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21st century retirement

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Which Pension Payout Option Is Right for You?

When you think of retirement, you probably envision the enjoyable ways you will spend your free time. But, you may also want to give some thought to receiving your funds while in retirement. If you participate in a **company pension plan**, you will have to decide *how* you want to receive your pension proceeds. Consider your payout options, so when the time comes, you can make the choice that is most appropriate for you.

Typically, most pension plans offer the following:

- Income for the rest of your life (**single life option**)
- Income for the lives of both you and your spouse (**joint and survivorship option**)
- A **lump-sum distribution**.

Both single life and joint and survivorship options provide you with a fixed income (usually in monthly installments) in exchange for your pension balance. The third option (lump sum) allows you to take your entire pension balance and manage it yourself.

If you are concerned about outliving your assets, regardless of your marital status, take one of the two "income" options, which may ease your fear of running out of money. If you are single, the choice is easy because you can only select the single life option. On the other hand, if you are married, you can choose either income option.

The single life option pays a higher monthly income, but payments cease at *your* death. While the joint and survivorship option pays a lower monthly income, payments continue until the death of both you *and* your spouse. If you have other substantial retirement assets or your spouse has his or her own pension, taking the larger income offered by the single life option may be your best bet. By contrast, if your pension is all you and your spouse have, the spousal security offered by the joint and survivorship option may be more appropriate.

As you carefully review these two income options, keep in mind that there may actually be a "third" income option, which is really a combination of the single life option and **life insurance**. By taking the higher income

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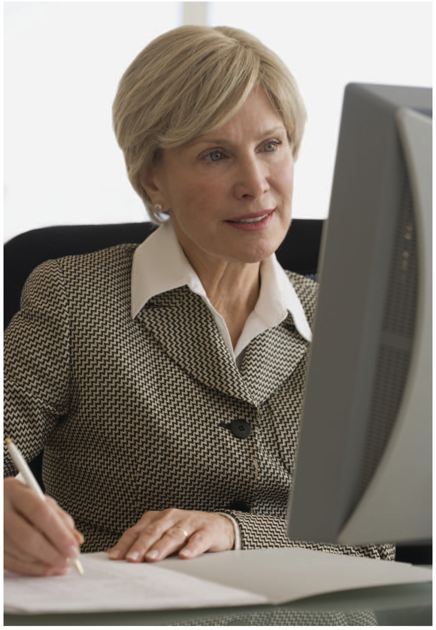
Employer-Sponsored Plans: Helping Americans Prepare for Retirement

People who save through employer-sponsored plans are more likely to feel prepared for retirement than those who do not, according to the results of the 23rd annual EBRI Retirement Confidence survey in 2013 sponsored by the Employee Benefit Research Institute (EBRI) and Mathew Greenwald & Associates.

In January 2013, approximately 1,250 U.S. adults, including 1,003 workers and 251 retirees, were asked about their attitudes regarding retirement, their preparations for retirement, their confidence regarding various aspects of retirement, and related issues. The study of Americans' confidence in their ability to retire comfortably revealed that only 13% of respondents say they are very confident they will have enough money to live comfortably in retirement, 38% are somewhat confident, 21% are not too confident, and 28% are not at all confident.

When asked to identify top financial concerns, 30% of workers cite job uncertainty and making ends meet (12%). Fifty-five percent consider their current level of debt to be a problem. Only 2% of workers and 4% of retirees cite retirement saving or planning as their most pressing financial issue.

The survey revealed that many American households have virtually no savings and investments, with 57% reporting that the total value of their household savings and investments, excluding the value of their primary home and any defined benefit plans, is less than $25,000; and 28% with less than $1,000 in savings. However, of those workers with access to an employer-sponsored retirement savings plan, such as a 401(k), 82% who are eligible to contribute, are currently doing so.



One-quarter (25%) of workers polled say the age at which they expect to retire has changed in the past year, with 36% expecting to retire after age 65, compared with just 11% of respondents in the 1991 survey. The findings also indicated that confidence among workers in having enough savings to pay for medical and long-term care expenses in retirement remains well below their confidence levels for paying basic expenses: 25% of workers and 28% of retirees are very confident about having enough money to pay for basic expenses. However, 14% of workers and 24% of retirees are very confident about paying for medical expenses after retirement, while only 11% of workers and 16% of retirees report being very confident about having the necessary means to cover the cost of long-term care expenses in retirement.

Although 57% of workers surveyed expect to receive retirement benefits from a defined benefit plan, only 32% report that they and/or their spouse currently have a traditional pension plan with a current or previous employer. Further, less than half (46%) report that they and/or their spouse have tried to calculate how much money they will need to save to live comfortably in retirement. Two-thirds (66%) say they and/or their spouses have saved for retirement, a continuing decline from the three-quarters (75%) measured in 2009. Some 57% say they and/or their spouse are currently saving, down from 65% in 2009. Researchers noted, however, that these decreases are concentrated primarily among workers with household incomes under $35,000.

Meanwhile, 47% of the current retirees surveyed say they left the workforce unexpectedly due to health problems, disability, or changes at their employer, such as downsizing or company closure. Retired respondents expressed higher levels of confidence than current workers about several key financial aspects of retirement, and that they are significantly more reliant on Social Security as a major source of their retirement income than current workers expect to be.

Remember, it's never too late to start saving for your retirement, whether through contributions to a workplace-sponsored plan, such as a 401(k), a traditional IRA, and/or personal savings. Reviewing your retirement planning strategy regularly with a qualified financial professional is another important component for staying on track to reach your future goals.

Retirement Planning: Actions You Can Take Now

Even if your retirement seems a long way off, you can help prepare for the future and think about what you can do *today* to help ensure a secure retirement *tomorrow*. Although time may be on your side, if you ask some of the retirees you know, they may tell you that saving for retirement is not as simple as it initially appears.

Here are four key factors to consider when planning for your retirement:

1) Inflation. You may be aware that, over time, inflation can erode your savings. But, many people don't realize the potentially serious effects of inflation. At 3% inflation, $100 today will be worth only $67.30 in 20 years—a loss of one-third of its value. At 35 years, this amount would be further reduced to just $34.44. Thus, it is important to seek retirement savings vehicles that have the best chance of outpacing inflation.

2) Taxes. Your present income level, tax bracket, and the types of tax-deferred retirement savings plans that are available can all play an integral part in how much money you can save for your retirement. By maximizing your pre-tax contributions to employer-sponsored plans and **Individual Retirement Accounts (IRAs)**, you can take advantage of the tax-deferred benefits of such plans.

3) Compound Interest. Becoming a disciplined saver is one of the key components of retirement plan success. By making regular contributions to your employer-sponsored retirement plan and your IRA, you can maximize the power of **compound interest** (the interest earned not only on the initial principal, but also on the accumulated interest from prior periods). With consistent contributions, your retirement savings have a greater chance of accumulating to meet your long-term goals.

4) Personal Savings. Considering the effects of inflation, it is possible that your retirement plan income may fall short of your needs, especially during a long retirement. Furthermore, Social Security generally provides only a base level of retirement income. To avoid a potential shortfall, start planning to supplement your retirement income with personal savings.

While understanding these principles is no guarantee of future success, they can get you started on the right path. The sooner you recognize the effects that economic forces can have on your retirement income, the more likely you may be to adopt strategies that can help you achieve your long-term objectives. Being proactive today can help increase your retirement savings for tomorrow. ■

Being Realistic about Retirement

Nearly everyone has expectations and dreams about retirement. One dream being realized is that people are healthier and living longer, which allows them to enjoy retirement for a greater portion of their lives than ever before. In fact, it's not uncommon for people to spend one-third of their lives in retirement.

Consequently, your retirement assets must last longer and accommodate cost-of-living increases. Proper planning and follow-through can help you avoid income shortfalls and assure a smooth transition from the world of work to the world of retirement.

Keeping Pace with Change

Planning ahead means setting goals and deciding *how* they will be met within the framework of a changing financial landscape. Without a solid financial foundation, you may face some hard choices during your retirement years. A plan, executed faithfully, may help to simplify many of those choices.

As retirement approaches, consider these factors to achieve an enjoyable retirement:

- Regardless of your age, projecting the income you will need in retirement can help you develop long-term savings strategies. Once you have a goal in mind, you may want to take advantage of any tax-efficient retirement savings vehicles available to you, such as a 401(k) plan or Individual Retirement Account (IRA).
- Some people think they will be able to maintain the same standard of living they enjoyed during their working years when in retirement. The likelihood, however, is that you may have to make adjustments and reconsider certain expenditures. Take a hard look at your lifestyle. Since it's

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with the single life option and using some of that income to pay the premiums on a life insurance policy, you may be able to "net" more income than with the joint and survivorship option. Meanwhile, your spouse will be protected with a potentially significant life insurance death benefit. After your death, the death benefit proceeds will be received income tax free by your spouse and can be used to help fund his or her retirement.

The success of this strategy, often called "pension maximization," depends on your age, health, the type of insurance policy, and schedule of premium payments. The issuance of a life insurance policy is subject to underwriting approval, and the issuance of a policy at a reasonable premium is not guaranteed. Therefore, it is important to apply and verify that you qualify for an appropriate amount of life insurance before making a pension payout election.

If the premium consumes too much of your monthly benefit amount, this strategy may not be an appropriate choice for you. In addition, guarantees of a life insurance policy are based upon the claims-paying ability of the insurer.

It is important to realize that selecting either income option requires you to give up your pension balance in exchange for income. Therefore, you cannot choose a payout option at one point, and then later decide that you would like to receive your remaining pension balance in a lump sum. Let's look at the final payout option, the lump-sum distribution, below.

Taking Control

If you want full control over your pension assets during retirement, or if you are concerned that your pension income may not keep pace with the cost of living, then a lump-sum distribution could be the better option. You can take a lump-sum distribution in one of two ways. You can either roll it over into your own **Individual Retirement Account (IRA)** or receive the pension proceeds (minus income taxes).

Unless you plan on using your pension assets for something other than retirement, it is probably not a good idea to receive your lump sum minus income taxes. The IRA rollover may be a more suitable choice because you will continue to receive the benefits of tax-deferred accumulation and only be taxed on withdrawals from the IRA.

While planning for possibly several decades in retirement, you will need to make a decision about your pension payout. Consider your options carefully to determine which method will best meet your *future* financial needs and lifestyle. Be sure to examine your situation with the assistance of a financial professional before deciding on a strategy. ■

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not uncommon to spend 20 or more years in retirement, plan to ensure that your retirement assets will be sufficient for the long term.

Regardless of *when* you plan to retire, it's important for your goals and expectations to be realistic. To be sure that you are on the right track, review your retirement savings, along with your objectives, with your financial professional. It may bring you one step closer to your retirement dreams. ■

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