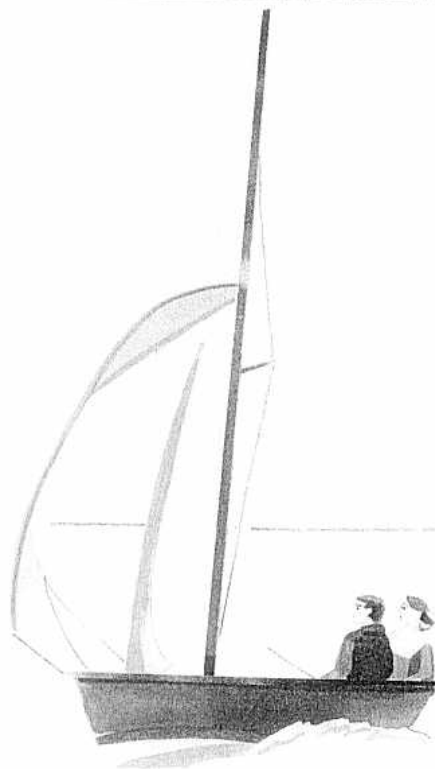
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Guarantee Your Spouse Income for Life

YOU'RE ON the cusp of retirement and ready to take your pension, but now you've got a big decision to make. Do you take the joint-and-survivor option, where your monthly payment is lower but your spouse is covered for life if you die? Or do you take the larger monthly benefit that ends at your death? Once the choice is made, you're stuck with it.

If you're married, the joint-and-survivor option is generally automatic. If you decide against the option, your spouse must waive his or her right in writing. That extra income may be tempting. But many pension experts and financial planners agree that most couples should take the joint-and-survivor option.

Why? "The biggest fear today for everyone retiring is outliving their income," says Seth Pearson, a certified financial planner in Dennis, Mass. With longer life expectancies and rising health-care costs, there's a risk that you could deplete other assets. Taking the joint-and-survivor option means your spouse will have guaranteed income for life.

Here's how it works: The survivor benefit will be a percentage of the monthly pension you receive. Private pension plans have been legally required to offer a 50% option. Say a husband is eligible for a monthly single benefit of \$2,000, and he and his wife decide to use the 50% option. His monthly benefit would be reduced, perhaps by 10%, to \$1,800. If he dies first, his wife will get \$900 a month—50% of his reduced monthly benefit—until she dies.

Thanks to the Pension Protection Act of 2006, most plans will be required to offer a 75% option starting in 2008, says Rebecca Davis, coordinator of the Women's Pension Project of the Pension Rights Center (www.pensionrights.org). Some plans already offer a 75% option, and some have a 100% option.

The higher the percentage, the lower the monthly benefit—for you and your spouse together and for you alone if your spouse dies first. Still, Pearson rec-

ommends taking the maximum survivor benefit that your plan offers. Although you and your spouse may have to reduce your standard of living, your spouse won't face a big lifestyle change if you die first.

Other Decisions to Make

Some plans offer a certain-and-continuous option.

This option usually is offered under set time frames,

often 10 years or 20 years. If you take a 20-year option and you and your spouse die a year after starting benefits, your beneficiaries will receive the benefits for the remaining period up to 20 years. This option comes at a cost of a reduced benefit, so decide how important it is that your heirs benefit from your pension.

Ask your plan administrator to run the numbers to compare your options. Determine how much your other assets will

cover your expected costs. The International Foundation of Employee Benefit Plans offers a guidebook, *Your Pension and Your Spouse—The Joint and Survivor Dilemma* (\$14; www.ifebp.org/bookstore; 888-334-3327).

If both you and your spouse are entitled to a pension, usually both spouses should take the option, says Michael Potito, of Singer Potito Associates, a financial-planning firm in East Longmeadow, Mass. "The survivor will wind up better off," he says.

There's one circumstance when waiving the joint-and-survivor option could make sense. If your spouse is in very bad health and you're fairly certain that you will live longer, you may want to take your full, single benefit. Otherwise, take the option. The amount that you and your spouse could receive over time could make up for the reduction in the benefit. "Pension actuaries don't know your situation—there's no medical underwriting," says Barry Kaplan, a certified financial planner with Cambridge Southern Financial Advisors, in Atlanta.

Ask if the survivor benefit is tied to retiree medical benefits. If so, waiving the survivor benefit may cause your spouse to lose health coverage. **K** —RACHEL L. SHEEDY

