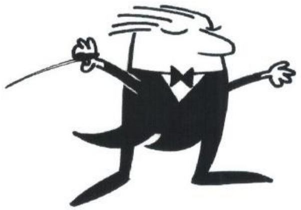
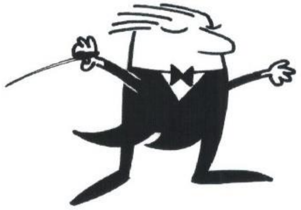
SPIA/Pension Marital Property



Legal Disclaimers and
Litigation Economic Experience

Assumptions



All property is 100% Marital

All property is to be divided equally

Case

- **Couple #1: Male age 65, Female age 55, long term marriage**

- **Couple #2: Male age 65 Female age 55, long term marriage**

- **Couple #1 He has: IRA $100,000 (<u>deferred annuity</u>, mutual fund, brokerage account, bank savings accounts, T-Bonds/Bills, the “safest” on the planet, right?) – Male**

- **Couple #2 He has: IRA $100,000 annuity (Lifetime SPIA/Pension – Male w/100% survivor to spouse-Female), producing $6,300 annually**

Couple #1 IRA

- **A perfect example of just one impediment to the "Gathering of Assets"**
- **IRA $100,000 USA T-Bonds/Bills (let's just see how safe these are)**
- **Not much economics here. The T-Bill account is 100% marital, its to be equally divided, so each, now new household (post divorce), gets $50,000 in USA T-Bonds/Bills**
- **Once this asset is divided each household suffers a PERMANENT loss of $50,000. Because, just prior to the divorce, each spouse could have relied on the entire $100,000 IRA to support their needs. But post divorce each spouses loses access to half of this amount.**
- **REDUCED STANDARDS OF LIVING!**
- **An Investment advisor would just say well just "reduce your expenses". That's their answer to a loss of wealth. Get rid of the house for an apartment, trade in the Mercedes for a Toyota, 4 trips /year to 0 trips per year, grandkids gifts reduced, they go to public school not private, etc. In the insurance business we call this phenomena REDUCED STANDARDS OF LIVING, not "reduced your expenses".**

Couple #2 IRA

- **This couple has a $100,000 IRA SPIA (lifetime income, with a 100% survivor benefit) producing an income of about $6,300 per year. It is very common when spouses purchase SPIAs a survivor benefit is added to the contract.**

- **A SPIA/Pension is not a CASH account, so in this world you divide "benefits" not cash. Because there is no cash to divide.**

- **The gut reaction of many is; Each party gets $3,150 ($6,300/2), equal division, right? WRONG!!!**

- **So, what does this look like? And what are the economics/implications?**

SPIA/Pension Division

- **When the SPIA was purchased based on his life alone it cost $80,000 for the $6,300 annual income. But when he added the IRREVOCABLE 100% Survivor benefit in the favor of his then spouse it cost him an additional $20,000. So, while the total purchase cost is $100,000 same as the T-Bond portfolio, the marital property implications are entirely different.**

- **On the SPIA, she is "irrevocable" on the contract and is already getting a $20,000 survivor benefit value. Only she gets to utilize this value. If she is to get 50% of the total contract value and she is already getting a $20,000 survivor benefit that means her net interest in the "annual $6,300 income" the contract produces is only $30,000 ($50,000 - $20,000) or 30% of the $100,000 total contract value.**

- **The annual income is $6,300 and her (30%) share is reduced to $1,890 and his share (70%) is $4,410. ! Why, because she is getting all the survivor benefit (aka deferred comp) So, economically a "fair" division.**

SPIA/Pension Contd

- **The male's "post divorce" cash flow is INITIALLY significantly higher with an annuity (SPIA) vs a T-Bond/Bill portfolio and hers is significant lower. Because he is getting 70% (assuming an equal division).**

- **In the end, how are both parties protected from the fate of couple #1, a permanent loss of household wealth?**

- **Don't forget, in our example, there is a 10-year age difference between the Male husband and the Female spouse. He is going to die (statistically) and when that occurs, her income increase from $1,890 (post divorce) to the entire $6,300 annual income (THE PRE-DIVORCE AMMOUNT) for her life.**

- **Of course, if she dies first her $1,890 share of the income dies too and he is increased to the entire $6,300 annual income for the remainder of his life. THE PRE-DIVORCE AMMOUNT) for his life.**

SPIA/Pension Final

- **And this is how INSURANCE is divided (benefits are divided) and not ASSETS not "cash".**
- **Insurance is there to protect society, the rules are different for INSURANCE because the government doesn't want to provide welfare benefits, DOLE money and public services to households.**
- **That's what immediate annuities (and also pensions) have more favorable legal treatments.**
- **The rules exist to help keep you from going broke. And divorce/property division is just one example in a long, long string of examples why governments like these arrangements vs. savings accounts.**
- **The message is: Do you yourself a favor, if you really want to be "safe", have more insured "future" income in your life and not just a collection of savings accounts.**