



Choosing among Pension Options

Although pensions are less common for newer employees of private sector employers, a significant number of older employees, including many public sector employees, will be entitled to a pension benefit of some kind at retirement. Those entitled to receive pensions will often seek and always need expert advice on how to differentiate among the options available to them. Making the right decision on how you elect to take your pension can have a real impact on your ability to achieve your financial goals during retirement.

The most common pension options offer a lump sum payable at or after retirement or an annuity payment to the employee for his or her life. Before we look more closely at these options and the variations available, first note that most pension payments are taxable when they are received by the employee with the possible exception of lump sum distributions that are rolled into qualified plans and held for future withdrawals. So understanding your income tax situation and how the pension distributions, when received, affect you will be important. Variations among state laws, however, may mean that your pension is not subject to state income taxes – for example military pensions received in certain states. Knowing the likely tax consequences is key to making your election.

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