



More companies are offering pension buyouts to shrink the size of future pension obligations, which ultimately reduces the impact of that pension on the company's financials. From an employee's perspective, the decision comes down to a trade-off between an income stream for life and a pile of money that's made available today.

The uptick in the number of pension buyout offers relates to a recent notice from the Internal Revenue Service<sup>1</sup> and the Department of Treasury. Until Notice 2019-18 was published on March 6, 2019, the IRS prohibited companies from offering buyouts to former employees who had already started receiving their pensions. The new notice overrides the old rules, allowing companies to offer such buyouts to both former and current employees.

Here are a few factors that you should weigh before giving up that monthly payment for life:

- **Demographics:** What is your age, marital status and health?
- **Your life expectancy:** If you are ill or have a family history of a short life span, then taking a lump sum buyout may be an attractive offer.
- **Joint payout reductions:** Often times, the monthly pension payments reduce to a lesser payout to the spouse, after the worker's death. Does your pension continue fully to your surviving spouse, or does it reduce to two-thirds or 50% of the original amount? The greater the reduction, the better a lump sum payout will look.
- **Opportunity cost:** What is the interest rate environment? As rates hover near historic lows today, it's not easy to match the payout of many pensions unless you are willing to invest heavily in stocks.
- **Solvency of company backing pension:** How confident are you that your former employer will last as long as you do?
- **Desire to invest money:** Are you comfortable putting your money in the stock and bond market over time?
- **Estate planning:** What are your legacy goals for your children? If you have met these with other vehicles, like life insurance, then keeping a pension for life may be a more secure choice.

Since this is such an important financial decision, you should carefully analyze your options with us before electing a pension buyout.



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