Pension Payouts: Which one should you choose?

By Gleba& Associates

Perhaps the most important financial decision a person can make with their employer is their pension. There are four types of corporate pension collection, and picking the right one could be critical to the quality of your retirement. Pensions are a major source of income for many retirees, and choosing the wrong payout option could be very damaging.

"If it's popular, it must be right" is the mindset that many people have. People will often choose the pension that many of their co-workers have selected, without doing any research into the actual pension. The truth is, everybody's circumstances are different, and what is best for your co-worker may not be best for you. Before retirement, your company will ask you how you want your pension paid out. If it is a defined-benefit plan, these four plans are the most likely to be offered:

Option 1: Straight-life Annuity

Straight-life annuity, also known as single-life annuity, is the most classic payout. You get a fixed monthly payment for the rest of your life, whether that's 40 days or 40 years. This is best for people with no dependents, or people with dependents who are unlikely to outlive them. Some straight-life plans will also guarantee at least five years of payments to a beneficiary if you were to die within five years of retiring, but this is not guaranteed. The advantage to straight-life annuity is that it offers the highest monthly payment.

Option 2: Joint and Survivor Annuity

Like straight-life annuity, joint and survivor annuity will give you a fixed monthly payment during your lifetime. If you are to die before your spouse, they will receive a certain percentage of that monthly amount for the rest of their lives too. However, the younger your spouse and the higher their percentage is, the lower your payments will be while you are alive.

When deciding how much to take now, and how much to leave for your beneficiary, consider your lifetime income needs, your spouse's resources, and your spouse's health. You want to maximize your resources, and if your spouse is quite young and healthy, an alternative may be going with the straight-life annuity, and purchasing life insurance with the higher monthly check. This way your spouse is still covered, but you have more money coming in every month.

Option 3: Period-Certain Annuity

Despite what the title may lead you to believe, this option will still make payments for your entire life. However, if you were to die within a set number of years, your beneficiary would receive your full monthly pension for the remaining years. This is a great option for people who have a dependent who will eventually become self-sufficient. These annuities are also great for people with spouses who are sick and only expect to live a few more years. For those circumstances, a period-certain annuity can deliver more income overall than either of the other two options.

Option 4: Lump-Sum Distribution

This is the least likely to be offered by your company, but if it is, it may be your best bet. Lump-sum distribution is exactly what it sounds like; Based on the average life expectancy for someone your age, and interest rates, your employer can pay you one large sum instead of monthly pension payments for the rest of your life.

This is great option for people who are not going to be solely dependent on their pension for post-work income. This money can be used to make investments which could be much more profitable. However, like with any investment, it may not earn the interest rate assumed with the lump-sum, and the money could run out before you die.

Conclusion

With pension payouts being so important to the quality of your retirement, make sure you do your research and select the plan that is best for you and your family. If you have questions about what pension plan is best for you, call Gleba& Associates. For over 30 years, Gleba& Associates has helped clients attain financial freedom and continues to make wealth simple.

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