

# Winding Through the Maze of Pension Options

It wasn't too many years ago that company employees would receive a gold watch upon retirement, as well as a pension check each month for the rest of their lives. More recently, retirement options have become more numerous and confusing. Funding pensions has become more burdensome, and administering those funds has become so much more complex that companies prefer to rid themselves of that responsibility. Consequently, the latest option and possibly the most confusing is the lump sum distribution. But don't infer from this that the lump sum distribution option is not worthy of consideration; far from it, but you must understand that it is the company's way of transferring responsibility to you. That option will be considered later.

The traditional pension is payment for the duration of the employee's life after retirement. The responsibility for that payment lies with the retiree's former employer, public or private. If the retiree has a long life expectancy, he wants assurance that payments will last his entire life; but with the many problems of pensions being insufficiently funded, he may want his future held in his own hands.

If the traditional pension option is your preference, you must navigate through certain required choices. A married person must decide whether to take the straight life or joint and survivor option. In the latter option the retirement actuary calculates how much should be withheld from the main pension to fund the spouse's allowance upon the retiree's death. This can be accomplished in different ways and in many instances to the couple's advantage.

If the retiree is not insurable, it is best to stay with the company's options or possibly a lump sum payment. If insurable, another option may have greater appeal. Pension maximization involves a two-step process. First, the retiree must determine how much money the spouse will need to fund her part, or the survivor's pension. Next, it must be determined what the premium would be for a life insurance policy to fund that "pension" upon the retiree's death. The premium amount may be less than the difference quoted between the Joint and Survivor and Straight Life traditional options, therefore saving you what could total in the thousands over your retired life. In such a situation, if the spouse died first, the insurance policy could be cancelled. Many traditional pensions do not allow changes once payments begin, leaving the retiree with a lower monthly payment for the remainder of his life. **Note:** Have an issued policy in hand before choosing this option.

It is time now to determine when a lump sum distribution may be best.

1. Do you want to provide for children after your passing?
  - \* Most traditional pensions are for retired employees and their spouses. Unless you have the life and ten years option, income will go to heirs only upon your passing within the first ten years after retiring.
2. Will your health prohibit you from living to average life expectancy?
  - \* The calculations for pensions are based upon the average life expectancy. You may not receive the full benefit of your pension if you are not in average health.
3. Do you have sufficient income from other sources to fund your retirement?
  - \* If you have income from other sources, you may wish to continue to save during retirement or consider the Lump Sum option.

If the answer to any of these questions is yes, then a lump sum distribution may be best.

Where do we start?

1. **Ask for help.** Seek advice from a CERTIFIED FINANCIAL PLANNER™ professional who can begin to review and organize your estate/finances at least six months before your retirement date. What you don't know about your options can hurt you.
2. **Schedule a meeting with a qualified fee-only financial planner.** Take time to ask questions. Clarify your priorities and personal preferences and discuss specifically what you would like to accomplish as you move toward retirement. Be sure that your planner understands your needs, not just your list of assets. Your financial planner can create a customized, long term financial vision based on your specific circumstances and wishes. Ask the planner about a discovery meeting that will help you uncover your financial desires and profile/personality. Most will provide this initial consultation at no charge. You can go to <http://www.napfa.org> to search for fee-only planners in your area.



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