

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?

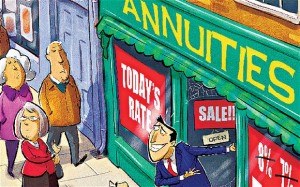


* Fear for pension fund's health
  + #1 Reason for electing lump-sum
* Annuity from pension fund is not risk-free
  + PI Online: 87% funding avg. for U.S. corp. pension funds
  + Research advised; read annual statements
* American Academy of Actuaries (AAOA)
  + Funding level trend more critical than 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