

WARWICK SHORE

—ADVISORS—

Pension Payout: Lump Sum or Monthly Payments

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Warwick Shore Advisors LLC (WSA) is an independent investment advisor focusing on investment strategies designed to outperform the market and mitigate risk over the long-term. We employ a rules-based academic approach that incorporates top-down, macroeconomic analysis and quantitative research. Our rigorous research and portfolio construction process gives us opportunistic insight into the investment landscape.

Our rules-based top-down macroeconomic approach differentiates us from traditional bottom-up investment management firms. We believe a global perspective driven on macroeconomics is needed to fully synthesize the current market environment. This approach is also paramount in forecasting the road ahead and building risk-controlled, goal-oriented portfolios.

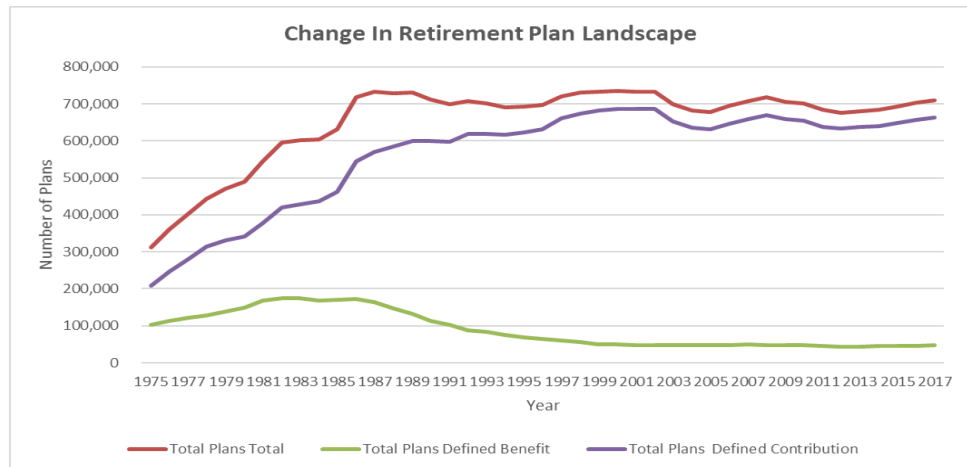
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Pension Payout: Lump Sum Dilemma

The 6% Rule Can Help You Make the Right Decision

For many Americans the opportunity to have a pension is extremely rare. The number of pension plans offered has decreased from just over 103,000 in 1975 to under 47,000 in 2017. These plans are rapidly being replaced with 401(k) plans which have grown in popularity over the last four decades. However, for those who are so fortunate, there is a major dilemma of whether to take the pension payout as lump sum or receive monthly payments.



Source: U.S. Dept of Labor

The symptoms of the covid-19 pandemic has led many employers to offer retirement packages to soon-to-be retirees and those who are already retired and receiving monthly checks. So, what is the benefit to the employer for offering a pension payout? Cost Cutting. Over the last several months employers in the airline industry have offered buyouts as a de-risking strategy. Many employers are reducing headcount by offering early retirement packages. Additionally, offering a lump sum payment as opposed to a lifetime annuity will allow these companies to further reduce long-term financial commitments. More than 17,000 Delta Airlines employees signed up to take early retirements or buyouts. The number is roughly 39,000 for American Airlines.

Lump sum or Annuity Payments? Which Is Best?

First, we must understand that each scenario is different. No “one financial decision” fits all. With this being the case, a great starting point is to use the 6% rule when making this decision. If your lifetime annuity payments offer an annual return greater than 6%, then you should possibly lean

towards accepting the payments. To mathematically address this problem, see the scenarios listed below.

Scenario 1: \$900 a month lifetime payments or \$150,000 lump sum.

$\$900 \times 12 = \$10,800$ divided by $\$150,000$ equals 7.2 percent.

In this scenario, you would make a return of 7.2 percent per year on the \$150,000 lump sum payment. Earning an annual return of 7.2 percent is hard to accomplish on a consistent basis. In this scenario, the investor could be better suited selecting the lifetime payments.

Scenario 2: \$750 a month lifetime payments or \$185,000 lump sum.

$\$750 \times 12 = \$9,000$ divided by $\$170,000$ equals 4.8 percent.

In this scenario, you would make a return of 4.8 percent per year on the lump sum offer of \$185,000. Earning a 4.8 percent return may not satisfy the retirement objectives of the investor. In this scenario, it may be advantageous for the investor to take the lump sum payment and invest in a portfolio that can better achieve the retirement return goals.

Additional items to consider when making this decision are listed below:

- Your expected amount of time in retirement. Longevity tends to increase the value of monthly payments.
- Your age when the monthly payments begin vs. when the lump sum will be paid.
- Any provisions for a surviving spouse. Some options allow payments to be made until the surviving spouse passes away.
- Estate planning and leaving money to heirs. If you desire to leave money to future generations, the lump sum route will satisfy this goal.

Lastly, it is important that each investor consult a financial professional to dissect their specific situation. It's also prudent to consider the economic landscape and the long-term viability of your employer when making the decision to accept the lump sum payment or take the lifetime payments.



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