PRE-MEETING OVERVIEW

COLUMBIA THREADNEEDLE INVESTMENTS

CHOOSING A LUMP-SUM DISTRIBUTION

What to know before your meeting

According to the Bureau of Labor Statistics, 15% of all American workers, or 20 million, have access to defined benefit plans.[1] If you are one of them, there is a good chance that your workplace pension plan includes a lump-sum distribution and rollover option in addition to an annuity. Ninety-nine percent of cash balance defined benefit plans and 36% of traditional defined benefit plans offer lump-sum distributions.[2] That means under certain circumstances, you can choose to receive a one-time cash payment that reflects the value of your annuity benefits from the plan rather than the annuity payments, which are traditionally associated with defined benefit plans. Moreover, in some cases you may be able to receive a lump-sum distribution when you leave your job or attain age 59½ — even if it is before you reach the plan's retirement age.[3] Your financial advisor can help you evaluate the pros and cons of a lump-sum distribution and rollover versus an annuity.

While there are benefits to receiving fixed annuity payments, including having a guaranteed lifetime opportunity to protect your stream of income and the reduction of investment risks, there are also potential downsides.[4] For example, inflation may erode your purchasing power, and you have no access to the principal behind your annuity payments. That may limit your ability to pass along wealth to your heirs. Keep in mind, too, that annuity payments from your plan are irrevocable and not eligible for rollover.

You may want to discuss lump-sum distribution and rollover possibilities with your financial advisor if your goals are to potentially achieve higher rates of investment returns, secure greater cash flow than your plan's annuity would provide and be able to leave the remaining funds to beneficiaries. To determine if a rollover is the right decision for you, you should first consider all of your distribution options, as well as available investment options, fees and expenses, services, taxes and penalties, creditor protection, required minimum distributions and the tax treatment of employer stock.

Questions to review before your meeting

Q: Does my defined benefit plan allow lump-sum distributions?

A: You may not be able to determine this from the plan's distribution forms, because even if your plan allows the option, the forms may not include it. Instead, you and your financial advisor should review the formal plan document or the summary plan description (SPD). Ask your human resources department or log on to your benefits website for a copy.

Q: Are there restrictions?

A: Retirement benefits can be distributed only after a "triggering event" (e.g., attainment of retirement age, disability, death or separation from service). Because plans differ, particularly with regard to retirement age, the only way to determine if you qualify for a distribution is to review the plan document.

[1] Bureau of Labor Statistics, Retirement Benefits, 2023.

[2] Retirement Plan Provisions for Private Industry Workers in the United States, 2022, released April 2023.

[3] Effective for 2020 and later plan years.

[4] Guaranteed annuity payments are subject to the claims-paying ability of the insurance carrier (or employer plan, if self-annuitizing).

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Q: How much will my lump sum be?

A: Cash balance plans automatically communicate the value of the benefit to participants in the form of a hypothetical balance that is close to the lump-sum calculation. Lump-sum calculations for traditional defined benefit plans are based on plan-specified interest rates and the applicable mortality tables as published by the IRS annually.

Checklist to complete before your meeting

Your financial advisor can help you review your plan documents, estimate the amount you may be eligible to receive and educate you on your options. Before you meet with your financial advisor, you may want to gather some important information and documents:

- [ ] Lump-sum window election information you may have received as a result of your employer taking steps to de-risk its plan
- [ ] Your most recent statements from your defined benefit plan
- [ ] A copy of the plan's annual funding notice
- [ ] The website address for your plan
- [ ] Any plan documents you have in hard copy, such as the SPD (your HR department can provide a copy if it is not available online)
- [ ] The telephone number of your company's benefits administrator so you and your financial advisor can confirm information and clarify any points that may be unclear
- [ ] Information on other IRA or retirement accounts you may have — such as a 401(k) plan at a previous employer — to evaluate consolidating all your retirement investments
- [ ] Your tax advisor's contact information so that you may quickly resolve any tax-related questions that may arise

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