

## Questions about pension payouts – which option is the best?



**Q:** I have a pension plan that offers lump sum, single life, ten year term certain, or joint survivor income. My wife and I are unsure of which option to choose.

**A:** Increased longevity is the primary reason that there are very few defined benefit pension plans left. When you are lucky enough to have one, don't underestimate the value of the income or the importance of the analysis. It takes approximately \$1M to create a \$4,500 per month lifetime benefit for a married couple age 65 today. Amazing.

Pension plan options are basically equal because they're based on the actuarial tables, so this is all about your personal situation. Pension benefit decisions are irrevocable; get a health evaluation before you commit.

Taking the lump sum shifts the longevity risk to you. The insurance company bears that risk when you sign up for an income stream. The benefit of the lump sum is complete flexibility. You can withdraw as much as you want, when you want, and the remainder will go to your beneficiaries. The investment responsibility also falls on you.

Don't underestimate the longevity risk, it's increasing at a rapid pace and right now the actuarial tables

assume the average life expectancy today for a 65 year old male is 84 years and for females 86 years. In 1950 a male was only expected to live to age 65 and a female to age 71. Longevity risk is the greatest risk with all retirement plans.

The maximum monthly income option is the single life benefit. But it's only good for the annuitant. Since the benefit ends on the death of the person who has the pension, the spouse has to sign off. If you are single or there are no beneficiaries, it's the obvious first choice.

Although the joint survivor income option is reduced, it's the safest choice for a married couple who rely on each other for financial support. It's a stream of income that ends with the second to die.

If there is a significant age difference, then married folks can compare the income streams of the joint and single life options and consider paying premiums on a life insurance policy to take care of the surviving spouse.

Other sources of income from IRA's, 401(k)'s or savings accounts may be used to front end load the fun in the go-go years, while the pension can be used to take care of the needs in the slow-go years.

Social Security income is guaranteed for life and passes to the surviving spouse. Delaying to age 70 is the safer strategy for the higher wage earner and the lower wage earning spouse. This decision

is irrevocable after one year of receiving benefits, so factor this income decision into the pension plan analysis.

If divorce is likely, and the health of a spouse is a factor, take the single life benefit and pay your spouse alimony instead.

Immediate or deferred income annuities are similar to pensions; they guarantee regular payments for a defined period. Often requiring a single lump-sum investment, these insurance products guarantee income for one life or two, or a specified period of time. These annuities are especially suitable for retirees who are concerned about outliving their savings. Again, longevity risk needs to be weighed.

Pension plan decisions are irrevocable and arguably, the most important retirement decision. Don't underestimate the value of consulting an advisor.

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