

Five Points Bulletin:

Pension Lump-Sum Buyout Offers

Talking Points for Managers of Employees with a Defined Benefit Pension Lump-Sum Offer

#1: It’s Called De-Risking for A Reason!



* Lump-sum = transfer of longevity risk
	+ From pension fund to individual
	+ Longevity risk = outliving money in retirement
	+ Essential understanding for employees
* Pension Risk Transfer (PRT) = transfer of annuity obligations
	+ From pension fund to insurance company
* Companies de-risk because pensions are expensive and complicated



#2: How Much Money Are You Willing to Leave on The Table?



* U.S. rules for calculating lump-sums favour pension funds
	+ Lump-sums don't equal projected sum of annuity payments
	+ Commercial annuities w/ same monthly payment more expensive than lump sum
* Other retirement benefits not part of a lump-sum calculation
	+ Healthcare
* Age and family matter
	+ A young vested worker in frozen pension plan vs. inflation
	+ Married or children = annuity survivorship options
* Leaving money on the table is the employee's decision
	+ Understand the cost

#3: What Will You Use the Money For?



* Annuity = perceived safe/stable retirement income

*Met Life Study (2017):*

* + 64% of annuitants described as risk-averse
	+ 95% of annuitants like retirement budget stability
	+ 96% of annuitants satisfied with the choice, less anxiety
* Lump-sum = need money, desire control, and perceive safety
	+ Eliminate debt
	+ Life shocks (health issues, divorce, etc.)
	+ Desire money control = heirs
	+ Self-directed savings (i.e. home) or investments
	+ Less budget stability more anxiety
* Studies found outcomes statistically similar for lump-sum saved/invested vs. annuity
	+ Lump-sum won't change fortunes for worst off
	+ Or those with bad money habits

#4: How Healthy Is the Company's Pension Fund?



* Fear for pension fund's health
	+ #1 Reason for electing lump-sum
* Annuity from pension fund is not risk-free
	+ PI Online: 87% funding avg. for U.S. corp. pension funds
	+ Research advised; read annual statements
* American Academy of Actuaries (AAOA)
	+ Funding level trend more critical than snapshot
* PRT to insurance company = not a sign of trouble
	+ Insurance companies uniquely suited to assume risk

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#5: Have You Talked to a Financial Professional?



* Frontline managers (probably) not financial professionals
	+ Complicated finance issues require certified fiduciary advice
* Conflict of interest = everywhere in a lump-sum decision
	+ Company = vested interest to push for lump-sum
	+ Insurance Co. = push expensive products in plan
	+ Employee’s money manager = Assets Under Management (AUM) model = lump sum
	+ Heirs want inheritance = lump-sum
* Certified Public Accountant (CPA)
	+ Net Present Value (NPV) calculations for annuity
	+ Tax advice for lump-sum
* Fee-only Fiduciary-Bound Financial Professional
	+ Holistic fiduciary retirement planning
	+ Fee-only model limits conflicts of interest