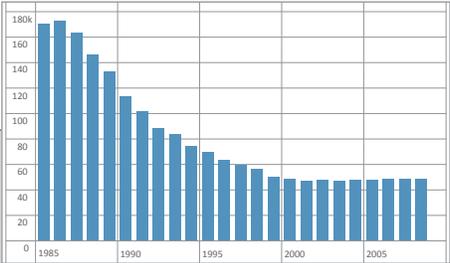


CONSIDERING A PENSION PAYOUT

Seven decision factors to help you determine whether to continue pension benefits or take a lump sum payout.



KEY TAKEAWAYS

Many companies are now offering pension buyouts to current retirees in order to offset expenses and longevity risk.



There are important factors you should consider to help you decide the best payout for your situation.

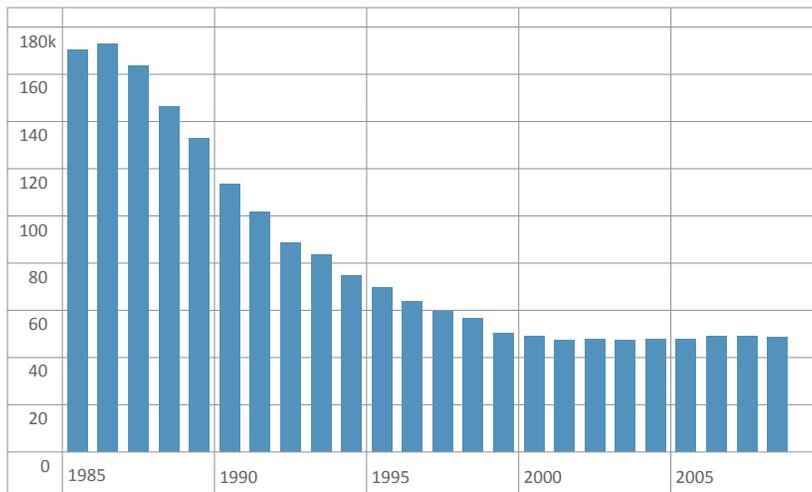


Your financial advisor can help you assess these factors within the context of your overall financial and retirement income plan.

RETIREE PENSION BENEFITS ARE CHANGING

For many years now, pensions have faded as an employer-offered retirement plan. The plans that remain are facing regulatory changes that require stricter accounting and reporting standards. Furthermore, Americans are living longer than previous generations, so companies are paying out more in pension benefits than expected. As a result, many companies are looking to terminate and transfer their pension obligations.

FEWER PENSIONS OFFERED TODAY THAN 25 YEARS AGO*



The number of active defined benefit pension plans has steadily declined from 1987 to the early 2000s and has remained low in recent years.

That's why today many companies are looking to offset this perpetual liability cycle by transferring the risk through a buyout, in which participants can elect to keep their stream of income or take a lump-sum payout. Partial buyouts mean the fund isn't transferring all its risk to a third party; instead, it will offer the buyout option to only some participants as a means to reduce the plan's liabilities without eliminating the plan altogether. General Motors, for example, has decided to de-risk its pension plan by offering a buyout to the participants who pose the greatest liability: Current retirees.

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HOW TO WEIGH YOUR OPTIONS

If you're eligible for an employer-sponsored defined benefit pension plan, you may be justifiably concerned about the possibility of a buyout. If offered, you'll have a decision to make:

1. Elect a lump-sum payout, or
2. Maintain your pension income stream

To make matters more difficult, you may have only a short time to make this decision. But how do you make such a decision that will last a lifetime?

On the surface, the pending decision may seem overwhelming. The first thing to do is consider your personal situation.

While your pension is important, it may be only one source of your retirement income. By assessing the pension payout decision within the context of your complete financial plan, your advisor can help you determine how this decision could impact your taxes and estate plan as well as a long-term income plan for both you and your spouse – and what would happen if one of you passes away before the other.

WHY PENSIONS HAVE BECOME MORE COMPLICATED FOR EMPLOYERS:

- **Escalating costs:** Defined contribution (e.g., 401(k)) plans are cheaper to run than pensions.
- **Increased liability:** Americans are living longer, so pensioners are drawing larger aggregate pensions than expected.
- **Lower interest rates:** Lower interest rates can cause a plan to be underfunded.
- **Greater accountability:** The Pension Protection Act of 2006 required employers to analyze their obligations more accurately and show the underfunded portions of pension plans on their balance sheets. Any shortfalls must now be made up within seven years (rather than decades).

SEVEN DECISION FACTORS

The reality is that given today's lower interest rates, you may not be able to re-deploy your pension payout amount to achieve the same level of income you currently receive. However, recreating the same income stream may not be your main objective.

The following are some of the key decision factors you should consider when offered a payout:

1. Your current retirement income needs
2. How your decision may impact your taxes
3. Control and flexibility to access cash when you need it
4. Ability to grow assets and/or income over time
5. Third-party guarantees
6. Your long-term retirement income plan should consider one spouse outliving the other, as well as increased expenses for medical and long-term care, housing and longevity
7. Your estate plan

1. Your current retirement income needs

If you don't have enough retirement income sources to cover your anticipated expenses, you may prefer the stability of the pension income since the payouts are usually very attractive and difficult to duplicate. However, if your existing income sources, such as an IRA and Social Security benefits, adequately meet your needs, you may prefer to invest the lump sum at your discretion.

2. How your decision may impact your taxes

Bear in mind that you pay income taxes on your pension benefits as you receive them, whereas a lump sum payout would be taxed as ordinary income in the year received – which could push you into a higher tax bracket. If you take the distribution before age 59½, you may also owe a 10% early withdrawal tax penalty.

When taking a lump-sum payment, most individuals would prefer to roll over the funds in another type of retirement account such as an IRA, annuity or 401(k) to avoid a taxable distribution. Your tax and financial advisors can help you determine what your tax rate

ISSUES RELATED TO AN IRA ROLLOVER

- If you're under age 59½ and roll the lump sum into an IRA, you can only get money out of the IRA penalty-free by using a section 72(t) withdrawal.
- At 70½, you would have to begin required minimum distributions (RMD) or face a prospective 50% penalty.
- If you roll over to a Roth IRA, you would have to pay ordinary income taxes on the full amount rolled over. However ...
 - Qualified withdrawals would be tax free thereafter¹
 - You would not be subject to RMD rules at age 70½

ROLLING A LUMP SUM INTO A PERSONAL ANNUITY

One strategy to continue to generate a reliable income stream in retirement is to take the lump sum payment and roll over the funds into a your own personal annuity. While the income level most likely will be less than what the pension can provide, the benefits you gain may be worth that trade off such as a death benefit or the ability to have your lump sum and guaranteed lifetime income for you and your spouse.²

¹Withdrawals are qualified once the money has been in the account for five years and distributions are taken due to death, disability, first time home buyer or age 59 1/2.

²Guarantees are based on the claims-paying ability of the insurer. Any withdrawals may be subject to income taxes and, prior to age 59 1/2, a 10% federal penalty tax and state penalty taxes may apply to the taxable amount. Withdrawals from annuities will affect both the cash value and the death benefit. Optional features such as a death benefits may have an additional fee.

would be on monthly payments compared to other investments you could make with a lump-sum payment.

3. Control and flexibility to access cash when you need it

Pension benefits do not allow you to access cash in the plan should you have an immediate need, whereas with a payout you could have more control over where your assets are located and potentially access them more readily.

4. Ability to grow assets and/or income over time

Let's say you like the idea of choosing how your retirement assets are invested. In that case, the lump-sum payout will give you more control over the securities in your portfolio, allowing you and your financial advisor to select investments you're comfortable with. Remember that long-term inflation will cause your money to lose spending power over time. Pension payments generally don't increase and may fail to keep pace with inflation. You potentially could outpace inflation if you invest your lump sum payout successfully, or invest a portion of your assets in securities or asset classes designed to keep pace with inflation.

While a buyout would give you the opportunity to invest the money yourself, you would need to establish a spending plan that will help this one-time payment last the rest of your life. Market risk could cause your income stream to fluctuate based on market performance, and you could run out of money altogether if you live too long. With a pension, you would continue to receive the same benefit no matter what happens in the market.

5. Third-party guarantees

The federal government's Pension Benefit Guaranty Corporation insures about 45% of employer pension plans which means that if the corporation were to dissolve, the PBGC could reduce your current income to their insured amount. If your employer decides to continue pension benefits but offset its risk by transferring its pension fund to an annuity, the insurer takes on the transferred pension risk and you no longer have that guarantee through the federal government. It's important to note in this case that the guarantees are based on the claims-paying ability of the insurer and do not apply to the investment performance or safety of the underlying portfolios.

QUESTIONS TO ASK YOURSELF

Use the following questions as a starting place to help you and your financial advisor determine if a pension payout is the best decision for your situation:

- Are my existing guaranteed retirement income sources adequate for my expected needs?
- Does my current pension offer surviving spouse benefits?
- Does my current pension offer inflation adjustments?
- What is my current health status and life expectancy?
- How many years will I need these assets to last?
- How would a lump sum buyout impact my taxes?
- Do I prefer to have control over how these assets are invested?
- How much risk am I willing to take on?
- Am I disciplined enough to stick to an established withdrawal rate from my investments?
- Would I like to leave these assets to heirs?

Some private and group annuities are backed by State Guaranty Funds, which provide protection if an insurance company fails to pay promised benefits. Your specific State Guaranty Association can tell you how much of your annuity is protected if the insurance company fails. Of course, if you prefer to have a government-backed guarantee of some sort, you could invest your money from a lump-sum payout into an FDIC or SIPC protected account.

6. Your long-term retirement income plan should consider one spouse outliving the other, as well as increased expenses for medical and long-term care, housing and longevity.

Some, but not all, pension plans continue paying some of your benefit to a surviving spouse or other beneficiary for his or her lifetime. It is important to understand what would happen to pension payments in the event of death, as taking a lump sum may allow you to set up an income plan that would continue for your spouse after your death.

Also consider that as people age, their medical and long-term care expenses can increase exponentially, while pension benefits do not. On the other hand, if you expect to have a shorter life span due to significant health problems, a lump sum might benefit you more.

7. Your estate plan

With your pension, you might have been given a choice of a life-only or a joint payout so your spouse would continue to receive payments until he or she passed away. In the case of a buyout, your third-party annuity terms will match your pension fund terms. On the other hand, lump-sum payments are yours to do with as you see fit, giving you more flexibility when it comes to estate planning, liquidity or retirement income needs.

ASSESS YOUR OPTIONS WITH YOUR ADVISOR

It's important to carefully consider the factors that will impact your situation – including your own health and longevity prospects – to make a decision that best supports your family and your long-term needs. A lump-sum pension payout opens up many opportunities for financial, retirement and estate planning that currently may not be available to you as a pensioner.

The fact remains that more and more employers are likely to consider pension buyouts in the future. If this hasn't happened to your pension already, it may soon. Taking the time now to consider how you will respond may be a wise move given the short window of time you may have to make decisions.

WORK WITH YOUR FINANCIAL ADVISOR

Take action in a timely manner and have a plan in place should you receive a payout offer.

▶ Have your financial advisor collaborate with your estate attorney, tax advisor and/or accountant to consider the key decision factors that impact you. ▶

Weigh the pros and cons of each of your payout options in light of your overall financial plan.

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