PENSIONS, BUYOUTS, & RETIREMENT INCOME

MOORE'S WEALTH MANAGEMENT
"Protecting Your Future"

PENSIONS, BUYOUTS, AND RETIREMENT INCOME

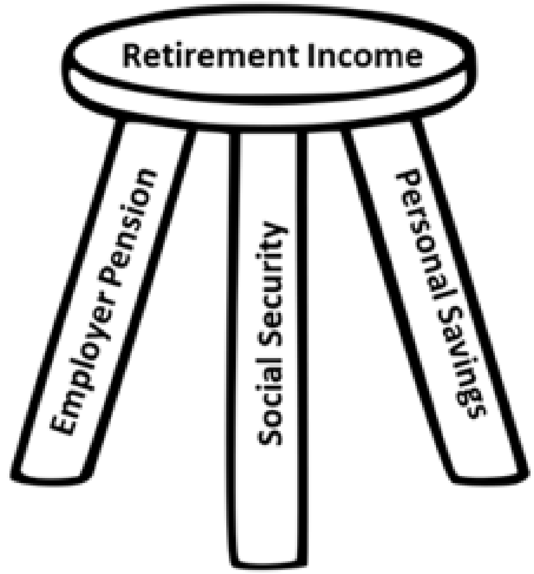
Here's proof that funding retirement has changed: In the early 1980's, about 60% of private sector employees had a defined benefit pension plan. Now, 4% are covered.[1] If workers do receive their pension, they may have to decide between receiving larger payments over their lifetime, or receiving smaller payments over their and their spouse's lifetimes. Or, they could be presented with a buyout offer and have to decide between a lump sum and monthly pension payments. There are so many decisions for you to make about your retirement income as a retiree, and the choices you make can impact your finances for the rest of your life. In this guide, we'll cover what you should know when making these decisions, such as:

1. Pension trends in the private sector
2. What to consider if you're being offered a pension buyout
3. Ways to create lifelong retirement income without a pension
4. What you can do if you're concerned about market volatility, running out of money in retirement, or taxes on your retirement savings.

1 https://money.cnn.com/retirement/guide/pensions_basics.moneymag/index7.htm

THEN VS. NOW

Retirement today is much different than it was for your parents: We live longer and spend more time in retirement, but don't necessarily want to spend much less money once we retiree. At the same time, fewer retirees can rely on a steady pension for the rest of their lives.



[2]

One of the three "legs" that make up retirement income is disappearing: Pensions have simply become too expensive for many private companies to provide, and the public sector is contending with increasing pension debt. In 2019, General Electric announced plans to freeze pension benefits for over 20,000 employees and to offer pension buyouts to about 100,000 former employees.[3] This is part of a larger trend in the private sector, where there is no guarantee that companies that originally promised pensions will follow through.

TEAM WORK	YEAR ANNOUNCED	SIZE OF RETIREMENT BENEFITS COVERED BY BUYOUT	NUMBER OF COVERED PENSION PARTICIPANTS
KIMBERLY-CLARK CORPORATION	2015	$2.5 BILLION	21,000
MOTOROLA SOLUTIONS, INC.	2014	$3.1 BILLION	30,000
BRISTOL-MEYERS SQUIBB	2014	$1.4 BILLION	8,000
VERIZON	2012	$7.5 BILLION	41,000
GM	2012	$25 BILLION	110,000

[4]

2 https://budget.house.gov/publications/report/congress-must-act-strengthen-americans-retirement-securit
3 https://www.usatoday.com/story/money/2019/10/07/ge-pension-freeze-reasons-defined-benefit-plans-are-dead/3898630002/
4 https://www.law360.com/articles/630960/recent-trends-in-pension-buyouts-and-lump-sum-offers

PENSION VS 401(K)

Workers typically either have a defined benefit, or pension plan or a defined contribution plan such as 401(k), 403(b), or 457 plan. If you have a defined benefit plan, your company defines how much monthly income pension you will receive in retirement. If you have a defined contribution plan, you decide how much to contribute to a tax-advantaged account and can then withdraw the money as you see fit at a certain age in or near retirement. Each has their advantages and disadvantages, but at this point in your life, it's important to focus on how to make the most of what you have and what you're owed.

TAKE THE LUMP SUM OR MONTHLY PAYMENTS?

More companies are offering pension buyouts to their current and retired employees. If you're offered a pension buyout or have the option between choosing a lump sum or monthly payments, you have a lot to think about. On the one hand, a lump sum distribution can give you more control over your money: You can spend it or invest it as you see fit, when you see fit. On the other hand, guaranteed income for a specified period of time or the rest of your life can certainly have its benefits, especially when you consider how long you could spend in retirement and the fact that this money is guaranteed regardless of what happens with the market. Here are some things to consider when making this important decision:

01 Do the math: Compare the lump sum amount to the monthly payment option over the course of your life. Calculate how much you would need to withdraw from the lump sum annually to meet your target income, and then compare with the monthly payments.

02 Find out if you would be forfeiting any benefits by taking a buyout, such as health insurance. Factor in the value of these benefits into your calculations.

03 Consider the financial standing of your company.

04 Consider the tax implications of both options. Would fixed pension payments increase your tax burden and prevent you from pursuing tax minimization strategies? Do you have a significant amount saved in an IRA, 401(k), or other taxable retirement account and face an increased tax burden when you withdraw funds later?

05 Consider how comfortable you would be managing a large sum of money so that it lasts the rest of your life. There's a reason why so many Americans fear running out outliving their savings.[5] Longevity risk is the risk of outliving your money, and improperly managed investments can result in drawing down a retirement account too fast.

06 If you want to provide for a spouse after your passing, consider how you might do this by taking a buyout, or if you have the option with your pension plan.

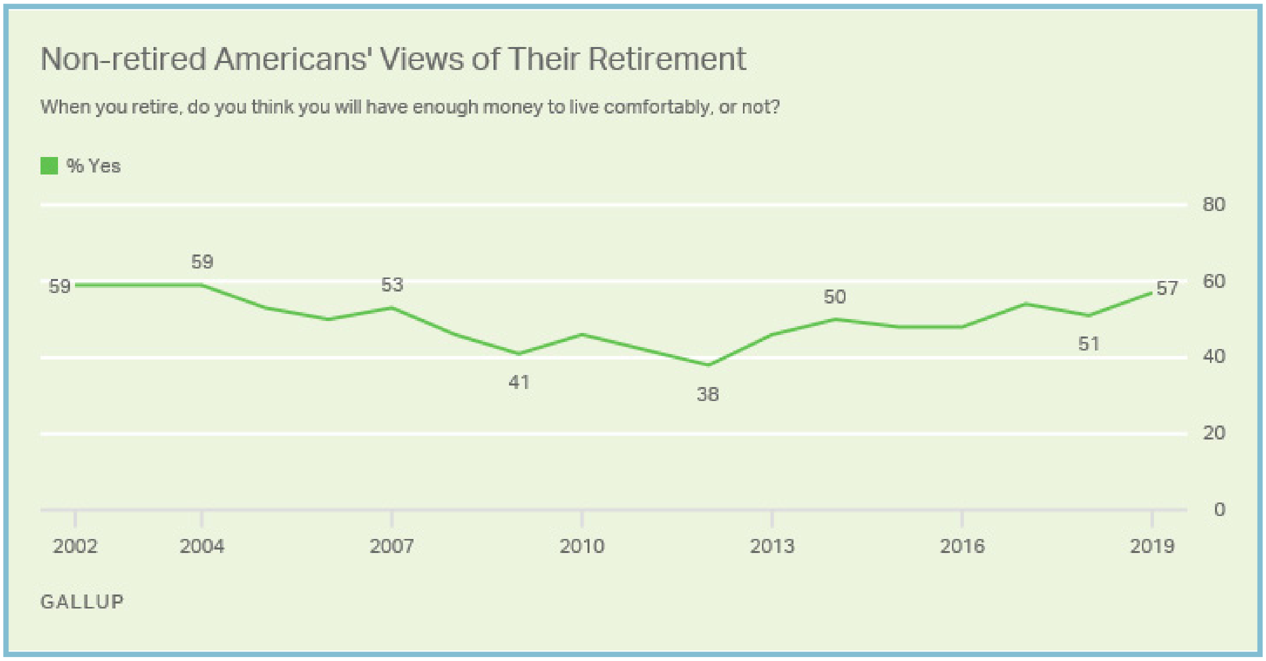
07 Consider the implications for your estate plan – you likely cannot pass on your pension payments to non-spouse beneficiaries, but can pass on an IRA to whomever you want.

08 Would you benefit from professional advice? The right decision depends on your plan's benefits and your unique financial situation. Your company may not be able to provide the in-depth, personalized advice you want and need.

5 https://www.moneytalksnews.com/slideshows/the-top-retirement-concerns-for-americans/

CONSIDER YOUR ESTATE PLAN

If you want to leave something to your loved ones when you pass on, consider the estate planning implications of your decision: If you have a pension, payments stop when you pass on. Some retirees have the option to have their spouse continue to receive payments after their own passing. However, pension benefits cannot be passed down to anyone else. This means that your heirs cannot benefit from your pension payments. On the other hand, if you take a lump sum payment and roll it into an IRA, you can pass that on. Taking the lump sum can offer more opportunities to take control of your finances and can potentially provide more flexibility for your retirement and estate plan. If you don't feel comfortable managing a large amount of money, an advisor can help you create a retirement income plan and an estate plan.



[6]

WHAT HAPPENS IF YOU TAKE THE PENSION OPTION?

If you ultimately decide to choose the monthly payment option, you may still have more decisions to make. Your options depend on your company's plan, but here are two questions to consider:

- You may have the option to receive larger monthly payments over a specific period of time, or smaller payments for the rest of your life. It's important to factor in longevity risk when planning for retirement, as well as compare the difference between these two payments.

- Will you receive income for the rest of your life, or the rest of your spouse's life as well if you pass away first? Choosing to only receive payments for your lifetime could mean larger monthly payments, while choosing to receive payments for both you and your spouse's lifetime could mean smaller payments. The right choice depends on several factors, such as you and your spouse's age difference, your Social Security spousal benefit, and what assets you will pass onto your spouse.

If you don't have any options for taking pension benefits, you may want to factor that into the decision to take the pension option. Or, you may choose to supplement your pension payments with other lifetime income options for you and or your spouse.

6 https://news.gallup.com/poll/258320/nonretired-americans-expect-comfortable-retirement.aspx

TURNING A LUMP SUM, A SEVERANCE PACKAGE, OR SAVINGS INTO LIFETIME INCOME

You may decide that taking the lump sum payment is the better option, be offered a severance package, or simply have to rely on your own savings in retirement. Whatever the case, if you don't already have a source of lifetime income in retirement, you can create one with an annuity. An annuity is a financial vehicle that takes a lump sum of money and pays out a stream of income over a set period of time, or a lifetime.

Annuities can help protect against longevity risk – the risk of outliving your money. There are various types of riders that can be attached to annuities, such as a rider that continues to pay the spouse of the annuity holder after the latter's death.

Many annuities can help protect principal from market volatility by offering a competitive rate of return regardless of market downturns.

Certain annuities can offer tax benefits: Qualified annuities are funded with pre-tax dollars, and funds can grow tax-free until they are withdrawn. Withdrawals are then taxed as income.[7]

Thanks to the recently passed SECURE Act, retirement plan sponsors will be required to state the estimated monthly payments that participants would receive if they used their entire account balance to buy an annuity.[8] The law also allows employer-sponsored 401(k) plans to add annuities as an investment option.[9] While annuities can offer guaranteed lifetime income, retirees shouldn't look for a one size fits all solution.

7 https://www.annuity.org/annuities/taxation/
8 https://www.congress.gov/bill/116th-congress/house-bill/1994
9 https://www.congress.gov/bill/116th-congress/house-bill/1994

LEAVING YOUR JOB AND TAKING CONTROL OF YOUR FINANCIAL FUTURE

Whether you're considering rolling your 401(k) or lumpsum payment into an IRA when leaving a job, know some of the benefits of an IRA:

01

AVOID A HIGHER TAX BURDEN

While it might be tempting to cash out of your old 401(k), lump sum, or severance payment in tough times, this could dramatically increase your tax burden. On the other hand, funds rolled over into an IRA are not treated as withdrawals and are not subject to income tax. You can continue to enjoy tax-deferred growth by rolling over funds directly into an IRA.

02

GAIN ACCESS TO MORE INVESTMENT OPTIONS

If you take a lump sum or severance option, you can be in charge of your own investments. With an IRA, you can invest in practically any stock, mutual fund, ETF, bond, real estate, or security. By consolidating your retirement savings into an IRA, you can gain more flexibility in your investment choices, allowing you to create a retirement plan customized to fit your unique needs.[10]

03

OPTION TO CONVERT TO A ROTH IRA

You have the option to convert funds from a traditional IRA, 401(k), or similar qualified retirement account into a Roth IRA. In this case, you would pay tax on the funds converted and then be able to withdraw them tax-free later on. You might consider a Roth conversion while your tax burden is lower, if you think taxes might rise in the future, or if you would like to pass on your wealth to loved ones in a tax-efficient manner. Be mindful that unless certain criteria are met, Roth IRA owners must be 59 1⁄2 or older and have held the Roth IRA for five years before tax-free withdrawals are permitted.[11] Please consult a tax advisor before deciding to do a conversion because it cannot be undone.

10 https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-termination-of-employment
11 https://www.investopedia.com/articles/retirement/08/convert-401k-roth.asp

YOU HAVE A LOT TO THINK ABOUT

More private companies are offering pension buyouts, there could be more market volatility to come, and interest rates are at historical lows. We're living in different times and that means our retirement plans need to adapt. We've left you with a lot of think about, but don't feel that you're alone when planning for retirement. Our team of professionals is here to help you cover all aspects of your finances so you can retire with a solid plan in place. This means taking the time to learn about your unique situation to figure out the next course of action. Whether you're being offered a pension buyout, deciding between pension options, or trying to create lifetime retirement income from savings, we can help you assess your options and create a plan that fits your needs.

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A fixed, indexed or variable annuity is for retirement or other long-term financial needs. It is intended for a person who has sufficient cash or other liquid assets for living expenses and other unexpected emergencies, such as medical expenses. Guarantees provided by annuities are subject to the financial strength of the issuing company and not guaranteed by any bank or the FDIC.

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