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Lump Sum or Monthly Pension: Which to Take?

June 2016- Society of Actuaries

If you are about to retire, your company pension plan might include a "lump sum" as an option you could take in lieu of the monthly "pension annuity" you would otherwise receive from the plan. If you choose to elect the lump sum option, you will generally receive all the retirement money you are due from your pension at one time—in a "lump sum"— instead of a monthly pension check for the rest of your or your spouse's lifetime. The very thought of having all those dollars available in your personal bank or brokerage account might be very enticing. However, there are many factors to consider before deciding whether or not to elect the lump sum option. This Decision Brief from the Society of Actuaries (SOA) looks at several of those factors.

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Big Question: When Should I Retire?

June 2016- Society of Actuaries

The "when-to-retire" question has many companions. They often pop up at the same time as the "when" question. Answering some or all of these companion questions sometimes helps uncover the answer to the big question. Many people ask:

- Should I/my spouse start Social Security benefits as soon as possible or delay taking benefits in order to receive higher payments later on?
- How will age-related changes in my/our health affect retirement?
- What financial resources will be available?
- Will the finances be sufficient to last for my/our entire lifetime?
- What will be my family/household needs during retirement?
- How will I/we be able to realize my/our goals and dreams?
- Would it be a financially sound move to delay retirement?

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When Retirement Comes Too Soon

June 2016- Society of Actuaries

Sometimes people encounter an unexpected barrier along the road to retirement. One barrier is the realization that they must retire earlier than expected. This can be due to job loss, illness, disability, caregiving responsibilities or other factors. This often forces people to make a host of decisions very quickly so they can change direction. The nature of those decisions is the focus here. The financial questions that premature retirees must address are the same as those for anyone entering retirement. Where will the money come from? Where will it go? But because retirement came suddenly, premature retirees have an urgent need to find answers. This urgency may lead to quick but ultimately inappropriate decisions. The first bit of advice, then, is for retirees not to panic—and not to sign anything immediately.

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Treating Asset Allocation like a Roadmap

June 2016- Society of Actuaries

A WELL THOUGHT OUT ASSET ALLOCATION PROGRAM is a key ingredient of successful retirement for many Americans. But just what is asset allocation, and what decisions do people need to make regarding asset allocation as they approach and enter retirement? That's what this Decision Brief is all about. Asset allocation is like a road map for long-term financial stability. It involves deciding how to allocate savings and investments among risky assets like equities and lower risk assets like bonds. It also takes into account other resources such as Social Security, pensions, annuities, housing, etc. The goal of asset allocation is to increase the retiree's chances of achieving his or her financial needs and goals for as long as the retiree lives.

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Women Take the Wheel: Destination Retirement

June 2016- Society of Actuaries

Women retiring today are more financially independent than their mothers and grandmothers were. They have spent more time in the labor force than their forebears. Many have held highly paid jobs. As a result, many more women are eligible for their own Social Security and pension benefits than ever. In addition, the Retirement Equity Act helps to ensure that married women will not unknowingly miss out on survivor benefits from pensions for which their husbands might be eligible. Even so, women face financial challenges. For instance, intermittent work histories and part-time employment with few benefits have been the norm for millions of women who are now about to retire. Women have also generally earned less than men over their working lives.

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Deciding When to Claim Social Security

June 2016- Society of Actuaries

A key part of the journey toward retirement for many Americans is deciding when to start taking Social Security benefits. Many people decide to claim their benefits without checking out their options. Perhaps they do not know that options exist or they may think the options won't make much difference for their retirement. However, options do exist, and the selection can be very important to retirement security for single individuals and even more so for couples. This Decision Brief discusses many of these options. People can begin taking Social Security benefits starting at age 62. Most people claim their benefits at the time they retire. However, because monthly benefits increase with claiming age, delaying Social Security may be a good idea if the person has other retirement assets. Most everyone needs to give a lot of thought to whether to claim early, at full retirement age or at a later date (up to age 70). Personal circumstances, resources and goals often influence the decision, as do finances, taxes and Social Security rules. Health and life expectancy are factors too.

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Finding Trustworthy Financial Advice for Retirement and Avoiding Pitfalls

June 2016- Society of Actuaries

People often turn to others for financial advice as they approach retirement. It's a little like turning into a gas station for directions when approaching unfamiliar territory. Unfortunately, finding trustworthy advice is not always easy. Experienced financial professionals and family members can be invaluable but some may be unreliable or even dishonest. This Decision Brief provides some pointers that can help deal with the challenges. A good place to start is to become more knowledgeable about retirement planning and investments. Many older people do have the time and ability to do this. Possessing such knowledge can help them save money and avoid possible heartache. Being better educated can also help seniors select advisors and ease interactions with those professionals.

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How Work & Marriage Trends Affect Social Security's Family Benefits

June 2016- Center for Retirement Research, Boston College

The brief's key findings are:

- Social Security's spousal and survivor ("family") benefits were designed in the 1930s for a one-earner married couple.
- Today, family benefits contribute less to retirement income because most married women work, and many households are headed by single mothers.
- Single mothers who were never married are not eligible for family benefits, nor are divorced women who were married less than 10 years.
- These women often find it harder to earn an adequate Social Security benefit on their own, as their work opportunities are constrained by child-rearing duties.
- Policy experts have suggested ways to help:
    - Earnings sharing among married couples could raise benefits for women who later become divorced.
    - Caregiving credits could help mothers regardless of their marital status.

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How Long Will 401(K) Participants Really Have To Work?

June 2016- Employee Benefit Research Institute, EBRI

It's a question asked with increasing frequency; just how long will workers need to work in order to live comfortably when they finally decide to retire? While "'til death" is still relatively rare, more Americans are sailing past traditional retirement ages, and age 70 (at least) is quickly becoming the new norm. Roughly one in four U.S. employees now believe they won't be able to retire until after age 70, if at all, according to a survey by Willis Towers Watson. Additionally, nearly one-third (32 percent) anticipate retiring later than previously planned. The company's "Global Benefits Attitudes Survey" found 23 percent believe they'll have to work past age 70 to live comfortably in retirement; another 5 percent don't think they'll ever be able to retire. According to the survey, while the average U.S. employee expects to retire at age 65, they admit there is a 50 percent chance of working to age 70.

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More Retirees Get Less Satisfaction

June 2016- Center for Retirement Research, Boston College

In the late 1990s, six out of ten retirees found retirement "very satisfying." Today, not even half do, according to a recent analysis of a long-term survey of older Americans. The news isn't all bad, since the "moderately satisfied" share rose – and moderately satisfied is probably a more realistic goal for most people anyway. But the question of why so few people are very satisfied with their retirement state of mind is difficult to pin down. The survey analysis by the Employee Benefit Research Institute (EBRI) and past academic research provide some clues.

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The Funding of State and Local Pensions: 2015-2020

June 2016- Center for Retirement Research, Boston College

The brief's key findings are:

- In 2015, the funded ratio of state and local pensions using traditional accounting rules, with smoothed asset values, rose from 73 percent to 74 percent.
- The funded ratio using new accounting rules, with market value, declined slightly.
- Required contributions continued to climb in 2015, but plans also stepped up their payments from 86 percent to 91 percent of the required amount.
- The funding outlook suggests steady improvement if plans realize expected returns, but a downward drift if returns fall short, as many financial experts predict.

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Social Security's Financial Outlook: The 2016 Update in Perspective

June 2016- Center for Retirement Research, Boston College

The brief's key findings are:

- The 2016 Trustees Report shows virtually no change:
  - Social Security's 75-year deficit is 2.66 percent of payroll, just a hair below the 2015 projection.
  - The deficit as a percentage of GDP remains at about 1 percent.
  - Trust fund exhaustion is still 2034, after which payroll taxes still cover about three quarters of promised benefits.
- The shortfall is manageable, but action should be taken soon to restore confidence in the program and give people time to adjust to needed changes.
- Also of note, the Bipartisan Budget Act of 2015 did two things:
  - It reallocated payroll taxes to extend the life of the DI trust fund.
  - It helpfully eliminated claiming loopholes, which had a small positive effect on program finances.

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Not All Baby Boomers Can Work to 70

June 2016- Center for Retirement Research, Boston College

There's one problem with expecting all baby boomers to delay retirement beyond their 60s: it might not be fair.

That's because people with lower incomes and less education die younger than the well-to-do with more education. Think about what would happen if everyone retired at, say, 70. Those with less education and a lower socioeconomic status (SES) would enjoy fewer years in retirement than people with higher SES.

This gap in retirement duration has also widened in recent decades. That's because the lowest SES group has seen much smaller improvements in their life expectancy, according to economists at the Center for Retirement Research, which supports this blog.

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