Bob Carlson's
RETIREMENT WATCH

Volume 26, Issue 10 | *Actions to Create the Retirement You Desire ™* | October 2015

Dear Reader:

Sometimes the best way to have good results is to avoid mistakes and losses. We have enough experience with retirement to know the major events and actions that are likely to lead to unsuccessful retirements. Avoid these and you're well on the way to a successful retirement.

Debt. Once it was rare for someone to retire with debt, even a home mortgage. Now, the number of retirement-age Americans with substantial debt is increasing. In retirement you have reduced flexibility and potential for earning higher income. Negative financial surprises are more likely, especially high medical or long-term care costs. For most people, it's better to eliminate debt in retirement.

Spending too quickly. Surveys of retirees and pre-retirees indicate that many believe they can safely spend 7% or more of their assets each year without the risk of running out of money. Financial planners and academics who've studied retirement spending believe the safe spending rate is much lower. We discussed reasonable spending levels in our July 2015 visit. Review that for ideas on setting a sustainable spending level.

Large medical expenses. Medicare doesn't cover all your medical expenses, as we discuss in this month's visit. We also discuss how to avoid spending too much out-of-pocket on medical expenses and how to protect yourself from high medical expenses.

Helping others. These days many retirees are overextending themselves to help their younger loved ones. That's understandable, but it's dangerous. You're likely to spend down your nest egg too fast, and that will leave both you and the younger generation without any financial support. Help for younger generations must be affordable for you and shouldn't be open-ended or without expectations.

Flying solo. The data are clear that married couples do better financially in retirement than singles. Too many retirement plans don't include the contingency that one spouse will pass away, costing the household Social Security and other income sources. A solid plan includes financial security for a surviving spouse.

Failure to adapt. Be alert for changes in investment returns, inflation, spending, tax laws, Medicare, and other factors. Then, revise as needed to stay on course. An annual review means relatively small adjustments each year. Waiting longer to review could mean substantial adjustments will be needed.

Being Sure Your Will Does What You Want

Estate Watch

"Here's a guide to some important steps and thoughts for revising or creating your will."

As we roll into the last months of the year, many people take time to update their financial plans and put their financial houses in order. Revising or writing a will is an important part of that process. A will can decide who receives your property, on what terms they receive it, who becomes the guardian of minor children, who controls a business or other entities, and how much of your wealth goes to the government and other expenses.

Yet, an outdated will or a mistake in its drafting can negate your planning. Here's a guide to some important steps and thoughts for revising or creating your will.

Seek an inquiring lawyer. Too many estate planning attorneys focus on the technical nuts and bolts of a plan. Some also try to fit clients into cookie-cutter or model estate plans. They think they know what your plan should be soon after you begin talking.

A good estate planner first tries to know you, all about you. Of course, a planner needs to know about your assets, liabilities, and such. But a good planner also will ask about your family, charitable interests, and personal

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concerns and pursuits. The planner learns your goals, ambitions, and concerns for all of these things. Only then, and after some research and thought, does the planner show you different ways of trying to meet those goals, explain the trade offs in each method, and help you choose which route to take.

This type of lawyer might cost you a bit more, since the lawyer takes the time to learn more about you. But it should result in better results for you and your loved ones.

Outline your plan. You should write the basics of what you want in your own words. You don't have to identify specific types of trusts or things of that nature. Instead, state generally which persons, charities, and any others should receive part of your estate and how much each should receive. If you want restrictions or conditions, write your thoughts on those. For example, some people want children to receive only income or a maximum annual amount until they reach a certain age. After that, the children can receive whatever is available. Talk your ideas over with the estate planner.

An estate plan often is a process with several stages. Your ideas are likely to change at least somewhat during the process. As each stage, you should again write in your own words what you believe the plan will do and share that with the planner.

Don't give the children an opportunity to fight. The children might seem to get along and be well-behaved while you're around. But there could be lingering animosity, sibling rivalry, or something similar. Your presence might be the only thing keeping these forces in check.

It doesn't matter if you believe your estate isn't particularly valuable. Family disputes over an estate often occur over seemingly small items or perceived slights.

Try to eliminate as many potential points of dispute as you can. Consider whether it is appropriate to name one or more of the children as executor when there is someone more independent available. Also, carefully consider how the personal items of your estate will be handled. Many people state simply that the children will determine how to equally divide the items. If the children can work together, that's fine. If they can't, that's a recipe for disaster. There are other methods available. We discussed these most recently in the December 2014 issue.

Review specific bequests in the will. A specific bequest is when a particular property or a certain amount of money is bequeathed to a person. Specific bequests are appropriate for personal or unique items, especially those that are valuable or sentimental. Otherwise, specific bequests should be limited. Too many specific bequests can cause problems.

For one thing, you have to update your will every time you sell, give away, or otherwise dispose of one of the items. There are potential problems if an item can't be located after your passing or someone thinks one item should be paired with another.

More importantly, the value of your estate is likely to change. When one or more people are given specific property or amounts of money, their shares of the estate could be more or less than you intended as assets values change.

It is better to limit specific bequests and have all the other items disposed in the "residuary clause." This is the clause that says "all the remainder or residue or my estate goes to..." Normally this clause gives property to the spouse or divides it among the children. When giving a specific amount of money, you might want to use a formula, such as, "my brother, Tom, receives $10,000 or 1% of my estate, whichever is less." You also might want to take this approach with charitable gifts.

Statement of Ownership, Management and Circulation

1. Title of Publication: Bob Carlson's Retirement Watch. 2. Publication No: 1077-3924. 3. Date of Filing: 09/30/15. 4. Frequency of Issue: Monthly. 5. No. of Issues Published Annually: 12. 6. Annual Subscription Price: $99.00. 7. Address of Known Office of Publication: 15103 Stillfield Pl, Centreville, VA 20120. 8. Address of Headquarters or General Business Office of Publisher: 15103 Stillfield Pl., Centreville, VA 20120; 9. Names and Addresses of Publisher, Editor and Managing Editor: Publisher: Robert C. Carlson, 15103 Stillfield Pl., Centreville, VA 20120; Editor: Robert C. Carlson, 15103 Stillfield Pl., Centreville, VA 20120; Managing Editor: n/a. 10. Owners: Retirement Watch, L.L.C., 15103 Stillfield Pl., Centreville, VA 20120; Robert C. Carlson, 15103 Stillfield Pl., Centreville, VA 20120. 11. n/a. 12. n/a. 15. Extent and Nature of Circulation: A. Total No. Copies, Average No. Copies Each Issue During Preceding 12 Months; 10951: Actual No. Copies of Single Issue Published Nearest to Filing Date; 12191. B. Paid and/or Requested Circulation: 1. Sales Through Dealers and Carriers, Street Vendors, and Counter Sales; None. 2. Paid or Requested Mail Subscriptions: Average No. Copies Each Issue During Preceding 12 Months; 10810: Actual No. Copies of Single Issue Published Nearest to Filing Date; 12050. C. Total Paid and/or Requested Circulation: Average No. Copies Each Issue During Preceding 12 Months; 12050: Actual No. Copies of Single Issue Published Nearest to Filing Date; 14000. D. Free Distribution My Mail, Samples, Complimentary, and Other Free Copies: Average No. Copies Each Issue During Preceding 12 Months; 141: Actual No. Copies of Single Issued Published Nearest to Filing Date; 14000. E. Free Distribution Outside the Mail, Carriers or Other Means: Average No. Copies Each Issue During Preceding 12 Months; None: Actual No. Copies of Single Issued Published Nearest to Filing Date; 0. I. Total Free Distribution: Average No. Copies Each Issue During Preceding 12 Months; 141: Actual No. Copies of Single Issue Published Nearest to Filing Date; 141. G. Total Distribution: Average No. Copies Each Issue During Preceding 12 Months; 9708: Actual No. Copies of Single Issue Published Nearest to Filing Date; 11503. H. Copies Not Distributed. 1. Office Use, Leftovers, Spoiled: Average No. Copies Each Issue During Preceding 12 Months; 2000: Actual No. Copies of Single Issue Published Nearest to Filing Date; 250. 2. Return from News Agents: None. I. Total Distribution: Average No. Copies Each Issue During Preceding 12 Months; 10951: Actual No. Copies of Single Issue Published Nearest to Filing Date; 12050. J. Percent Paid and/or Requested Circulation: Average No. Copies Each Issue During Preceding 12 Months; 98.78%: Actual No. Copies of Single Issue Published Nearest to Filing Date; 98.78%. 17. I certify that all information furnished above is true and complete: Robert C. Carlson, Publisher.

Bob Carlson's Retirement Watch™ (ISSN 1077-3924) is edited by Robert C. Carlson and published monthly by Retirement Watch, L.L.C., P..O. Box 939, Centreville, VA 21022, Customer service: 800-552-1152. E-mail: info@RetirementWatch.com. **Web site:www.RetirementWatch.com.** Subscription cost is $99 annually.

Consider factors outside the will. Some types of property can't be bequeathed through the will. Jointly-held property usually is transferred by law to the co-owner after one owner dies. IRAs, employer retirement plans, life insurance policies, and annuities are controlled by the beneficiary designation forms. Any property owned by your living trust or any other trust is controlled by the terms of the trust, unless when the trust was created you reserved the power to change the trust terms through your will. Review all these items and determine if they need to be revised.

In many states, your will has no legal effect over what is done with your body, how your funeral or memorial service is arranged, or anything of that nature. You can leave directions in your will or other documents for your executor and relatives, but they are under no legal obligation to follow your wishes.

You also can't direct the care of a disabled person or minor in a will. It is better to do this through a trust that is set up either in your will or during your lifetime. The trustee has to follow the directions in the trust agreement.

Seek a second opinion. You do this with other important decisions. Consider doing it with your estate plan. After the plan is complete, consider taking the documents to another estate planner. Ask him or her to review them and then explain them to you. Encourage questions and discussion. This should make it more likely that you fully understand the plan and that it achieves your goals.

Keep up with the times. Once a plan is in place, it needs to be revised for changes in your life, the tax laws, and other events.

The estate planner keeps up with changes in the tax code and other laws. You need to tell the planner of any changes in your family, goals, and wealth. You need to meet with your estate planner when a child or grandchild is born, there is a marriage or divorce, or someone dies. Changes might be needed when you move to or buy property in another state. Also check with your estate planner when the amount of your wealth changes or when you consider selling a significant asset. RW

Knowing When Community Property Matters

Estate Watch

Each state controls how estates within it are transferred and settled. That means there are 50 different estate laws in the U.S. (More when the territories are counted.) There are both major and minor differences between these laws.

There really are two very different major systems. One group of states uses community property laws, and the others don't. The community property states are Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, Wisconsin, and, since 1998, Alaska. There are differences among the laws of community property states, but they have the same big picture principles.

In a community property state, each spouse in a married couple owns a present, equal, undivided interest in property or income acquired by either spouse during the marriage, and it's called community property. Income from community property also is community property. It doesn't matter if legal title is in only one spouse's name or only one spouse earned income. It still is community property. Not included as community property is property owned before the marriage and property acquired during the marriage through gift or inheritance.

There are some other exceptions. For example, federal law generally overrides state law. That means retirement plans and Social Security benefits are controlled by federal law, not the community property law of the state.

Community property laws often are considered important only in case of a divorce, but they also play critical roles at other times.

In an estate, each spouse generally is entitled to half of the community property regardless what is in a will, trust, or other arrangement. Each spouse is free to dispose of the other half of the community property as he or she wishes. There is an income tax benefit to community property laws. When one spouse passes away, the basis of the entire property is stepped up to fair market value, though the surviving spouse owned half the property before and after the other spouse passed away. That allows the surviving spouse to avoid capital gains that can't be done in non-community property states.

Of course, if you live in a community property state and have an estate planner who knows the laws, you aren't likely to have an estate planning problem. Problems occur when people move from a community property state to a non-community property state. The community property nature of their assets continues. Some states have adopted a Uniform Act that addresses how property is handled when a couple moves from a community

"The differences between community property and non-community property states can matter most when you move from one to the other."

property state to a non-community property state. In other states, the estate planner has to decide how to handle the issue. Some do it well, while others make mistakes.

When you are married and moved from a community property state to a non-community property state, your estate plan needs to be revised. Your estate planner needs to know you used to live in a community property state. You should seek an estate planner who knows the effects of the move and how to deal with it in the plan. Some lawyers suggest the couple convert the community property to property owned as co-tenants. Doing this would lose the income tax benefit that comes from inheriting community property and might also reverse some of the rights and expectations the spouses had from the community property.

Instead, there are ways of confirming the community property nature of the property acquired in the other state and legally segregating the assets through documentation and perhaps separate accounts or trusts.

Community property laws also are significant when applying for some benefits, such as having Medicaid pay for long-term care. Medicare will pay for long-term care only when the recipient satisfies certain income and asset tests by essentially being impoverished. In non-community property states this can be done without impoverishing the other spouse. But in community property states, each spouse is considered to own half the assets and income of the other as long as they are married. It can be more difficult to qualify for this and other benefits in a community property state.

There are some important differences between community property and non-community property states. The differences can matter most when you move to or from a community property state. They also can matter when seeking some federal program benefits and in other instances. RW

Securing Income and Reducing RMDs

IRA Watch

"You should be familiar with QLACs. They are a growing force in retirement income planning."

You should be familiar with QLACs. They are a growing force in retirement income planning. In 2014 the IRS approved them as a way to secure a stream of lifetime income and to reduce required minimum distributions (RMDs) and the income taxes they generate. Even if you never buy one, you should understand them and know why you aren't buying one.

A qualified longevity annuity contract (QLAC) is a special type of longevity annuity. A longevity annuity, also called a deferred income annuity (DIA), is a relatively new type of annuity, first issued in 2004. You buy a guaranteed lifetime stream of income by paying a lump sum to an insurer. The income payments are delayed for as little as two years or as many as 45 years after you buy the annuity. When you buy the annuity, you decide when the income payments will begin. Income payments from QLACs can start as early as 72 or as late as 85. You also can buy a ladder of QLACs, so income payments begin in different years, providing higher income over time. The later the income payments begin, the higher they will be.

The longevity annuity ensures you won't run out of income during your lifetime. You'll always have income from Social Security (the best inflation-adjusted longevity annuity you have) and the longevity annuity.

Many like to buy DIAs in their 50s and plan income payments to begin between 65 to 70. This is a cheaper way to prepay retirement income than waiting until retirement and then buying an immediate annuity, according to Wade Pfau, a professor at The American College. He calculates that you receive more income per invested dollar from a DIA.

A QLAC has an added benefit for your IRA.

Longevity annuities and other types of annuities have been purchased in IRAs for years. Until 2014, it wasn't clear how a longevity annuity affected the calculations of RMDs, and most insurers required income payments to begin by age 70. The IRS resolved that in 2014 with new regulations that enhance QLACs in IRAs.

When you own a QLAC in your IRA, the balance in the QLAC isn't used to calculate your RMDs until income begins or age 85, within limits and whichever is first.

RMDs are a major problem for many traditional IRA owners. The tax code forces them to take distributions each year after age 70½ whether or not the income is needed. The distributions are calculated using life expectancy tables and are intended to drain the IRA over a person's lifetime. A higher percentage of the IRA is distributed as the owner ages, and in the late 70s and beyond the RMDs often greatly exceed what the owner needs. The RMDs from a traditional IRA are included in gross income, so this creates an income tax problem.

Under the 2014 regulations, the amount invested in QLACs isn't used to calculate RMDs, up to a total of $125,000 invested or 25% of your IRA balance, whichever is less. The limit is calculated by aggregating all your IRAs. In other words, it is a per taxpayer limit, not a per IRA limit. The limit is determined by comparing the amount invested in QLACs to the IRA balance as of the end of the previous calendar year. Married couples apply the limits per person. Each spouse can invest up to $125,000 or 25% of his or her IRA in QLACs.

QLACs also can be purchased through participating 401(k) and similar plans and limit RMDs from them. The 25% limit applies to each plan, and the $125,000 limit is per person. Right now it is difficult to find a 401(k) plan that offers a QLAC as an investment option.

The $125,000 limit is indexed for inflation, but it will rise only in $10,000 increments. At recent inflation rates, it will take it a while to increase.

<u>Many people would benefit from excluding up to 25% of their IRA balances from the RMD calculations, and they can do that by having their IRAs buy QLACs</u>. The QLACs delay the RMDs for that part of the IRAs until age 85 or when the income begins, whichever is first.

A longevity annuity doesn't have to be a use-it-or-lose-it asset. Most people believe you and loved ones don't receive anything if you don't live to the age when income distributions begin. But there is more flexibility. You can have a joint QLAC with your spouse that pays until both pass away. You also can structure the QLAC to provide some income or return of premiums to a beneficiary if you pass away prematurely.

Remember the annual payment is locked in when you buy the annuity. The scheduled income payment might seem sufficient when you purchased the annuity but the purchasing power will be less over time. Inflation protection can be added, but it is expensive; it reduces the initial income. Request quotes of the income with and without inflation protection.

Keep in mind that adding any of these benefits reduces the income you'll receive.

Once a QLAC is purchased, limited changes are allowed. Most insurers allow one change to the payout date. You also might be able to add money to the annuity, but a new income payout amount will be calculated for that contribution.

<u>You should know that not all longevity annuities are QLACs</u>. Any issued before the July 2, 2014, date of the IRS regulations don't become QLACs. Your IRA can own a longevity annuity that isn't a QLAC, but it won't help reduce the RMDs. Instead, you have to buy an annuity issued after the regulations. The insurer has to identify it as a QLAC meeting the IRS regulations and not as a standard longevity annuity. Variable annuities, indexed annuities, and other types of annuities also aren't going to meet the QLAC requirements.

You can't own a QLAC in a Roth IRA. You might want to own a regular longevity annuity in a Roth IRA to provide guaranteed income later in life.

QLACs and longevity annuities are among the simplest of annuities. You can use them to increase guaranteed income late in life. Or you can buy them before retirement with the intention that they'll be part of your guaranteed income from the start of retirement.

Only a few insurers issued longevity annuities for years. But the IRS regulations quickly brought change. Major insurers began introducing their versions. Now, about 10 insurers issue QLACs and 15 offer DIAs.

To learn more about longevity annuities and QLACs, including details about the different types available, contact Stan Haithcock, also known as Stan the Annuity Man. You can receive a free printed copy of his *QLAC Owner's Manual* by calling 800-509-6473 or online at www.stantheannuityman.com. Roll over "Resources" and then roll over AnnuityMan Owner's Manuals. RW

Getting Ready for Medicare Decision Time

Health Watch

Many people make the wrong choices for Medicare. They choose the plans that aren't best for them and consistently pay more out of pocket than they should. That's been clear from a number of studies over the years. <u>Some advisers conclude that 90% or more of Medicare beneficiaries spend more of their own money than they need to on medical expenses</u>.

Fortunately, every year there is an opportunity to correct those mistakes. The Medicare annual open enrollment period is coming. From October 15 through December 7 there is an opportunity to change your coverage. During this period, you can switch from traditional Medicare to a Medicare Advantage plan or the reverse. Those already in Medicare Advantage can switch to a different Advantage plan. You also can join a Part D Medicare prescription drug plan or switch from one Part D plan to another.

Any changes made during this period will take effect January 1, 2016.

Medicare has several components. Part A is hospital coverage, for which there is no premium for most people. Part B is traditional Medicare covering doctors' expenses and other types of outpatient medical care. Parts A and B have deductibles, copayments, coverage limits, and noncovered care. There are Medicare supplement policies, or Medigap policies, that pay some of the items not covered by Parts A and B. These policies are offered by private insurers and regulated by Medicare.

Part D is prescription drug coverage. Part D policies are offered by private insurers but regulated by Medicare.

Part C is Medicare Advantage. These also are plans offered by private insurers regulated by Medicare and generally combine Parts B and D and perhaps the terms of some Medigap policies and other types of care. People who are in Medicare Advantage aren't eligible to buy Part D policies or Medigap policies because of the likelihood of duplicate coverage.

There are three major areas in which Medicare beneficiaries leave money on the table or spend money they don't need to.

One major oversight is to enroll in a Medicare Advantage plan without realizing that it limits your choice of doctors and other medical providers. To receive full benefits of the plan, your care must be delivered by a provider in the plan's network. When care is delivered out of network, except in emergency conditions, the plan is likely to either not cover the care or cover less than it would for an in-network provider. You pay for all of what the plan doesn't cover.

This isn't a problem for people who are content to use the plan's doctors and other providers. But those who want to stay with a long-term doctor or pick their own doctors and specialists are likely to incur additional expenses. Traditional Medicare often is the better choice for those people. It allows you to select your doctors and other providers and decide when to visit them and which care to receive. Medicare pays the covered bills up to its scheduled prices. While a Medicare Advantage plan might look attractive, it isn't when you want care delivered outside of the plan's network or without the plan's preapproval.

"I've seen studies that estimate the major category of medical spending for older Americans is prescription medication, not insurance, doctors, or hospitals."

Prescription drugs also are a major cash drain. More and more medical treatment is delivered through medication. I've seen studies that estimate the major category of medical spending for older Americans is prescription medication, not insurance, doctors, or hospitals.

Part D policies and Medicare Advantage plans each covers prescription drugs. But you have to pay attention to the details before signing up for a plan. All plans don't cover the same drugs or the same amount for each drug.

Each plan has what's called a formulary. That is the list of prescription medications covered under the plan. The lists are very specific. For example, statins are a commonly-used medication. A plan might cover a particular brand of statin but not other brands. Or it might require a member to try the preferred brand first and allow a switch to another brand only when the preferred brand hasn't achieved desirable results over a period of time or when the member has adverse reactions.

When a generic drug is available, some plans will cover only the generic and not any name brands. Of course, a plan also might not cover certain types of drugs or drugs for certain conditions.

To examine a prescription drug plan, you first need to develop a list of medications you're taking. Also consider any medications that your medical history, family history, or comments from your doctor indicate might be recommended in the next few years. Perhaps you have borderline high cholesterol or high blood pressure and might need medication to control those in the future.

Then, examine the formulary and restrictions in the plan for those drugs. Most details are on the Medicare web site and are available over the telephone through 800-MEDICARE.

Also, be sure you are looking at the latest information. The plans release the coming year's formulary and plan details in the fall in time for the annual open enrollment, and they are posted to the Medicare web site. But don't rely solely on the web site. A plan can make changes that don't make it to the Medicare web site. When you've used the web site to narrow down your choices, contact the plans directly either through their web sites or the telephone to verify there haven't been changes.

Even if you are happy with your plan, you should review the latest information. It is not unusual for a plan to make changes in the medications it will cover or change policies on brands and generics.

Premiums are another way people leave money on the table, especially with Medigap plans. Some insurers apparently count on people not doing a good job of shopping for their coverage. So, premiums for the policies vary widely.

The Medicare supplement, or Medigap, policies are tightly regulated. Insurers are allowed to offer only certain types of coverage, and the types are identified by Medicare. Our latest discussion of the details of these policies was in the October 2014 visit.

Though the policies are identical, premiums for them vary widely. One study found that premiums vary by 100% for the same policies. That means some people pay twice as much as others for the same coverage because they didn't shop around. You don't want to automatically buy the policy with the lowest premium. The insurer might be trying to increase market share with low premiums only to substantially increase them in a year or two. Or it might make money by paying slowly or through other means. But you should shop around, especially for the Medigap policies since they are the same.

Be careful about piggybacking on someone else's research and buying the same policies they do. Your medical history and needs are likely to be different. This is especially important when they don't live very close to you. Prices for medical coverage vary considerably based on where a person lives. Often, premiums are very different even between counties that border each other. There are about 2,300 Medicare Advantage plans and 1,400 Part D plans offered around the country. The same insurers are offering the same or very similar policies but charging different premiums based on local costs and other factors.

Remember, even if you are happy with your medical arrangements, take a look at what's available. Plan details and costs change regularly. You might find something that better fits your needs and perhaps saves you money. RW

Evaluating Pension Buyout Offers

Tax Watch

There's been a surge in *Retirement Watch* members telling me that they've been offered lump sums to buy out their pension rights. That's no surprise. The number of employers making such offers greatly increased in recent years, according to research reported in *The Wall Street Journal*. About 22% of larger employers are expected to make such offers in 2015.

Those offers will be limited in the future. The IRS over the summer issued rules that basically prohibit plans from making buyout offers to those already retired and receiving benefits. But active employees still will receive them, and there still are offers on the table from before the new rule.

Pension buyout offers generally ask former employees or those nearing retirement if they want to give up the right to receive that monthly check for the rest of your life in return for one payment many times the monthly check.

The offers are coming now because law changed a few years ago. Employers now can offer lower lump sums in lieu of annual pension benefits. Many employers also want to remove the pension obligations from their books. Plus, the quasi-government agency that insures pension benefits raised the premiums it charges employers.

Here's how to evaluate that pension buyout offer.

Other benefits. Your pension might have other rights associated with it. If you're still working, there might be disability benefits or an early retirement subsidy. The pension also might have spousal or survivor benefits. The loss of these benefits often isn't disclosed in the buyout offers, and the lump sum doesn't include money to replace them. It replaces only a single life annuity.

You also should know if the pension is insured by the Pension Benefit Guaranty Corporation and, if so, the amount of the guarantee. If you receive a lump sum, it won't carry such a guarantee.

Review any benefit publications or web sites available to you, and contact the employee benefits office to see if you are eligible for such benefits.

Determining the value. The lump sum often looks like a good deal compared to the smaller monthly annuity payment. But you need to compare apples to apples by taking a hard look at comparable numbers.

By accepting the lump sum offer you'd be giving up guaranteed lifetime income. So, determine how much it would cost you to replace that guaranteed lifetime income. Most private sector pensions aren't indexed for inflation. You receive a fixed monthly amount for life. That makes the analysis easy.

Determine the lump sum you would need to buy the same guaranteed lifetime income from a private insurer. You can contact my recommended annuity expert, Todd Phillips of Phillips Financial Services at 888-892-1102. He'll be able to tell you the lump sum the top-paying, financially-secure insurers will require for an immediate annuity to match your pension. Or you can go to a web site, such as www.immediateannuities.com, which will tell you the terms offered by the insurers they deal with. The odds are that you'll have to pay the insurers more than the lump sum offered to receive the same guaranteed income.

You might not be retired yet. Let's say you are 55 and the pension wouldn't begin paying until 65. Then, your inquiry has two parts. First, you have to ask the insurers to estimate what lump sum you would need to give them at age 65 to pay a monthly amount equivalent to the pension. Second, estimate the rate of return you'd need to earn for the lump sum to compound to that amount by age 65.

Another way to evaluate the offer is to calculate how long the lump sum would last. Estimate how much you'd want to withdraw each month for spending. Then, estimate how long the lump sum would last at different investment rates of return at that spending rate. Another approach is to assume you'll spend each month whatever the monthly annuity was going to be. Then, estimate how long the lump sum would last at that spending rate at different investment rates of return.

Conservative investors likely will find that their investment returns won't be enough to allow the account to last for their life expectancy at a spending rate similar to the monthly pension. More aggressive investors might be able to sustain the payouts and even have something left for their heirs, but that assumes the markets cooperate and their actual results match historic returns. Bad markets would leave them worse off than conservative investors.

Evaluating the soft benefits. That brings us to an important and intangible factor. With the pension you have a guaranteed monthly income, assuming the pension fund doesn't go broke or if it does your annuity is covered by the PBGC. With the lump sum you have the potential to earn a higher return, generating enough cash to replace the pension annuity and perhaps leave something for your heirs. But there's no guarantee of either result. You might have lower investment returns and run out of money during your lifetime. By taking the buyout offer, you're giving up the lifetime guarantee and taking the investment risk yourself.

With the buyout offer you're also taking the risk of a long life. The buyout offer assumes you'll live to average life expectancy. The lump sum might be more attractive if there are reasons to believe you will be among those with below-average life expectancy. But if you live beyond life expectancy, you'll need higher-than-average investment returns or lower spending for the lump sum to last.

Taxes. When you receive the monthly pension payments, they likely will be fully taxable as ordinary income. You'll have the after-tax amount to spend. A lump sum can be rolled over into an IRA without incurring immediate taxes. But you'll owe taxes as money is distributed from the IRA. Or you might convert the IRA to a Roth IRA after the rollover and pay the taxes at that time. In that case, there wouldn't be any taxes on future income and gains earned by the Roth IRA. If you take the lump sum directly instead of having it rollover over to an IRA, you'll have to include the entire amount in ordinary income in the year it is received. Those are the most likely tax scenarios. If you have some after-tax contributions in the pension, the results might be a little different for you, because those won't be taxable when you take them out.

Another tax factor is required minimum distributions. If you take the lump sum and roll it over to a traditional IRA, after age 70½ you'll have to take the RMDs. This could deplete the account faster than you planned and increase your tax burden.

Evaluating a pension buyout offer requires you to consider a range of issues and take several different steps. The most important issue to keep in mind is that accepting the offer means shifting the risk of a longer life and lower investment returns from the pension plan to you. You're taking responsibility for achieving adequate investment returns and managing the spending and also taking the risk you might live a very long life. RW

The Benefits of Thinking Slower

Monthly Windup

If, like me, you spent some time over the summer and early fall watching professional golf on television, you might have noticed a recurring theme. The retired pros offering commentary on the broadcasts often said that at potential turning points in a tournament the key for the golfer was to slow down. Pressure and excitement often cause a player to move faster, primarily because of adrenaline. The golfer is likely to rush decisions and swings. Rushing is likely to lead to bad decisions and bad swings.

That's good advice for financial decisions, too. Remember the book, *Thinking, Fast and Slow* by Daniel Kahneman. The Nobel Prize laureate in economic science says that people usually try to make decisions quickly, relying on instinct, rules of thumb, and similar factors. Kahneman's research finds that these quick decisions often are wrong, especially financial decisions. He recommends making decisions more deliberately. Take time to ensure you've gathered all the relevant information and carefully analyzed it. You'll make better decisions. A related lesson is not to buy or sell in a panic. Also, don't act for fear or missing out.

That's all we have time for this month. This year has proved to be an interesting one. Few people anticipated the range of headline-grabbing financial events we've had so far. I suspect we'll have some more events of interest before the year is over. I'll be monitoring things for you and will report to you in these monthly visits and in between them in Bob's Journal on the web site.

Bob

P.S.: Check the members' section of the web site regularly for updates and news. You'll find the next issue shortly after it is sent to the printer. You'll also find between-issue commentary in Bob's Journal and a range of other resources and information. Go to www.RetirementWatch.com. Click on "Member Login" and enter your member number. That's the number above your name on the envelope in which your issue was mailed.

Robert C. Carlson wrote the book on retirement and retirement planning twice–*Personal Finance for Seniors for Dummies* (with Eric Tyson; 2010) and *The New Rules of Retirement* (Wiley, 2004). He also serves as Chairman of the Board of Trustees of the Fairfax County (Va.) Employees' Retirement System (a $3.0 billion portfolio) and served on the Board of Trustees of the Virginia Retirement System (a $42 billion portfolio in 2005) from 2000-2005. He is an instrument-rated private pilot and was educated at the University of Virginia School of Law and McIntire School of Commerce (M.S.) and Clemson University.