THE WHITE PAPER

Your Retirement Planning Newsletter

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Lump Sum or Periodic Payments: Which One Should You Choose?

If you are on the verge of retirement, you've got an important choice to make regarding your company-sponsored retirement plan: Should you accept the periodic monthly payments, or take a lump-sum distribution?

Employees about to retire face this dilemma all the time. Before you make an irrevocable decision about your future, take the time to understand what it might mean to you and your spouse (if applicable).

There are pros and cons to opting for a lump-sum distribution over periodic payments, including the following:

- **You might be faced with a sizeable tax bite:** With a lump sum, taxes on the entire balance usually must be paid in a single tax year only if the balance is not directly rolled over to a qualified retirement account, such as an individual retirement account (IRA). All amounts taken as a lump sum are taxed at current ordinary income tax rates.
- **A rollover could offer more options:** A rollover to an IRA often permits more control over the retirement money compared with leaving it in an employer-sponsored plan. Although IRAs have distribution rules, they frequently offer a broader range of investment options compared with an employer-sponsored plan. Additionally, a rollover requires you or your financial advisor to make decisions about how the retirement money is invested. In contrast, with your employer-sponsored plan, you may or may not have decision-making responsibility for how the money is invested.
- **Periodic payments may offer greater longevity:** An arrangement to receive an ongoing stream of income may lessen the chances that you will outlive your retirement assets. A lump sum that is reinvested may be more volatile, especially during a stock market downturn.

Other Considerations

Couples have more flexibility when making their decisions, particularly when each has employer-sponsored retirement plans. One could decide to take the periodic payments, while the other opts for a lump-sum rollover. In contrast, a single person without a partner's assets may need to plan for a greater degree of certainty, with the understanding that all investing involves risk.

Age could also be a factor. For individuals taking a lump sum distribution after age 70½, there are Internal Revenue Service rules that determine whether the sum qualifies for preferential tax treatment. A tax advisor can help you determine whether you qualify.

Estate planning considerations may come into play. In certain instances, pension plans may pay benefits to a surviving spouse. Typically, pension assets cannot be bequeathed to children. Both IRAs and defined contribution plans, such as a 401(k) plan, can be bequeathed to loved ones who are mandated to follow required minimum distribution rules.

Weighing whether to take periodic payments or to elect a lump-sum distribution has implications that will affect a retiree's financial situation for years to come. If you have a choice in your retirement plan distributions, be sure to seek professional advice and review all relevant factors.

The information in this communication is not intended to be financial or tax advice and should not be treated as such. Each individual's situation is different. You should contact your financial and/or tax professionals to discuss your personal situation.

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