Timely insights that you can use.

"The question isn't at what age I want to retire, it's at what income." -George Foreman

While not everyone who retires is eligible to receive a pension, those who do have a pension are usually concerned with choosing among the several options they have available as they get ready to retire. It can be a nerve-wracking decision, as the pension option choice is usually permanent. This article will explore some of the factors that should be considered in making that choice.

Retirement Readiness

Although financial planning is important throughout your life it is especially critical as you get ready to retire. Just as a jet needs a long runway to make a safe landing, we suggest that you prepare yourself well in advance of your retirement. You need to start gathering information about your financial situation and resources so that you make well-informed decisions that support a financially secure retirement. This should include gathering estimates of your various pension options based on your expected retirement date. Some employers even offer a do-it-yourself benefits estimator website for modeling pension options. Make sure you are clear about the following:

- What is the minimum age to begin receiving pension payments?
- Is there a reduction factor for taking benefits below a certain age?
- How does your pension formula include historical earnings? For example, is it beneficial for you to retire in the month of January so the prior year earnings are included in the formula? This can be important since your last year of earnings may be your highest year of earnings.
- If years of service are part of the pension formula, how are they counted? Many employers consider 1000 hours worked in the "plan year" to be a year of service. Knowing how this works for your plan could impact your decision to work several more months to permanently increase your pension benefit.

Required Pension Options

Your pension plan will determine your available pension options. Most pension benefits are based on a formula that increases the benefit based on both your salary and the number of years that you work for your employer. Also, usually you will not be able to take your pension until you retire, and you often must reach a minimum age, such as age 55, to take your benefit regardless of when you stop working. Finally, your monthly benefits will typically increase with age since monthly benefits are based on actuarial life expectancy calculations.

Before we explore the other pension benefit options you may have to choose from, let's first review the forms of payment pension plans are required to offer to ensure you receive periodic payments for life[1]. Here are the mandatory forms of payment:

1. **Straight-Life Annuity**: For single employees, the required form of payment is a straight-life annuity. This provides a monthly payment based on the plan formula, continuing for the retiree's lifetime. The benefits stop when the retiree dies.

[1] www.bls.gov/opub/btn/volume-5/youre-getting-a-pension-what-are-your-payment-options.

2. **Joint-and-Survivor Annuity**: For married employees, the required form of payment is a 50-percent joint-and-survivor annuity. This provides a joint benefit while both the retiree and spouse are alive, and half of that amount to the spouse upon the retiree's death. If you are married, you must take this form of benefit unless your spouse consents in writing to you taking another form of benefit.

Alternative Forms of Benefit Payments

Let's look at the other forms of benefit payments that your employer may offer other than the ones just discussed. Remember your pension options are based on what your pension plan offers, and the various forms of benefit payments discussed below may not be offered by your pension plan.

Forms of Benefit Payments	How It Works
Lump Sum	This is a one-time payment of the entire pension balance. While it may seem attractive to receive a relatively large sum in one payment, it does require careful management to ensure the funds last throughout retirement.
Joint-and-Survivor Annuity	This provides a regular (usually monthly) payment while both the retiree and spouse are alive and a continued payment to the spouse after the death of the retiree. The amount of the continued payment depends on the survivor amount that is elected. Typical choices available include joint and 100%, joint and 75%, joint and two-thirds and joint and 50%.
Pop-up Provision	This is a form of joint-and-survivor annuity, in which the pension payment to the surviving plan member "pops up" the benefit amount at the death of the plan member's spouse to what it would have been if the plan member had chosen a single-life annuity. This may be a good choice if the plan member is concerned about having reduced resources if their spouse predeceases them.
Level Income (Social Security Leveling)	This form of benefit payment is designed to provide a consistent stream of income for those that retire before becoming eligible for Social Security. The pension plan member will receive a higher initial payment before becoming eligible for Social Security and a reduced pension payment after becoming eligible to receive Social Security retirement benefits.
Period Certain	This form of benefit payment guarantees payments for a specific period, regardless of whether the plan member lives for the entire period. For example, if the plan member has chosen a 20-year period certain benefit

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Forms of Benefit Payments	How It Works
	and passes away after 15 years, the beneficiary will receive payment for the remaining 5 years.

Electing the Lump Sum? -- Not So Fast!

If you have the lump sum option available as a pension option, it may be very tempting to elect that option. Before you move in that direction, consider the following pros and cons for taking a lump sum:

Possible Reasons to Take a Lump Sump	Possible Reasons NOT to Take a Lump Sum
You do not need monthly pension income to cover essential expenses.	You need guaranteed monthly income to cover essential living expenses.
You are a disciplined spender. You can stick to a sustainable withdrawal rate and/or decrease spending during down markets. You have a history of conserving financial windfalls, such as inheritances or large bonuses.	A lump sum payment may tempt you to overspend beyond your budget.
You have a shortened life expectancy so premature death may result in fewer cumulative annuity payments as compared to the lump sum value.	Though you may have a shortened life expectancy, you have a spouse that you are concerned with having sufficient lifetime income.
You are an aggressive investor who desires the opportunity to invest for growth potential that may lead to greater resources later in life.	You want the investment risk to remain on the plan provider, rather than accept the risk yourself, and want the guarantee of regular pension payouts.
	Some pension plans do not offer continued health insurance for retirees that elect a lump sum payout.

Seek the Help of a Financial Advisor

Be careful when considering recommendations that you take the lump sum form of benefit and invest it, whether in an IRA or in a qualified annuity. Examine what you are getting versus what you are giving up by taking a lump sum.

A Financial Advisor can assist you by providing you with a financial plan that illustrates the impact of various pension alternatives, as well as various longevity risks (death at earlier or later ages for you and your spouse) on your retirement plan. No one is going to loan you money for retirement, so you want to weigh all the options before making a retirement decision.

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For additional information, contact your regional **Advanced Markets team** member for help on these strategies.

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