

## Annuity or Lump Sum?

## Pondering Pensions

By Patricia Kutza

**B**y 2010, according to California Department of Finance population projections, at least 25 percent of the state's population will retire or at least be contemplating the prospect. Those vested in private defined-benefit pension plans will be asking the burning question: Shall I cash out with a lump-sum distribution or opt for the monthly annuity provided by my employer?

"Most people still choose the traditional pension annuity because they feel it is the easiest decision to make," says Hugh Phillips, Napa-based certified financial specialist of the Hanson McClain Retirement Network, headquartered in Sacramento. "They like receiving a known quantity every month. They also prefer to have their employer manage their pensions rather than manage it themselves."

However the perception of pensions being a guaranteed entitlement has been hurt by such companies as United Airlines and its highly publicized 2005 pension-plan default. "I've seen historically risk-adverse clients react to this news by cashing out their pensions," Phillips says. Cashing out is a choice that companies actually favor, Phillips explains. "Every retiree who cashes out is one less person they need to track to deliver a monthly annuity. Multiply that person by thousands and it equates to a dramatic reduction in overhead costs," he says.

Monthly pension payouts don't adjust for cost-of-living increases. That's reason enough for some retirees to cash out,

says Phillips. But not a good enough reason to do so without prior careful planning, says Carol Van Bruggen, certified financial planner for Sacramento-based Foord, Van Bruggen, Ebersole and Pajak. "Understanding any age restrictions and tax consequences for withdrawing these funds is critical to any sound financial strategy," Van Bruggen explains.

Investing a lump sum so that it lasts your lifetime necessitates developing a mentality that is not unduly influenced by your environment, Phillips adds. "Whether you hire a financial planner or manage it yourself, you need to set objectives and commit to them even when the flavor-of-the-month investment product entices you. It's smart to start planning at least three years in advance of your projected retirement." Ask lots of questions about investment strategies. "If you choose to hire a planner, find someone you can trust to tell you what you need to hear, not what you want to hear," he says.


**Diversification, Diligence**

In the late '90s, when telecommunications giant SBC bought Pacific Bell Telephone Co., Fairfield resident Andy Hernandez' job landed on the chopping block. With 20 years of service, Hernandez had accrued pension benefits but was too young to exercise them. He quit Bell and withdrew his entire 401K-retirement account, rolling the lump sum into an IRA account.

"The stock market was doing well so I kept my IRA in a high-risk but large-return portfolio," says Hernandez. Having no real financial-investment background or real interest in keeping close track of the companies into which the portfolio invested, I lost a bit of money in the tech stock crash."

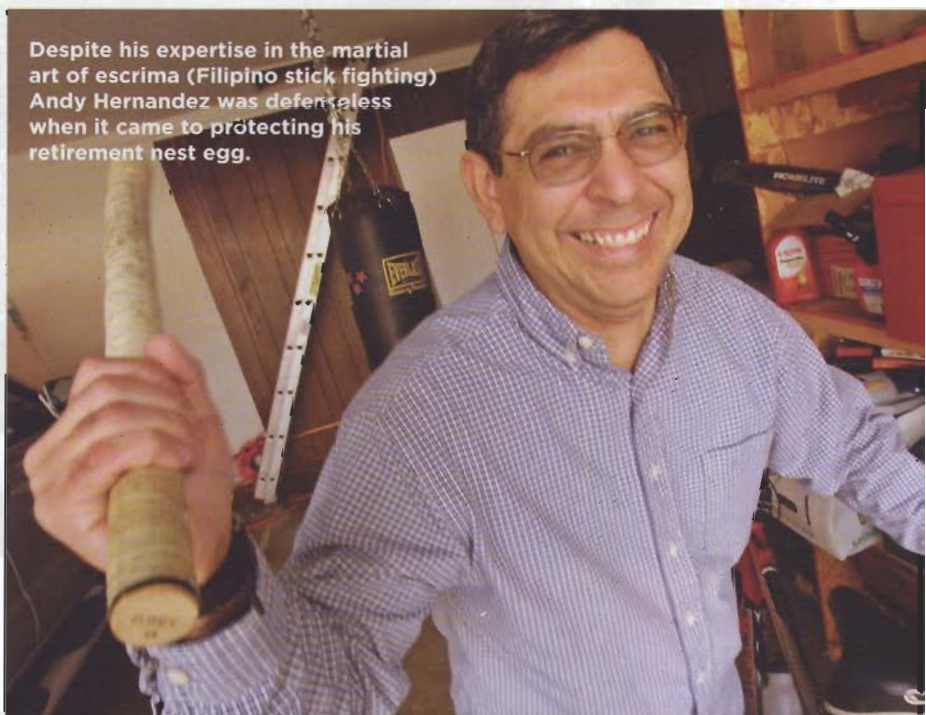
Currently working as an infrastructure specialist for Rancho Cordova-based computer services firm Electronic Data Systems, Hernandez still harbors regret that he not only overestimated the strength of the market

 [pbgc.gov](http://pbgc.gov)

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Despite his expertise in the martial art of *escrima* (Filipino stick fighting) Andy Hernandez was defenseless when it came to protecting his retirement nest egg.



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— Hugh Phillips, certified financial specialist, Hanson McClain Retirement Network

but also his willingness to monitor it. "I should have diversified my portfolio as I do now, to balance gains against losses in the different markets (stock, bonds, mutual funds)," he explains.

"The advice of a financial adviser is a big plus. An adviser is aware of the current market conditions and advises the best strategy on reallocating funds to make the most profits and to limit losses. I now review my investments every year and adjust them as needed."

## To Learn More...

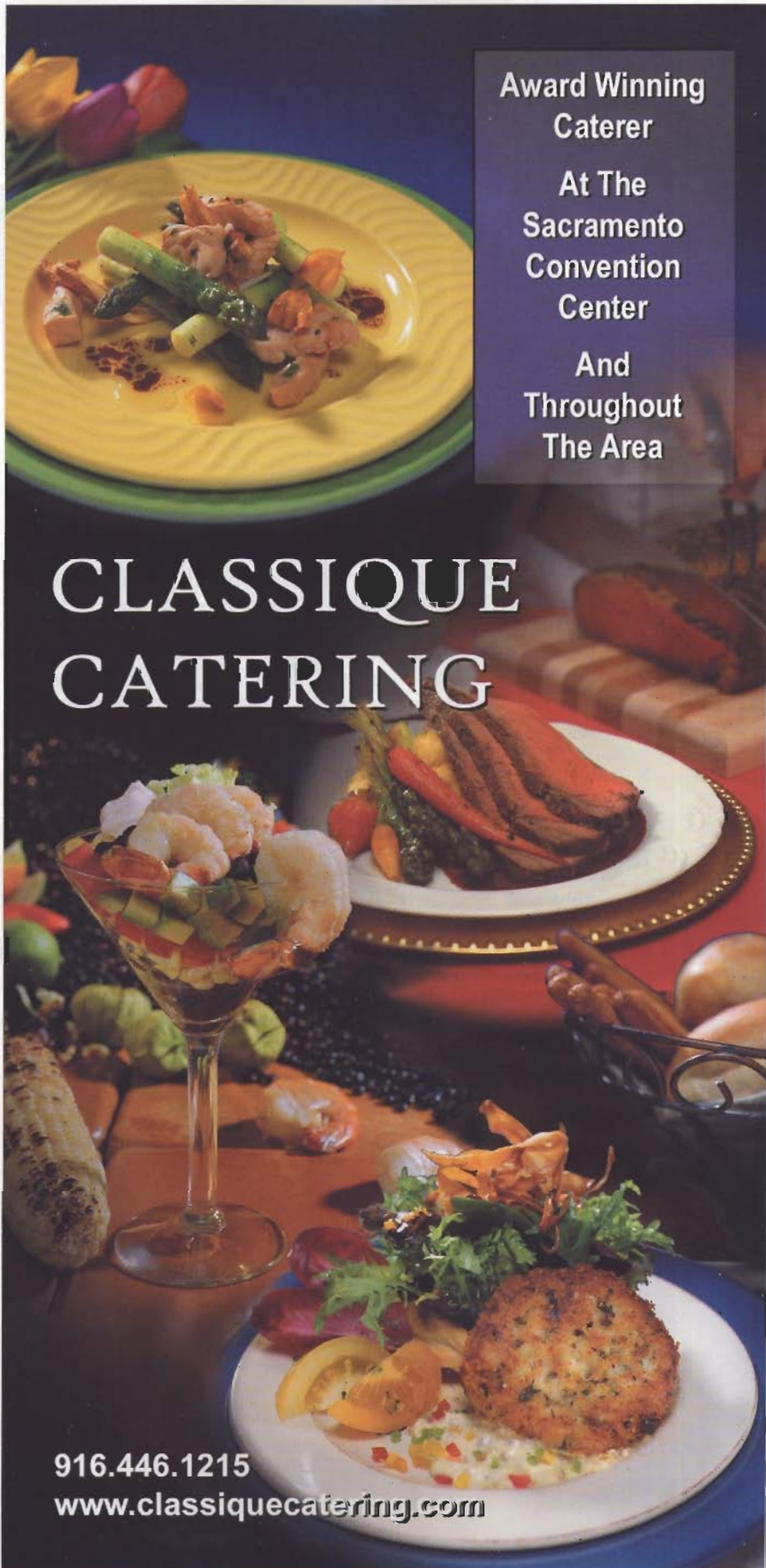
**National Retirees Legislative Network**  
The goal of this nonpartisan, grassroots coalition is to promote federal legislation that protects pension plans and retirement-healthcare benefits. It boasts more than 2 million members.

**The Pension Security and Transparency Act of 2005 (S. 1783)/The Pension Preservation Act of 2005 (H.R. 2830)**

In 2005, the U.S. Senate passed S. 1783 and the House of Representatives passed H.R. 2830. In early 2006, both bills will go to a joint conference committee on pension reform. They address such issues as beefing up underfunded pension plans and requiring companies to pay higher premiums to the Pension Benefit Guaranty Corp.

**"Tax Deductions for Professionals"**  
By Stephen Fishman, Nolo Press (2006)  
Exhaustive text includes chapter devoted exclusively to retirement plan deductions.

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