

# Pension lump-sum payouts and your retirement security

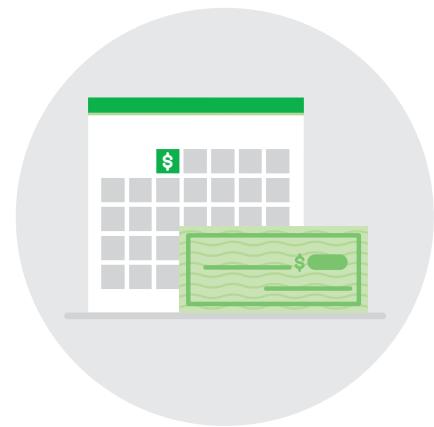
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A guide for consumers considering their retirement payout options from a private-sector plan

Your traditional pension plan is designed to provide you with a steady stream of income once you retire. That's why your pension benefits are normally paid in the form of lifetime monthly payments.

Increasingly, employers are making available to their employees a one-time payment for all or a portion of their pension. This is known as a **lump-sum payout** option.

If you choose a lump-sum payout instead of monthly payments, the responsibility for managing the money shifts from your employer to you. In addition, you increase the risk of outliving your money, and losing your money due to bad investment advice, fraud, or poor stock market performance.



# Questions to ask before accepting a lump sum

## 1. Will you be at risk of running out of money?

The monthly payment option offers steady lifetime income, which substantially reduces your risk of running out of money later in life. This is especially important if either you or your spouse is in good health or if either of you has a family history of longevity (for example, you have close relatives living into their 80s or older). A lump-sum payout, however, might make sense if you are in critically poor health, or if you and your spouse already have sufficient income to cover your basic living expenses.

## 2. Are you taking your pension in a lump sum because you're worried that you may not live long enough to get back what you've earned?

The monthly pension payment still may be a good choice if you are concerned about the retirement security of your spouse or other beneficiaries. Most plans allow you to provide monthly benefits to your spouse or another beneficiary after your death through something called a joint and survivor payout option.

### **❶ Where can you find more information about your payout options?**

Ask your employer for your pension plan administrator contact information. Your plan administrator will provide you with more specific information about your payout options.

### **3. Will you have the necessary investment skills?**

When you choose a monthly pension payment, your pension plan manages the pension. This means you don't have to worry about your investment skills and how your skills may change as you get older. In addition, you don't have to worry about calculating how much you should withdraw regularly to make your money last. A monthly pension payment gives you a fixed amount every month over your whole life, so you don't have to worry about changes in the stock market. In contrast, a lump-sum payout can give you the flexibility of choosing where to invest or save your money, and when and how much to withdraw.

### **4. Is your money protected?**

Your pension is typically insured by the Pension Benefit Guaranty Corporation (PBGC). In the event your company declares bankruptcy or can't make its payments, this federal agency guarantees your payments up to a certain amount. Your pension payments are also protected against certain creditor claims. When you take a lump-sum payout, you lose these protections.

The protections for your lump-sum money will depend on where and how you decide to save or invest it. For example, if you choose to invest your lump sum in the stock market, you could lose some or all of your money to poor investment performance, and could lose certain bankruptcy protections.

#### **Online resources**

To find out more about PBGC's guarantee limits and whether your plan is covered, go to [www.pbgc.gov](http://www.pbgc.gov)

## 5. Should you take a lump sum in order to buy a private annuity?

If you want an annuity that gives you regular guaranteed monthly income, you're generally better off staying with the monthly payment option within your pension plan. A similar annuity from a private company will usually cost you more because it charges to cover costs like a commission to the person who sells it to you.

## 6. Is a combination of payouts possible?

Only a few plans allow people to take a combination of payouts. You may decide that the value of your pension is too small to do both. Some married couples may choose to take one spouse's pension as a lump-sum payout and the other spouse's pension as a monthly payment.

### **❶ What if you have a 401(k) or similar individual retirement account?**

This guide is for consumers considering a lump-sum payout from a traditional pension plan. If you have a 401(k), IRA or similar individual retirement savings account, your payout options are typically a one-time lump-sum payout or regular withdrawals from your savings. Some 401(k) plans offer an option to convert your savings into a lifetime monthly pension payment. Ask your employer if this option is available to you.

# Regardless of the payout you choose

## Detect and correct errors in your pension or lump sum calculation

**Know:** Mistakes can happen! Many factors determine your payment amount:

- Your age
- Your years of work
- Your earnings history
- The terms of your plan
- Taxes withheld

**Act:** Take a look at your most recent pension statement. It can help you verify that the information used to calculate your payout is correct.

### Online resources

**Learn:** The ten most common mistakes in calculating a pension from the Department of Labor <http://go.usa.gov/c8XmV>

**Help:** A pension counselor can answer your questions about your pension, and help you solve problems like errors in the calculation of your payout. Find free advice from a nonprofit or federally-funded pension counselor at [www.pensionhelp.org](http://www.pensionhelp.org)

# If you choose a lump-sum payout

## Plan for tax consequences

**Know:** You will pay taxes on your lump-sum payout. Your lump sum money is generally treated as ordinary income for the year you receive it (rollovers don't count; see below). For this reason, your employer is required to withhold 20 percent of the payout.

In addition to paying income tax, you will owe an additional 10 percent penalty tax, if you take a lump-sum payout before age 59½.

**Act:** If you don't need all the money immediately, consider rolling it over into a qualified retirement account. This will protect your money from the 10 percent early withdrawal penalty and defer income taxes until you take money out.

### Online resources

**Learn:** The rollover process and the different qualified rollover options from the IRS <http://go.usa.gov/c8XpJ>

**Help:** A tax professional or accountant can help you understand your choices and the tax implications. Find a guide offering information about free tax information and services at <http://go.usa.gov/c9Pyx>

# Make your money last

**Know:** You and your spouse may spend 20 or more years in retirement. Over time the value of your lump sum can erode due to:

- Fees and commissions
- Market fluctuations
- Inflation

**Act:** Start learning about the different savings and investment products available, and how they match your personal goals and needs. Seek professional help as needed. Never keep large amounts of cash at home.

## Online resources

**Learn:** Tips, tools and other resources for investors: [investor.gov](http://investor.gov)

**Help:** A competent financial planner or adviser can help you manage and protect your lump-sum payment. Be wary of advisers who receive a commission from selling you particular products or investments. Be sure to check their credentials, complaint history, and possible conflicts of interest. Find a guide to help you assess the qualifications of a financial advisor at <http://go.usa.gov/c8XdQ>

# Protect your money from fraud and scams

**Know:** Your lump sum may be the target of scammers and fraudsters who may:

- promise high investment returns and low risk
- pressure you to act quickly

**Act:** Take your time. Verify information, ask questions, and seek advice from trusted professionals, family and friends; this will help you spot a fraud or scam.

## Online resources

**Learn:** Common scams and frauds that target older consumers:

<http://go.usa.gov/c9khP>

**Help:** If you were a victim of fraud or a scam, or suspect that someone is trying to defraud you, immediately report it to your local police or sheriff's office.

If this involves a financial adviser or broker, report it to the Securities Exchange Commission or your state securities regulator. You will be protecting yourself and others.

Submit a tip or complaint to SEC at: <http://go.usa.gov/c8Xvx>

Find your state regulator: <http://bit.ly/1Snj5EC>