Considerations in

An Employee Lump-Sum Option: Financial, Tax and Estate Planning Issues and Analysis[1](#_bookmark0)

Leon C. LaBrecque, JD, CPA, CFA, CFP®

Heather Welsh CFP®, AEP®, MSFS

**Sequoia Financial Group**

07/2022

*We are using the IRS blended bond rate and IRS mortality, we are currently using those IRS three- segment corporate bond rates*[*2*](#_bookmark1) *as the discount rate and IRS Notice 2020-85 for the mortality assumptions for plans in 2022. Revised copies of the paper will bear the revision date in the footer.*

**Introduction:** The comparison of a monthly pension to a lump-sum is basically a comparison of an annuity stream (the monthly pension) to the lump-sum over a period of time, but it involves a variety of considerations. In general, comparing an annuity stream to a lump-sum is an equation involving Present Value. This calculation is based on the series of payments, the time period involved, and the rate of return. Employers will provide the eligible employee with a lump-sum that has been actuarially computed to equal the monthly stream at a rate of interest. Eligible employees should note that what they currently have from their employer is an annuity. It is a lifetime annuity for the employee. For married employees, it is a reduced annuity lasting for their lifetime and that of the surviving spouse. The analysis is therefore: "Which alternative is best for **me**?” Because of the personalized nature of the analysis, here are a few of the variables of the analysis, in no particular order:

1. What is the age of the employee? (Under 59½, 59½ to 72, or 72 and older?[3](#_bookmark2))
2. Marital status of the employee?
3. What is the relative health of the employee[4](#_bookmark3)? The spouse?
4. What is the sex of the employee[5](#_bookmark4)? The spouse?
5. What other retirement assets does the employee have? (401(k), IRAs, Roth IRAs, Life Insurance, Annuities, and other investments)

1 **Disclaimer:** The following information is provided to clients, friends, and guests of Sequoia Financial Group. None of the information in this White Paper is sanctioned or approved by your employer; it is our opinion, and we cite law when possible. Similarly, Sequoia’s position is that eligible employees need to make an informed decision about the offer, rather than simply take a lump-sum and buy a financial product or simply stay in the monthly pension when it doesn’t make financial sense. The decision is not as straightforward as you may think, thus you need to make an educated decision and probably get several opinions. All tax laws referenced in the paper are as of the date on the footer of this document. Primarily, we are using Michigan residents in the analysis, although state law has a nominal influence on the financial outcome. Laws can and most likely will change.

2 For payments for the first five years, the rate as of [May 2022](https://www.irs.gov/retirement-plans/minimum-present-value-segment-rates) is 3.23%; for years 6-20, the rate is 4.59%; and for payments 20 years or later, the rate is 4.691%.

3 Ages are relevant because of the tax rules on IRAs, the accounts to which most prior employees will roll over their lump-sum. The tax rules are covered later in the Paper.

4 This is simply based on the difference between life and life expectancy, which is covered later in the Paper. An eligible employee with advanced cancer will probably have a lower actual life expectancy than the unisex life expectancy table used for calculations. 5 Men and women biologically have different life expectancies (women live longer). In 1983, the Supreme Court in the *Norris* case [(*Arizona Governing Committee for Tax Deferred Annuity and Deferred Compensation Plans et. al. v. Norris*,](http://www.ssa.gov/policy/docs/ssb/v47n4/v47n4p13.pdf) 103 S. Ct. 3492 (1983) ruled that all pension and lump-sum calculations could not be sex-based, and created the requirement of a unisex table for life expectancy. In general, men live fewer years than the unisex table, and women live longer.

1. What are the employee’s other retirement income flows? (spouse’s pension, investment income, Social Security (employee and spouse), rents, jobs, etc.)
2. What is the necessary retirement cash flow for the employee? (E.g., living expenses, debt service, medical, etc.)
3. How important is the flexibility of withdrawals given other retirement income flow? (spouse working, spouse’s pension, Social Security)
4. What income tax bracket is the employee in, and what bracket do they anticipate being in after age 72[6](#_bookmark5)?
5. What is the employee’s risk tolerance[7](#_bookmark6)?
6. What is the employee’s anticipation of future inflation?
7. What is the employee’s expected future return on investments?
8. What is the employee’s investment knowledge or willingness to delegate investment management?
9. What is the size of the employee’s taxable estate[8](#_bookmark7)?
10. What heirs or legacy wishes does the employee have? (Leave excess funds to children, grandchildren, charity?)

**The Math:** The math of the lump-sum option is simple: your employer is offering a lump-sum equal to the monthly stream for your life expectancy at interest rate x%[9](#_bookmark8). You must decide which option is best for **you**, given your facts and circumstances.

This leads to the mathematics of the calculations: How much would you receive under the monthly pension payment, for how long, and what rate of return will equal those flows? What other considerations factor into your decision?

**A Risk Assessment:** A key question is what is the risk? It should be apparent that the monthly pension from the employer is an annuity[10](#_bookmark9). With an annuity, there are four risks that should be assessed.

1. The first is *default risk*. Default risk is the probability that the employer will default on the annuity. While the pension fund may not be fully funded, since the employer has to fund the plan and the Pension Benefit Guaranty Corporation (PBGC[11](#_bookmark10)) may insure the benefit, the risk of default may be low (but clearly not zero).
2. The second risk is *market risk*. Given that the annuity stream from the pension is fixed, the market risk is entirely shifted to the Pension. If you take the lump-sum, you assume the market risk.

6 Age 72is when Required Minimum Distributions must be made from an IRA (so possibly the 401(k) and the lump-sum). This is a critical issue in the analysis.

7 This is a difficult-to-quantify aspect of the option. The monthly pension shifts investment risk to the pension plan; the lump-sum shifts investment risk to the employee.

8 As the law currently exists, each spouse gets $12.06 million and ‘portability’, to total $24.12 million per couple. This increased exemption is scheduled to sunset to prior levels of approximately one-half of current levels beginning in 2026.

9 As of the date of this version of the paper, we are using the following rates as of May 2022: payments for the first five years, the rate is 3.23%; for years 6-20, the rate is 4.59%; and for payments 20 years or later, the rate is 4.69%. [IRS Section 417(e)(3)(D.](https://www.irs.gov/retirement-plans/minimum-present-value-segment-rates) *10* It is likely, in the opinion of the author, that eligible employees may be offered commercial annuities as an alternative to the Pension. The author respectfully submits that such employees remember that they already have an annuity with a prospective rate of return of around 4% (based on life expectancy tables), insured by the government (at least partially).

11 The [PBGC](http://www.pbgc.gov/wr/benefits/guaranteed-benefits.html) guarantees basic benefits, which are benefits at a normal retirement age, plus most early retirement benefits and survivor benefits. As with many government agencies (including the FDIC), the PBGC, in its annual [2021 report,](https://www.pbgc.gov/sites/default/files/documents/pbgc-annual-report-2021.pdf) reported a $63.7B deficit.

1. A third risk is *mortality risk*. This is the risk that the employee (and spouse) doesn’t live long enough to collect the equivalent value from the annuity stream.
2. Another risk is *inflation risk.* This is the risk of purchasing power declining due to future inflation. Having a fixed income stream does not protect the employee from inflation. With a lump-sum, you can invest to protect against inflation or time your withdrawals.

In short, the main risks of staying in the monthly pension are that you don’t live long enough to receive the full value of your pension benefit, or that you’re losing purchasing power, as a result of inflation. The risk of default is low.

If you take the lump-sum, you shift the investment risk to yourself and eliminate the risk of receiving less than the equivalent value of the annuity by dying before you reach your full life expectancy; however, you add the risk of living beyond your calculated life expectancy.

Your employer’s time assumptions in the pension are based on regulated calculation assumptions, particularly that employees and spouses live their life expectancy. Life expectancy calculations are based on a unisex table. Here are a few issues:

* Life expectancy is the age at which 50% of a cohort[12](#_bookmark11) will be deceased. Obviously, half the cohort will live longer, and half will live fewer years. This is compounded by the simple observation that the pension *is paid for the collective lives of the employee and spouse, and then ends* (except in the rare and unfortunate situation where the employee and the spouse both die before the employee contributions are recovered.) In other words, the pension ends at the death of the employee and the surviving spouse.
* Men tend to live shorter lives than women. In a situation where the employee is a man married to a woman of the same age, the probability is greater that he will predecease his wife, and she will receive 65% of the reduced benefit. Conversely, if the employee is a woman married to a man her age, the odds are that her husband will predecease her, and she will continue to receive the same pension. Note that because of the law, both employees would be offered identical lump-sums, even though the present value of the cash flows differs.
* Life expectancy ignores the stark reality of life that some people, or their spouses, have health problems, and their actual life expectancy is dramatically shorter than the life expectancy tables. An employee with cancer or another terminal illness may have a significantly lower actual life expectancy than a healthier individual of the same age.

**Comparing the monthly pension to the lump-sum: Rate of Return.** The key factor in a lump-sum comparison is the rate of return necessary to equate the projected pension payment to the lump-sum. Simply stated, you can mathematically equate the monthly pension to the lump-sum using life expectancy and an interest rate. In a very simple example, suppose that Tom is 65, single and will receive a monthly payment of $3,210 a month. IRS Table I[13](#_bookmark12) indicates his life expectancy is 22.9 years. The present value of $3,210 a month at 5% for 22.9 years is $524,656. In other words, if he invested

$524,656 at 5% and withdrew $3,210 a month, he would have a balance of zero in 22.9 years. This example also highlights the issue of time. If Tom had high blood pressure and high cholesterol and a history of early death in his family, he may not live 22.9 years. Simply stated, employers appear to be

12 Age group. Life expectancy is based on the probability of an age group being alive or dead at a certain point. When the mortality probability is 50% that is deemed life expectancy.

13 IRS [Pub 590-B.](https://www.irs.gov/pub/irs-pdf/p590b.pdf)

computing the lump-sum at a blended rate of 3.23% (88 or older) to 4.58% (age 48), depending on the age of the retiree. This is the “hurdle rate” for analysis.

# Considerations in Comparing Lump-Sum to Monthly Payments:

**Survivability.** A key consideration in lump-sum vs. annuity payments is the concept of survivability. The pension pays the employee and the spouse for life. Both the employee and spouse get a reduced percentage[14](#_bookmark13) in exchange for the survivor benefit. For example, the employee and spouse would get a percentage of the single-life lifetime benefit during the employee’s life, and the spouse would get 65% of the reduced benefit if they survive the retiree. With a lump-sum, the lump-sum generates retirement income for the employee, the spouse and heirs. An employee who has the option of a monthly pension needs to recognize that when both spouses die there is nothing of the pension left over. With a lump- sum, there is the possibility of a balance left over upon both deaths. This is essentially the same concept as a 401(k) program.

For an unmarried employee, the lump-sum creates the opportunity to leave a portion of the financial value to children, charity or other heirs. If a widower, for example, was receiving a monthly pension, was taking distributions from his 401(k) rollover, and collecting Social Security, he may opt for the lump-sum in order to leave more to his daughters.

**Taxation.** If you take the lump-sum, there are three basic options, as follows:

* Include the lump-sum in your ordinary taxable income,
* Roll over (actually directly transfer) all or part of the taxable funds from the lump-sum to a rollover IRA, tax-free.
* If you were born before 1936, you may be eligible for special ten-year averaging, which allows you to average the lump-sum as if it were the only income you received over 10 years, at 1986 rates.

*Ordinary Income*. Including the lump-sum in ordinary income, in most cases, will result in the lump-sum being added to other income and taxed at the higher marginal rates. There are cases where full inclusion may be warranted, like in the case of significant deductible business[15](#_bookmark14) or farm losses. Including the

lump-sum may have an effect on AMT[16](#_bookmark15) as well.

*IRA Rollover.* An IRA (or other qualified plan[17](#_bookmark16)) rollover is a tax-free transaction, where the lump-sum remains tax-deferred until withdrawal, which is mandatory at age 72, covered below. Most employees are familiar with the concept of a rollover IRA from their 401(k) account. The rules are relatively simple, to avoid any withholding taxes or income taxes on the transfer between qualified plans, the plan must directly transfer funds to the recipient plan (your IRA or other qualified plan account) within 60 days of plan distribution. This means your check from the pension is made out to the custodian of your IRA (e.g., “Fidelity Investments, FBO[18](#_bookmark17) Leon LaBrecque rollover IRA”). In general, having the distribution paid to you directly will result in a 20% withholding tax and difficulty in making a tax-free rollover (because the

14 The reduction is based on the relative age of the spouse and the employee.

15 Including Net Operating Loss (NOL) carryovers if the person had a business.

16The AMT is the Alternative Minimum Tax, which is computed on a separate method of computing your taxes when you are in a higher income range. Strangely enough, including some or all of the lump-sum in income can reduce or eliminate the AMT.

17 For example, if the employee was working at another organization or had their own business with a 401(k) or other type of qualified plan, the employee could roll the lump-sum into the other plan.

18 “for the benefit of”

IRS has 20% of the lump-sum, meaning other assets would need to be used to make up that difference). Once your lump-sum is in an IRA, it is subject to IRA taxation and distribution rules which can be summarized into the three distinctions below (under age 59½, age 59½ to 72, and over age 72).

1. *year Special Forward Averaging*. For some retirees born before 1936[19](#_bookmark18), a special tax option exists for a lump-sum distribution[20](#_bookmark19) that allows the retiree to treat the distribution as if it was the only income received over a ten-year period. The tax is computed at the rates for a single taxpayer, using 1986 rates. Basically, the calculation is taking one-tenth of the lump-sum, computing the tax on that amount at the 1986 rates, and multiplying the result by 10. For example, if an employee has a lump-sum of $80,000, they would divide by 10 ($8,000), compute the tax at 1986 rates ($1,111) and multiply the result by 10 ($11,110). The total tax on the lump-sum of $80,000 would be $11,110. There is a special form for computing forward averaging[21](#_bookmark20). There is also a subtle Michigan income tax advantage to 10-year averaging[22](#_bookmark21).

You must apply 10-year averaging to the entire lump-sum; you may not rollover a portion and take 10- year averaging on a portion. You also only apply 10-year averaging on the taxable portion of the lump- sum. Using 10-year forward averaging also has an interesting effect on Adjusted Gross Income (AGI) and Modified Adjusted Gross Income (MAGI) limited deductions and credits (see below under ‘Tax Flexibility: AGI floors’), since it excludes the lump-sum entirely from AGI on the return.

**Distribution Flexibility.** The monthly pension provides a consistent payment for life (or joint lives). A lump-sum has the possibility of being turned into after-tax income (by paying the tax and possible penalty) or may be rolled into an IRA or other qualified plan. If an employee took the lump-sum and paid the appropriate tax, they would have complete flexibility in how they utilized the funds (as well as investment flexibility). Once in an IRA or qualified plan, funds may be withdrawn from the IRA under three distinct sets of tax rules:

* + Pre-age 59½: IRA distributions are subject to income taxes and a 10% additional tax penalty, unless one of a variety of exceptions is met. These exceptions include:
		- Death
		- Disability (total and permanent)
		- Unreimbursed medical expenses in excess of 10% of AGI
		- Higher education
		- First home purchase (Up to $10,000 lifetime limit)
		- Substantially Equal Payments or §72(t) (covered later in this paper)
		- Other exceptions[23](#_bookmark22)

19 The correct exact term is born before January 2, 1936.

20 A lump-sum is defined as the distribution or payment in one tax year of a plan participant’s entire balance from all of the employer’s qualified plans of one kind (for example, pension, profit sharing or stock bonus plans).

21 Form [4972.](http://www.irs.gov/pub/irs-pdf/f4972.pdf) See also IRS [Pub 575.](http://www.irs.gov/publications/p575/index.html)

22 Michigan taxes federal AGI, and ten-year averaging excludes the pension lump-sum from AGI.

23 For example, to pay medical premiums if you lost your job and were receiving unemployment compensation, or qualified reservist called to active duty.

* + Age 59½ to age 72: IRA distributions are taxable when withdrawn but may be taken when desired, and in the amount desired.
	+ Age 72+: Upon attaining age 72, a person must generally begin taking distributions from an IRA under the Required Minimum Distribution (RMD) Rules. Basically, the balance of all IRAs (excluding Roth IRAs) as of December 31, preceding the year of RMD, is the numerator of a fraction, the denominator of which is a life expectancy number from one of three IRS tables[24](#_bookmark23).

From the rules, it is apparent that an IRA rollover has some restrictions if the employee is under age 59½ and may need the money, has great flexibility between the ages of 59½ and 72, and has a required distribution beginning at age 72. This distribution flexibility can provide significant tax and cash flow planning opportunities.

*Example of Other Income.* Mike and Tonya are both 56. Mike is an eligible employee and is offered a

$700,000 lump-sum on his pension. Tonya is an executive at another company and makes $200,000 a year, which is adequate to maintain their lifestyle. Tonya intends to work until age 66. Mike could roll his lump-sum into an IRA and accumulate the balance for 10 years. If he could achieve a 6% rate of return, his IRA would be worth about $1.25 million by the time Tonya retired. They then might take 4% each year, or about $50,000 a year from the IRA to supplement other retirement income.

*Example of Irregular Expenses*. Albert is 60, Jean is 55. They have a son Zak, who is 18. Albert and Jean are both eligible employees. Albert takes a $550,000 lump-sum and rolls it into an IRA; Jean keeps her monthly pension. Albert uses $20,000 a year from his IRA to help pay for Zak’s college. By the time Zak gets out (hopefully in four years), Albert is collecting Social Security, and Jean will be reaching age 59½, which would allow her to access her 401(k). They can then modify their cash flow to fit their lifestyle.

Another aspect of flexible distribution is the concept of inflation. A lump-sum allows the distribution to be modified to have some form of inflation adjustment. A person can take some form of ‘real return’ withdrawal from an IRA (subject to RMD rules). For example, an employee with a $700,000 lump-sum in an IRA might take 3% of their balance, while making 6% on investments. Their balance would grow at 3%, thereby giving them a 3% increase (a ‘Cost of Living Adjustment (COLA) rider’ aka inflation rider) on their retirement income[25](#_bookmark24).

**Tax Flexibility**. Because of distribution flexibility, with a lump-sum the employee can achieve some degree of tax flexibility as well. The ability to take more or less from an IRA provides the opportunity to raise or lower taxable income.

*Tax Flexibility: Charity.* Mike has a lump-sum from his pension of $700,000 (in an IRA) and $460,000 in an IRA from his 401(k). Mike has no debt and collects Social Security. In addition, he has money in the bank and about 10,000 shares of a stock he bought in 2009 for $2 a share ($20,000). The stock’s current value is $130,000. He draws about $30,000 a year from his IRAs. He wants to make donations to a charity. He could donate $30,000 of the stock[26](#_bookmark25) to charity, either directly or through a Donor-Advised Fund[27](#_bookmark26) (DAF). He could then offset the $30,000 charitable donation with a $30,000 IRA distribution and pay zero federal income tax on the $30,000.

24 IRS [Pub 590](https://www.irs.gov/pub/irs-pdf/p590b.pdf)-B. Table I is used for beneficiaries of a deceased owner of an IRA; Table II is used if the owner is alive and the spouse is both the designated beneficiary and more than 10 years younger than the owner; and Table III used when the owner is alive and the spouse is not both the sole beneficiary and more than 10 years younger than the owner.

25 This is a method frequently used in endowment spending, where the funds are supposed to last into perpetuity. The endowment spends an inflation-adjusted withdrawal each year. To preclude termination, the return is adjusted each year. For retirement, this would work fine if you had a steady rate of return but would be problematic in zero or negative years.

26 Donating appreciated property would avoid the taxation on the capital gain on the stock.

27 For an explanation of DAFs, [click here.](http://www.irs.gov/pub/irs-tege/donor_advised_explanation_073108.pdf)

*Tax Flexibility: Itemized Floors*. Certain itemized deductions have “floors” based on AGI. For example, medical deductions[28](#_bookmark27) are subject to a “floor” of 10% of AGI. For an eligible employee, the medical expense will include the [Medicare B premium](https://www.medicareresources.org/medicare-eligibility-and-enrollment/what-is-the-income-related-monthly-adjusted-amount-irmaa/), plus any additional insurance cost out-of-pocket, plus any actual expenses. Taking the pension in a lump-sum allows the employee to “time” income and maximize the deduction. For example, suppose Bryan and Kristal have some excessive medical expenses (dental implants) that created out-of-pocket costs of $8,000, plus Medicare B and medical increase costs and other itemized medical deductions of $3,200. They would have $11,200 of medical deductions, limited by 7½% of AGI. If they weren’t taking a monthly pension, presuming they have sufficient other means of living, they could reduce or eliminate a withdrawal from their IRA and increase the deduction. If they would have been receiving $35,000 of pension, having a lump-sum and managing the cash flow might increase the deduction by $3,500.

*Tax Flexibility: AGI Limited Credits and Deductions.* There are a significant number of deductions and credits that are limited by AGI. For eligible employees on the threshold of those income levels, being able to manage or modify the AGI by reducing or stopping withdrawals can have a positive and significant effect. Examples of tax-significant items subject to AGI limits include:

* + Taxation of Social Security is based on MAGI[29](#_bookmark28).

* + [Medicare Part B](https://www.medicareresources.org/medicare-eligibility-and-enrollment/what-is-the-income-related-monthly-adjusted-amount-irmaa/) premiums are based on MAGI[30](#_bookmark29).
	+ Medicare D premiums are based on MAGI[31](#_bookmark30)
	+ Student loan interest, the American opportunity tax credit, and lifetime learning credits are all based on AGI limits[32](#_bookmark31).
	+ Roth IRAs have a MAGI limit for contributions[33](#_bookmark32).
	+ Charitable contributions have an AGI limit[34](#_bookmark33). This is an inverse situation where the flexibility of a lump-sum may enhance the ability to make charitable contributions. For example, if an eligible employee wants to make a large gift (say $50,000), they can take sufficient income from their lump-sum rollover to boost AGI and get the deduction.
	+ The Child Tax Credit[35](#_bookmark34) is subject to a MAGI limit.
	+ State and local taxes (SALT) are limited to $10,000 for a married couple ($5,000 for other filers). Roth conversions will raise state taxes, which may become nondeductible.
	+ The Child and Dependent Care Credit[36](#_bookmark35) is subject to MAGI limitations.

28 IRS [Pub 502.](http://www.irs.gov/pub/irs-pdf/p502.pdf)

29 Social Security is not taxed if MAGI is below $25,000 (single) or $32,000 (joint). Social Security is partially taxed as MAGI increases. MAGI is AGI plus one-half the social security benefit. See IRS [Pub 915.](http://www.irs.gov/pub/irs-pdf/p915.pdf)

30 For 2022, the Part B standard premium is $170.10. Based on MAGI, there are five additional brackets which increase the premium to as high as [$578.30 a month.](https://www.medicare.gov/your-medicare-costs/part-b-costs)

31 For 2022, the [Part D](https://www.medicare.gov/drug-coverage-part-d/costs-for-medicare-drug-coverage/monthly-premium-for-drug-plans) (prescription drug) starts at the Plan premium (generally under $91,000 for an individual or $182,000 for a married couple). Based on MAGI, there are five additional brackets which increase the drug premium to as high as $77.90 per month.

32 IRS [Pub 970.](http://www.irs.gov/pub/irs-pdf/p970.pdf)

33 For 2022, the MAGI limit for Roth contributions is $129,000 - $144,000 (single) and $204,000 - $214,000 (joint)

34 In general, 60% of AGI, depending on the type of charitable organization. Certain organizations and assets may be subject to either a 30% or 20% limitation as well. IRS [Pub 526.](https://www.irs.gov/pub/irs-pdf/p526.pdf) This may change as tax laws change.

35 IRS [Pub 972.](http://www.irs.gov/pub/irs-pdf/p972.pdf)

36 IRS [Pub 503.](http://www.irs.gov/pub/irs-pdf/p503.pdf)

The ability to manage income allows a person on the threshold of a certain income level to change their income for positive tax results, whether it be keeping income below the threshold for college tuition credits or managing income to manage the Medicare B (and Medicare D) premiums in specific years.

*Tax Flexibility: Bracket Topping.* Bracket topping means increasing income to the edge of the tax bracket without going over (“topping it off”). Eligible employees with significant IRA balances from a 401(k) rollover will, because of the RMD calculation, usually be in a progressively higher tax bracket as they age[37](#_bookmark36). Having withdrawal flexibility allows the person to ‘top off’ their bracket. For example, John and Mary have taxable income of $56,600, putting them in the 12% bracket. The 12% bracket on taxable income for 2022 for married filing joint tops out at $83,550. They could take IRA distributions of up to

$26,950 and stay in the 12% bracket. This will reduce the IRA balances, and the prospective RMDs at higher brackets. Note: it is irrelevant whether the IRA is from the pension lump-sum or the 401(k).

Bracket topping is very useful in making a Roth IRA conversion. A Roth IRA is a tax-free IRA, discussed below. Here a person can utilize the unused bracket amount to convert a portion of their rollover IRA to a tax-free Roth IRA. If we looked at the preceding example, in lieu of taking the additional $26,950 of bracket amount as a distribution, they could convert $26,950 into a Roth. This allows them to make a series of conversions to a Roth. See below for a full discussion of Roth conversions.

*RMD Issues.* As previously indicated, having a lump-sum in an IRA (for that matter, any taxable IRA, including a 401(k) rollover) creates a requirement at age 72 to take the RMD. In general, the RMD starts at about 3.65% of the beginning of the year IRA portfolio balance and gets larger over time. For example, at 80 the RMD percentage is about 4.95%, and at 90, the RMD is 8.26%. The problem is that the RMDs can cause the taxable income to progressively increase as age increases. Take, for example, a couple the same age (72) with $1,000,000 in IRA balances. Suppose they make 6% on their IRA investments. At age 72 their required minimum distribution would be $36,496. Because the rate of return (6%) is greater than the distribution, the IRA grows to $1,023,504[38](#_bookmark37). In the next year, when the owner is 73, and they make 6%, the RMD rises to $38,769. This continues, so in the year the owner is 80, (presuming they continue to make 6%) the RMD is $57,233; and by age 90, the RMD is $93,540 (at which point the money is probably spent on taxes, eyeglasses, and doctors).

On the IRA owner’s death, the surviving spouse can roll the inherited IRA into their own, but the spouse is subject to their own RMD rules[39](#_bookmark38). If the IRA owner dies and leaves the IRA to a non-spousal beneficiary, there is the potential for the RMDs to be accelerated under the new rules of the SECURE Act.

**Roth Conversions.** A consideration with a rollover IRA is the opportunity for a Roth conversion. A Roth IRA has the following features:

* + Qualifying distributions from a Roth are free from income taxes
	+ Roth IRAs are not subject to minimum distributions rules for the account owner or surviving spouses (you do not have to take distributions at age 72)
	+ When you die, your spouse may roll your Roth into their Roth tax-free

37 This is because the RMD calculation is based on the 12/31 balance from the previous year divided by the life expectancy, which obviously gets lower as you age.

38 Assumes RMD is taken at the end of the year.

39 See [IRS Pub 590](https://www.irs.gov/pub/irs-pdf/p590b.pdf)-B, Table III.

* + If a Roth is left to a non-spouse beneficiary, that beneficiary may take distributions over 10 years, tax-free.

*How a Roth conversion works.* To convert a taxable IRA (like a rollover) to a Roth, you have to transfer the taxable IRA to a Roth and pay income taxes on the taxable portion of the conversion. If an IRA contains after-tax funds, those funds are attributed to the conversion pro-rata with no added tax on the conversion. You may convert some or all of a taxable IRA to a Roth. Mathematically, for a Roth conversion to be advantageous, generally the taxes on the conversion should be paid with funds other than the IRA[41](#_bookmark40).

*Qualifying Distribution.* In order for a Roth distribution to be tax-free to the owner, certain conditions must be met:

* + The distribution must be made after a 5-year period beginning with the taxable year the Roth was established and
	+ The distribution is:
		- Made on or after the date you turn 59½, or
		- Made on account of your disability, or
		- Made on account of your death, or
		- Made under the first home purchase exception (up to $10,000 lifetime limit)

In addition to Roth conversions from a traditional IRA, Roth IRAs may also be funded through contributions. A contributory Roth has the same distribution rules and additionally allows the penalty and tax-free withdrawal of contributions tax-free at any time or age under the First-in, First-out (FIFO) method.

*Roth conversions shrink future RMDs.* Roth IRAs are not subject to RMD rules, and accordingly, converting part of a rollover IRA to a Roth will reduce the future income tax on the RMD. Another issue frequently overlooked is that with couples, the RMD is applied to the couple when both are alive at the lower joint rates. When one spouse dies and the other rolls the decedent’s IRA into theirs, the subsequent RMDs are taxed to the survivor at the higher single rates. A Roth conversion may be rolled into a spousal Roth with no tax and no RMD requirements.

*Estate Tax Ramifications of Roth Conversion.* For 2022, the estate tax exclusion limit is $12.06 million per estate with the provision of “portability”[42](#_bookmark41) between spouses to make the exclusion $24.12 million. Roth conversions provide an estate planning opportunity by shrinking the estate by the income taxes paid on the conversion. For example, suppose Jim and Judy have a total estate of $26.15 million, including $1.2 million in IRAs that consist of a rollover of the lump-sum and the taxable portion of the 401(k). They

41 You can use IRA funds to pay the taxes on the conversion, but you have effectively performed the same relative function as a distribution. Paying the taxes from outside funds generally makes the Roth more efficient by having more funds growing tax free.

42 The Tax Reform Act of 2010 for the first time enacted the rule of portability, which allows a surviving spouse to use a predeceased spouse’s unused applicable exclusion amount, effectively doubling the amount that a married couple can pass to their beneficiaries tax-free. Note that generation skipping transfer tax exemptions are not portable.

convert, over a period of years (to manage their tax bracket), $500,000 into Roth IRAs and, during the course of those conversions, pay $150,000 in taxes, shrinking their taxable estate[43](#_bookmark42).

Recognize that in the case of married employees, there is an unlimited marital deduction in the estate tax for spousal transfers. In the case of a married employee who takes the lump-sum, rolls it over into an IRA, and names the spouse as the primary beneficiary[44](#_bookmark43), there is no estate tax on the first death. On the second death, if the surviving spouse names a secondary beneficiary that is not a spouse, like a child, then the portion is included in the second spouse’s taxable estate.

**Investment Changes and the Lump-Sum.** Eligible employees considering the lump-sum should note that replacing the monthly annuity with a lump-sum changes the investment dynamics and the variability of cash flow. Eligible employees that do not take the lump-sum typically would have the following sources of retirement income:

* + Monthly pension
	+ Possible retiree monthly Social Security benefit
	+ Possible retiree spouse monthly Social Security benefit
	+ Possible RMD from 401(k) rollover and other IRAs, and
	+ Other investment income

Of these flows, the certainty of the flow is a relevant issue. The variability of the monthly pension flow is extremely low, close to zero. In other words, a monthly pension retiree has an extremely high degree of certainty in getting a flow for their entire life, and if they are married, income to the surviving spouse for their entire life. The pension is assuming all investment risk associated with that flow. If an eligible employee takes the lump-sum, they have assumed the investment risk.

*Default Risk of Monthly Pension*. The default risk on the monthly pension is very low. There are three levels of funding:

1. The pension plan itself. The pension obligations of your employer may be researched and found online.
2. Your employer is liable for the plan from a funding standpoint.
3. The Pension Benefit Guaranty Corporation (PBGC). The PBGC is a federal agency that guarantees pension payments in the event of a plan termination. If your employer had severe financial difficulties and terminated the plan and sent it to the PBGC, the maximum PBGC guarantees in 2022 for a 65-year-old would be $6,204.55 per month[45](#_bookmark44).

There are few comparable investments that have as low default risk as a monthly pension insured by the PBGC. Investing in a balanced portfolio includes the risk of market declines. Investing in corporate

43 This is presuming they spend or gift any appreciation on the IRAs.

44 Conventional planning wisdom is to typically name the spouse as the primary beneficiary since the surviving spouse may roll over a deceased spouse’s IRA into a spousal IRA. This provides the surviving spouse with flexibility of their own IRA. For taxable estates, this technique is typically modified to provide estate equalization.

45 To see the guarantees for other ages and other forms of payout see the [PBGC website.](http://www.pbgc.gov/wr/benefits/guaranteed-benefits/maximum-guarantee.html)

bonds or real estate poses the risk of default or interest rate risk[46](#_bookmark45). The closest investment parameters to replicate the cash flows of the monthly pension would be:

1. A ‘ladder’ of government bonds[47](#_bookmark46), maturing in sequence to replicate the cash flows of the monthly pension[48](#_bookmark47).
2. A commercial Single Premium Immediate Annuity (SPIA) is an insurance product that replicates the cash flows of a pension. SPIAs have flexibility in designing the flows to have guaranteed payment periods[49](#_bookmark48), refund features, and other features as well.

*Example of Replicating the Monthly Pension Annuity with Bonds.* At the time of this paper[50](#_bookmark49), Treasury instruments were paying low rates. For example, the rates as of 06/28/2022[51](#_bookmark50) on select treasuries were as follows:

|  |  |
| --- | --- |
| 1 yr. | 2.88% |
| 2 yr. | 3.10% |
| 3 yr. | 3.21% |
| 5 yr. | 3.25% |
| 7 yr. | 3.27% |
| 10 yr. | 3.20% |
| 20 yr. | 3.55% |
| 30 yr. | 3.30% |

From the foregoing, the current rate on a ladder of treasuries is about 3.25%. This means that a $480,000 lump-sum, to replicate a safe, consistent payout for a single 64-year-old (using IRS Table I[52](#_bookmark51), life expectancy 23.7 years) would deliver a $2,422 per month flow, compared to $2,785 from the pension[53](#_bookmark52).

*Example of Replicating the Monthly Pension with a Commercial Annuity.* Another method of replication, which may provide virtually identical cash flow, is a SPIA. SPIAs may have a variety of payout features, including refund features for a period of time[54](#_bookmark53). At the time of this Paper, a rate on a SPIA for a 64-year- old with a lump-sum of $480,000 would have a lifetime annuity of about $2,827[55](#_bookmark54) per month.

46 Interest rate risk is the risk of a fixed rate instrument declining when interest rates rise.

47 For example, this may be a ladder of zero-coupon Treasury instruments maturing every year, in the amount of the pension payments, so if the eligible employee had $36,000 per year in payments, they would need to buy zero-coupons to mature to

$36,000 per year.

48 The author is presuming, for purposes of argument, that the US Treasury is as safe as the combination of the pension plan, the employer, and the PBGC.

49 Called a “Period Certain”.

50 June, 2022.

51 Source: [US Department of Treasury.](http://www.treasury.gov/resource-center/data-chart-center/interest-rates/pages/textview.aspx?data=yield)

52 IRS [Pub 590-B, Appendix B, Table I.](https://www.irs.gov/pub/irs-pdf/p590b.pdf)

53 This example is based on an eligible employee (active, not retired), age 64, with lump-sum and monthly pension.

54 For example, you can purchase a SPIA with a 10 or 20-year certain period, which will pay the annuity for that period irrespective of the condition of the annuitant. On a 10 year certain you get a monthly annuity for the longer of your life or ten years.

55 From AnnuityQuickQuote.com, using a 64-year-old male in Michigan, with a $480,000 lump-sum, shopped on 06/28/2022. We have no affiliation with any annuity or product provider and actually don’t generally recommend annuities.

*Modifying Asset Allocation*. Eligible employees who decide to take the lump-sum who aren’t specifically interested in replicating the cash flows from the monthly pension may want to consider modifying their asset allocation of all qualified monies. From the previous discussion, the lump-sum may be effectively viewed as either a bond ladder or a SPIA, and thus constitutes a fixed income component of the retirement portfolio. For example, suppose a 64-year-old employee has a lump-sum offer of $480,000, and has a 401(k) rollover of $680,000, which is invested by her in a moderate mix of 55% equities and 45% bonds. This person may consider her retirement portfolio has the risk level of a 55/45 portfolio, but in reality, the person’s portfolio, if they take the monthly pension, is closer to 32% equities and 68% fixed (because the lump-sum is in a bond equivalent, the total fixed portion is $786,000 of a total portfolio of $1,160,000 and $374,000 of the $1,160,000 is equity). If they adopt the previous allocation (which he may want to do), they change the risk[56](#_bookmark55) of their overall retirement monies by 127 basis points or 1.27%.

*Balanced Portfolios.* The pension invests its funds in a balanced portfolio. Pension funds have the benefit of a virtually infinite time horizon and as such can have a more aggressive asset allocation. This must be a consideration for eligible employees. Throughout history, overly conservative portfolios have failed to provide an inflation adjusted withdrawal[57](#_bookmark56). An option for eligible employees is to take qualified monies (lump-sum and 401(k)) and invest those in a qualified portfolio similar to an institutional portfolio. This may mean a more aggressive allocation than the person may have had in their 401(k) alone.

**Loads and Fees***.* Of course, virtually all pension employees will be inundated with offers of counseling, help and solutions for their lump-sum decision. An important consideration in determining the course of action should include assessing the loads and fees of financial products being offered, as well as ‘product biases’ by advisors and salespersons. Replacing the monthly pension with a SPIA with a lower monthly payment or being promised ‘guaranteed’ rates on real estate investment trusts (REITs) of 8-9% should inspire most rational persons to go out and seek second or third opinions.

*Types of Loads and Fees*. There is a plethora of costs associated with financial products, and retirees should recognize that all fees and loads are paid by the investor, despite any indications to the contrary. These fees and loads will diminish returns. If a mutual fund has a 5% front-end load, the investor starts with $0.95 on the dollar and has to make 5.26% just to break even. If an investment has a surrender charge, the investor is stuck if they don’t like or don’t need the investment and must ‘pay to leave’. Here is a synopsis of some of the various types of loads and fees:

* *Front loads or commissions.* In mutual funds, these would be called ‘A’ shares and represent a sales commission paid upon purchase. Front loads on mutual funds can range to about 8%. In mutual fund ‘families’, the loads are only applied once on intra-family transfers[58](#_bookmark57). On limited partnerships, the load is typically buried in the prospectus, but can be up to 8%.
* *Back loads or surrender charges*. In mutual funds, these are typically called ‘B’ shares, and in annuities, are called surrender charges. The surrender charges are typically applied on a graded basis, so the surrender charges proportionally decline as time goes by. Investors do not typically incur surrender charges on intra-fund family or intra-annuity fund changes. B loads may normally run from 7%, declining yearly to zero (so a 7-year surrender, although many funds have shorter

56 Risk is generally measured by standard deviation, which quantifies the variation the returns on a portfolio.

57 For example, the [Trinity](https://incomeclub.co/wp-content/uploads/2015/04/retirement-savings-choosing-a-withdrawal-rate-that-is-sustainable.pdf) studies, *Retirement Savings: Choosing a Withdrawal Rate That Is Sustainable* By Philip L. Cooley, Carl

M. Hubbard and Daniel T. Walz, demonstrate that concentrations of bonds more than 50% result in significantly higher failure rates over time.

58 An investor moving amongst all A load funds in a family of mutual funds would not recur the A share load.

times and lower charges). Annuities have a range of surrender charges, some as high as 15% and as long as 15 years.

* *12(b)-1 fees.* These are ongoing charges, usually called ‘C’ loads and are imposed to pay for fund expenses (which include marketing). These typically range from 0.25% to 1.0% and are imposed in addition to management fees.
* *Management fees*. There are management fees imposed on investments (with the general exception of individual bonds or stocks), that are typically charged through a mutual fund. Management fees for mutual funds are typically reported as ‘investment expense ratio’. For funds, this can range from as low as 0.1% to over 2.0%. Independent advisors frequently charge a management fee that may be imposed on assets under management (AUM). These typically range from 0.3% to over 1.5%, depending on the level of assets. Brokers sometimes charge a ‘wrap’ fee, where no commissions are charged, but a ‘wrap’ fee of 1-3% is charged to the accounts.
* *Administrative Expenses.* These are expenses charged by variable annuities to cover the costs of mailing and administration and may range from 0.10% - 0.30% of the policy.
* *Mortality Expenses (M&E).* These are the charges in an annuity to provide a death benefit and can range from about 0.50% to 1.50% of the policy value per year.

All in all, fees on investment portfolios can range from very low (by using index-type no-load investments) to over 3% in the case of some forms of annuities. Fees make a difference, and high fees can outweigh the benefits of an investment product and diminish returns.

**Inflation Risk.** Eligible employees should also weigh their opinion of future inflation. The monthly pension usually is not indexed for any cost-of-living increases. In most cases, the pension basically stays the same throughout the payment stream, so a person receiving $3,700 per month in 2022, would only have the purchasing power of $2,500 in ten years if inflation was 4%, and have purchasing power of $1,689 in twenty years. Inflation from 1929 to 2022 has run at about 3%, although in 2022, inflation in May was at a 40 year high of 8.6%. 2022 is not the only occasion the United States has seen some significant inflationary periods. The period from 1973-1982 saw substantial inflation including double-digit inflation numbers. The monthly pension is not protected against inflation; a lump-sum can at least be invested to provide some inflation protection through inflation-indexed securities[59](#_bookmark58) and/or equities and hard assets. A person that locks in an investment for a long period (e.g., 30-year Treasuries or a SPIA), also locks out inflation protection. Eligible employees should consider how inflation factors into their planning. This is very important!

**Interest Rates.** 2022 is a year where interest rates are rising. Eligible employees taking the lump-sum should consider providing enough flexibility to be able to shift into higher rate instruments as rates rise. This may include keeping a portion in short term bonds, ‘laddering’ bonds or CDs, or not purchasing one exclusive product that locks up cash flows for an extended period.

**Estate Planning.** Whatever option the employee chooses may have an effect on the person’s estate plan. For those that have a current estate plan in place, it is recommended that it be reviewed to see if changes are needed. For those that do not have an estate plan, it is a good time to establish one. The goal of the plan is to clearly state their wishes about how assets are to be distributed upon death and reflect the appropriate estate/tax planning to coincide with the option the eligible employee has taken

59 For example, Treasury Inflation-Protected Securities or TIPS, which are Treasury securities that change the principal value of the security with inflation. See [TIPS.](http://www.treasurydirect.gov/indiv/products/prod_tips_glance.htm)

regarding his or her pension. For those that opt for the lump-sum payout, having an estate plan in place is critical, especially if you want to leave remaining assets to your heirs while minimizing estate taxes, avoiding probate, and making the settlement of your estate as simple as possible for your heirs.

Everyone should have a Will and Powers of Attorney for both health care and financial needs. A Trust is also crucial for most (especially employees taking the lump-sum). The type of Trust and the complexity, however, depends upon your individual circumstances. Eligible employees with significant sums in IRAs may want to consider the use of an IRA trust, particularly for non-spouse beneficiaries. An inherited IRA (e.g., to the children) is subject to creditor claims[60](#_bookmark59) and gives the heirs unlimited withdrawal opportunity[61](#_bookmark60). An IRA trust can provide asset protection and discipline to the beneficiaries.

# Conclusion

This Paper has touched on a variety of issues related to the decision between the monthly pension and a lump-sum. It is our hope that the reader will find this information helpful in making an educated decision about the offer. For some recipients, the lump-sum will provide additional flexibility and survivability that will enhance family wealth. For others, keeping the monthly pension provides a safe, determinable income stream that gives a low-risk retirement income flow, to be supplemented by the 401(k) and other investments. In any event, the decision is a complex one and unique to each individual. Much can be riding on this choice, it makes sense to make an informed decision and get a second opinion. Attached are Appendices A: My Lump-Sum Decision Worksheet, B: General Decision Groups, C: Mortality Tables for 2022 and D: Uniform Life Table.

## About Sequoia Financial Group:

Sequoia Financial Group is a fee-only financial advisor and wealth management firm that specializes in retirement planning, investment management, estate planning, and tax planning. We have been providing financial services to our clients for over 30 years and our staff of professionals offers a diverse and complete range of services. Our team of experienced financial planners can help with your financial planning for all of life's stages: retirement planning, investing your IRA, college funding, managing debt, health care, long-term care, and estate planning.

## How to contact us:

Sequoia can be contacted at: info@sequoia-financial.com or (888) 225-3777. We can provide an independent review of your lump-sum. In general, our reviews will require the information from Appendix A, and some form of consultative communication, either live, by phone, video call, or e-mail.

**Disclosure:**

This material is for informational purposes only and is not intended to serve as a substitute for personalized investment advice or as a recommendation or solicitation of any particular security, strategy or investment product. Diversification cannot assure profit or guarantee against loss. There is no guarantee that any investment will achieve its objectives, generate positive returns, or avoid losses. Sequoia Financial Advisors, LLC makes no representations or warranties with respect to the accuracy, reliability, or utility of information obtained from third-parties. Certain assumptions may have been made by these sources in compiling such information, and changes to assumptions may have material impact on the information presented in these materials. Investment advisory services oﬀered through Sequoia Financial Advisors, LLC, an SEC Registered Investment Advisor. Registration as an investment advisor does not imply a certain level of skill or training.

The information herein was obtained from various sources. Sequoia Financial Advisors, LLC does not guarantee the accuracy or completeness of information provided by third parties. The information in this report is given as of the date indicated and believed to be reliable. Sequoia Financial Advisors, LLC assumes no obligation to update this information, or to advise on further developments relating to it. Sequoia Financial Group is not affiliated with or endorsed by the Social Security Administration, IRS or any other government agency. The information presented is believed to be from reliable sources, but no responsibility is accepted for any inaccuracies.

Information about Sequoia can be found within Part 2A of the firm's Form ADV, which is available at https://adviserinfo.sec.gov/firm/summary/117756

60 The Supreme Court has ruled that inherited IRAs are subject to the claims of the creditors of the beneficiaries (Clark v. Rameker). State-specific laws may protect inherited IRAs.

61 Non-spouse beneficiaries can generally withdraw inherited IRAs over a ten-year period. However, they MAY take the distributions sooner. An IRA trust can provide an intervening Trustee to control the distribution.



# Appendix A

**My Lump-Sum Decision Worksheet**

For a complimentary assessment of your lump-sum or monthly pension option please fill out the following worksheet and **email to**: info@sequoia-financial.com, **mail to:** Sequoia Financial Group, 5480 Corporate Drive, #100, Troy, MI 48098 or **fax to:** 833.267.4550 .

Name: Address: City: State: ZIP: Email Address: Phone Number: Cell: Home:

1. Amount of the lump-sum option:
2. Monthly Pension:
	1. Pension
	2. Surviving spouse benefit
3. Age of the employee? Sex: *M F* Age of spouse? Sex: *M F*
4. Marital status of the employee? *M S W(widowed) D(Divorced)*
5. What is the relative health of the employee?
	1. Excellent health, longevity in family. *Employee Spouse*
	2. Good health, no serious health conditions, normal height/weight. *Employee Spouse*
	3. Average-to-fair health, medications, height/weight abnormal. *Employee Spouse*
	4. Poor health, prior or current medical conditions. *Employee Spouse*
6. Estimated life expectancy age employee? The spouse?
7. Which statement most effectively sums up the employee’s wishes regarding a legacy:
	1. I need to take care of me (or my spouse and me) only
	2. I would like to leave whatever I (or my spouse and I) don’t use up to heirs
	3. I want to live off the interest and leave the principal and growth to heirs
	4. It is very important to me to leave a legacy to heirs
8. Which statement most effectively sums up the employee’s view on flexibility of withdrawals?
	1. I want my retirement income to be certain
	2. I want some of my retirement income to be certain, but would like some income I can modify to my needs
	3. I am comfortable with my other sources of retirement income, like my spouse’s pension and Social Security
	4. I want control over my assets and income flow as much as possible
9. What income tax bracket is the employee in currently?
10. What tax bracket is anticipated after age 70½?
11. What is the size of the employee’s estate? [This would be the sum of all assets, including IRAs and life insurance (unless owned by an Irrevocable Life Insurance Trust), minus liabilities]
12. Which statement most effectively sums up the employee’s risk tolerance?
	1. I am conservative. I like a lot of money in the bank, CDs, or safe investments. I hate negative numbers on my statements.
	2. I am moderately conservative. I understand markets go up and down, but I prefer some of the ups and less of the downs.
	3. I am moderate. I think of my retirement investments as pensions and feel they should be invested like a pension plan in a mix of assets globally. My balance goes up and down.
	4. I am aggressive. I think that equities and alternate investment are the only effective ways to make money, and I willingly assume the risk of loss.
13. Which statement accurately reflects the employee’s attitude about inflation?
	1. I am not concerned about inflation. I want safety of principal.
	2. I am somewhat concerned about inflation, but I am more concerned about safety of principal.
	3. Inflation will be a modest problem in the future.
	4. I am concerned about inflation and its detrimental effect on my retirement.
14. Which statement accurate reflects the employee’s attitude about interest rates?
	1. I’m happy to make 2-3% in retirement
	2. I think interest rates will probably go up in the future
	3. I think interest rates will probably go up in the future, and I can then capitalize on those higher rates
	4. I think interest rates will clearly go higher in the future and I want the flexibility to lock in the higher rates later
15. Which statement most effectively sums up the employee’s investment knowledge or willingness to delegate investment management?
	1. I am not very knowledgeable about investments
	2. I have some knowledge of investments
	3. I am reasonably knowledgeable about investments, or I have an advisor I trust
	4. I am quite knowledgeable about investments, or I have an advisor I trust
16. What are the employee’s other (non-employer pension) monthly retirement income flows?
	1. Spouse’s pension
	2. Employee’s Social Security
	3. Spouse’s Social Security
	4. Investment income (non-IRAs)
	5. Rents, jobs, other
	6. Balance of other IRAs
17. What is the necessary retirement cash flow for the employee? (e.g., living expense, debt service, medical)

An advisor will call you to review your options. If you are uncomfortable completing this worksheet and sending it to us, please feel free to give us a call at (888) 225-3777.

**Disclosure:**

This material is for informational purposes only and is not intended to serve as a substitute for personalized investment advice or as a recommendation or solicitation of any particular security, strategy or investment product. Diversification cannot assure profit or guarantee against loss. There is no guarantee that any investment will achieve its objectives, generate positive returns, or avoid losses. Sequoia Financial Advisors, LLC makes no representations or warranties with respect to the accuracy, reliability, or utility of information obtained from third-parties. Certain assumptions may have been made by these sources in compiling such information, and changes to assumptions may have material impact on the information presented in these materials. Investment advisory services oﬀered through Sequoia Financial Advisors, LLC, an SEC Registered Investment Advisor. Registration as an investment advisor does not imply a certain level of skill or training.

**Appendix B General Decision Groups**

The following are a general observation of certain age/situational cohorts that would benefit from the lump-sum or the monthly pension.

## Health:

Poor health: Lump-sum

Good health, family longevity: monthly pension

## Age:

Under 59½: need the money, probably monthly pension Between 59½ -72: Lump-sum (for flexibility)

Over 72: Possible RMD considerations, if IRA Rollover. If born before 01/02/36, consider 10-year forward averaging.

## Sex:

Male: Benefits more from Lump-sum (shorter life expectancy) Female: Benefits more from monthly pension (longer life expectancy)

## Importance of flexibility of withdrawals:

Important to be flexible: Lump-sum (caution RMD considerations) Stable income more important: monthly pension

## Roth IRA:

Desire and use Roth and Roth conversions: Lump-sum Roth irrelevant: monthly pension

## Survivability:

Healthy spouse, children, legacy desired: Lump-sum Legacy irrelevant: monthly pension

## Estate taxes:

Subject to estate tax: monthly pension Not subject to estate tax: Lump-sum

**Investment philosophy:** Conservative: monthly pension Moderate: Lump-sum

## Investment expertise:

No expertise (not delegation): monthly pension Expertise (or delegation): Lump-sum

## Inflation outlook:

No/low inflation: monthly pension Inflation: Lump-sum

**Disclosure:**

This material is for informational purposes only and is not intended to serve as a substitute for personalized investment advice or as a recommendation or solicitation of any particular security, strategy or investment product. Diversification cannot assure profit or guarantee against loss. There is no guarantee that any investment will achieve its objectives, generate positive returns, or avoid losses. Sequoia Financial Advisors, LLC makes no representations or warranties with respect to the accuracy, reliability, or utility of information obtained from third-parties. Certain assumptions may have been made by these sources in compiling such information, and changes to assumptions may have material impact on the information presented in these materials. Investment advisory services oﬀered through Sequoia Financial Advisors, LLC, an SEC Registered Investment Advisor. Registration as an investment advisor does not imply a certain level of skill or training.

**Appendix C Mortality Tables for 2022**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |
|  |  **Male** |  **Male** |  **Male** | **Female** | **Female** |  **Female** |  **Unisex** |
| Age | 2022 Non-Annuitant Table | 2022 Annuitant Table | 2022 Optional Combined Table for Small Plans | 2022 Non-Annuitant Table | 2022 Annuitant Table | 2022 Optional Combined Table for Small Plans | 2022 Table for Distributions Subject to § 417(e)(3) |
| 0 | 0.002678 | 0.002678 | 0.002678 | 0.002344 | 0.002344 | 0.002344 | 0.002511 |
| 1 | 0.000157 | 0.000157 | 0.000157 | 0.000147 | 0.000147 | 0.000147 | 0.000152 |
| 2 | 0.000108 | 0.000108 | 0.000108 | 0.000098 | 0.000098 | 0.000098 | 0.000103 |
| 3 | 0.000091 | 0.000091 | 0.000091 | 0.000074 | 0.000074 | 0.000074 | 0.000083 |
| 4 | 0.000072 | 0.000072 | 0.000072 | 0.000056 | 0.000056 | 0.000056 | 0.000064 |
| 5 | 0.000064 | 0.000064 | 0.000064 | 0.000051 | 0.000051 | 0.000051 | 0.000058 |
| 6 | 0.000058 | 0.000058 | 0.000058 | 0.000048 | 0.000048 | 0.000048 | 0.000053 |
| 7 | 0.000052 | 0.000052 | 0.000052 | 0.000045 | 0.000045 | 0.000045 | 0.000049 |
| 8 | 0.000044 | 0.000044 | 0.000044 | 0.000042 | 0.000042 | 0.000042 | 0.000043 |
| 9 | 0.000036 | 0.000036 | 0.000036 | 0.00004 | 0.00004 | 0.00004 | 0.000038 |
| 10 | 0.000031 | 0.000031 | 0.000031 | 0.000038 | 0.000038 | 0.000038 | 0.000035 |
| 11 | 0.000033 | 0.000033 | 0.000033 | 0.000039 | 0.000039 | 0.000039 | 0.000036 |
| 12 | 0.00005 | 0.00005 | 0.00005 | 0.000046 | 0.000046 | 0.000046 | 0.000048 |
| 13 | 0.000067 | 0.000067 | 0.000067 | 0.000053 | 0.000053 | 0.000053 | 0.00006 |
| 14 | 0.000084 | 0.000084 | 0.000084 | 0.000059 | 0.000059 | 0.000059 | 0.000072 |
| 15 | 0.000101 | 0.000101 | 0.000101 | 0.000065 | 0.000065 | 0.000065 | 0.000083 |
| 16 | 0.000119 | 0.000119 | 0.000119 | 0.000071 | 0.000071 | 0.000071 | 0.000095 |
| 17 | 0.000138 | 0.000138 | 0.000138 | 0.000076 | 0.000076 | 0.000076 | 0.000107 |
| 18 | 0.000159 | 0.000159 | 0.000159 | 0.000081 | 0.000081 | 0.000081 | 0.00012 |
| 19 | 0.000181 | 0.000181 | 0.000181 | 0.000084 | 0.000084 | 0.000084 | 0.000133 |
| 20 | 0.000202 | 0.000202 | 0.000202 | 0.000085 | 0.000085 | 0.000085 | 0.000144 |
| 21 | 0.00023 | 0.00023 | 0.00023 | 0.000088 | 0.000088 | 0.000088 | 0.000159 |
| 22 | -8.29E-05 | -8.29E-05 | -8.29E-05 | -0.000141 | -0.000141 | -0.000141 | -0.000112 |
| 23 | -0.000109 | -0.000109 | -0.000109 | -0.000168 | -0.000168 | -0.000168 | -0.000138 |
| 24 | -0.000135 | -0.000135 | -0.000135 | -0.000195 | -0.000195 | -0.000195 | -0.000165 |
| 25 | -0.000161 | -0.000161 | -0.000161 | -0.000222 | -0.000222 | -0.000222 | -0.000192 |
| 26 | -0.000187 | -0.000187 | -0.000187 | -0.00025 | -0.00025 | -0.00025 | -0.000218 |
| 27 | -0.000213 | -0.000213 | -0.000213 | -0.000277 | -0.000277 | -0.000277 | -0.000245 |
| 28 | -0.000239 | -0.000239 | -0.000239 | -0.000304 | -0.000304 | -0.000304 | -0.000271 |
| 29 | -0.000265 | -0.000265 | -0.000265 | -0.000331 | -0.000331 | -0.000331 | -0.000298 |
| 30 | -0.000291 | -0.000291 | -0.000291 | -0.000358 | -0.000358 | -0.000358 | -0.000324 |
| 31 | -0.000317 | -0.000317 | -0.000317 | -0.000385 | -0.000385 | -0.000385 | -0.000351 |
| 32 | -0.000343 | -0.000343 | -0.000343 | -0.000412 | -0.000412 | -0.000412 | -0.000377 |
| 33 | -0.000369 | -0.000369 | -0.000369 | -0.000439 | -0.000439 | -0.000439 | -0.000404 |
| 34 | -0.000395 | -0.000395 | -0.000395 | -0.000466 | -0.000466 | -0.000466 | -0.00043 |
| 35 | -0.000421 | -0.000421 | -0.000421 | -0.000493 | -0.000493 | -0.000493 | -0.000457 |
| 36 | -0.000447 | -0.000447 | -0.000447 | -0.00052 | -0.00052 | -0.00052 | -0.000483 |
| 37 | -0.000473 | -0.000473 | -0.000473 | -0.000547 | -0.000547 | -0.000547 | -0.00051 |
| 38 | -0.000499 | -0.000499 | -0.000499 | -0.000574 | -0.000574 | -0.000574 | -0.000536 |
| 39 | -0.000525 | -0.000525 | -0.000525 | -0.000601 | -0.000601 | -0.000601 | -0.000563 |
| 40 | -0.000551 | -0.000551 | -0.000551 | -0.000628 | -0.000628 | -0.000628 | -0.000589 |
| 41 | -0.000577 | -0.000577 | -0.000577 | -0.000655 | -0.000655 | -0.000655 | -0.000616 |
| 42 | -0.000603 | -0.000603 | -0.000603 | -0.000682 | -0.000682 | -0.000682 | -0.000642 |
| 43 | -0.000629 | -0.000629 | -0.000629 | -0.000709 | -0.000709 | -0.000709 | -0.000669 |
| 44 | -0.000655 | -0.000655 | -0.000655 | -0.000736 | -0.000736 | -0.000736 | -0.000695 |
| 45 | -0.000681 | -0.000681 | -0.000681 | -0.000763 | -0.000763 | -0.000763 | -0.000722 |
| 46 | -0.000707 | -0.000707 | -0.000707 | -0.00079 | -0.00079 | -0.00079 | -0.000748 |
| 47 | -0.000733 | -0.000733 | -0.000733 | -0.000817 | -0.000817 | -0.000817 | -0.000775 |
| 48 | -0.000759 | -0.000759 | -0.000759 | -0.000844 | -0.000844 | -0.000844 | -0.000801 |
| 49 | -0.000785 | -0.000785 | -0.000785 | -0.000871 | -0.000871 | -0.000871 | -0.000828 |
| 50 | -0.000811 | -0.000811 | -0.000811 | -0.000898 | -0.000898 | -0.000898 | -0.000855 |
| 51 | -0.000837 | -0.000837 | -0.000837 | -0.000925 | -0.000925 | -0.000925 | -0.000881 |
| 52 | -0.000863 | -0.000863 | -0.000863 | -0.000952 | -0.000952 | -0.000952 | -0.000908 |
| 53 | -0.000889 | -0.000889 | -0.000889 | -0.00098 | -0.00098 | -0.00098 | -0.000934 |
| 54 | -0.000915 | -0.000915 | -0.000915 | -0.001007 | -0.001007 | -0.001007 | -0.000961 |
| 55 | -0.000941 | -0.000941 | -0.000941 | -0.001034 | -0.001034 | -0.001034 | -0.000987 |
| 56 | -0.000967 | -0.000967 | -0.000967 | -0.001061 | -0.001061 | -0.001061 | -0.001014 |
| 57 | -0.000993 | -0.000993 | -0.000993 | -0.001088 | -0.001088 | -0.001088 | -0.00104 |
| 58 | -0.001019 | -0.001019 | -0.001019 | -0.001115 | -0.001115 | -0.001115 | -0.001067 |
| 59 | -0.001045 | -0.001045 | -0.001045 | -0.001142 | -0.001142 | -0.001142 | -0.001093 |
| 60 | -0.001071 | -0.001071 | -0.001071 | -0.001169 | -0.001169 | -0.001169 | -0.00112 |
| 61 | -0.001097 | -0.001097 | -0.001097 | -0.001196 | -0.001196 | -0.001196 | -0.001146 |
| 62 | -0.001123 | -0.001123 | -0.001123 | -0.001223 | -0.001223 | -0.001223 | -0.001173 |
| 63 | -0.001149 | -0.001149 | -0.001149 | -0.00125 | -0.00125 | -0.00125 | -0.001199 |
| 64 | -0.001175 | -0.001175 | -0.001175 | -0.001277 | -0.001277 | -0.001277 | -0.001226 |
| 65 | -0.001201 | -0.001201 | -0.001201 | -0.001304 | -0.001304 | -0.001304 | -0.001252 |
| 66 | -0.001227 | -0.001227 | -0.001227 | -0.001331 | -0.001331 | -0.001331 | -0.001279 |
| 67 | -0.001253 | -0.001253 | -0.001253 | -0.001358 | -0.001358 | -0.001358 | -0.001305 |
| 68 | -0.001279 | -0.001279 | -0.001279 | -0.001385 | -0.001385 | -0.001385 | -0.001332 |
| 69 | -0.001305 | -0.001305 | -0.001305 | -0.001412 | -0.001412 | -0.001412 | -0.001358 |
| 70 | -0.001331 | -0.001331 | -0.001331 | -0.001439 | -0.001439 | -0.001439 | -0.001385 |
| 71 | -0.001357 | -0.001357 | -0.001357 | -0.001466 | -0.001466 | -0.001466 | -0.001411 |
| 72 | -0.001383 | -0.001383 | -0.001383 | -0.001493 | -0.001493 | -0.001493 | -0.001438 |
| 73 | -0.001409 | -0.001409 | -0.001409 | -0.00152 | -0.00152 | -0.00152 | -0.001464 |
| 74 | -0.001435 | -0.001435 | -0.001435 | -0.001547 | -0.001547 | -0.001547 | -0.001491 |
| 75 | -0.001461 | -0.001461 | -0.001461 | -0.001574 | -0.001574 | -0.001574 | -0.001518 |
| 76 | -0.001487 | -0.001487 | -0.001487 | -0.001601 | -0.001601 | -0.001601 | -0.001544 |
| 77 | -0.001513 | -0.001513 | -0.001513 | -0.001628 | -0.001628 | -0.001628 | -0.001571 |
| 78 | -0.001539 | -0.001539 | -0.001539 | -0.001655 | -0.001655 | -0.001655 | -0.001597 |
| 79 | -0.001565 | -0.001565 | -0.001565 | -0.001682 | -0.001682 | -0.001682 | -0.001624 |
| 80 | -0.001591 | -0.001591 | -0.001591 | -0.00171 | -0.00171 | -0.00171 | -0.00165 |
| 81 | -0.001617 | -0.001617 | -0.001617 | -0.001737 | -0.001737 | -0.001737 | -0.001677 |
| 82 | -0.001643 | -0.001643 | -0.001643 | -0.001764 | -0.001764 | -0.001764 | -0.001703 |
| 83 | -0.001669 | -0.001669 | -0.001669 | -0.001791 | -0.001791 | -0.001791 | -0.00173 |
| 84 | -0.001695 | -0.001695 | -0.001695 | -0.001818 | -0.001818 | -0.001818 | -0.001756 |
| 85 | -0.001721 | -0.001721 | -0.001721 | -0.001845 | -0.001845 | -0.001845 | -0.001783 |
| 86 | -0.001747 | -0.001747 | -0.001747 | -0.001872 | -0.001872 | -0.001872 | -0.001809 |
| 87 | -0.001773 | -0.001773 | -0.001773 | -0.001899 | -0.001899 | -0.001899 | -0.001836 |
| 88 | -0.001799 | -0.001799 | -0.001799 | -0.001926 | -0.001926 | -0.001926 | -0.001862 |
| 89 | -0.001825 | -0.001825 | -0.001825 | -0.001953 | -0.001953 | -0.001953 | -0.001889 |
| 90 | -0.001851 | -0.001851 | -0.001851 | -0.00198 | -0.00198 | -0.00198 | -0.001915 |
| 91 | -0.001877 | -0.001877 | -0.001877 | -0.002007 | -0.002007 | -0.002007 | -0.001942 |
| 92 | -0.001903 | -0.001903 | -0.001903 | -0.002034 | -0.002034 | -0.002034 | -0.001968 |
| 93 | -0.001929 | -0.001929 | -0.001929 | -0.002061 | -0.002061 | -0.002061 | -0.001995 |
| 94 | -0.001955 | -0.001955 | -0.001955 | -0.002088 | -0.002088 | -0.002088 | -0.002021 |
| 95 | -0.001981 | -0.001981 | -0.001981 | -0.002115 | -0.002115 | -0.002115 | -0.002048 |
| 96 | -0.002007 | -0.002007 | -0.002007 | -0.002142 | -0.002142 | -0.002142 | -0.002074 |
| 97 | -0.002033 | -0.002033 | -0.002033 | -0.002169 | -0.002169 | -0.002169 | -0.002101 |
| 98 | -0.00206 | -0.00206 | -0.00206 | -0.002196 | -0.002196 | -0.002196 | -0.002127 |
| 99 | -0.002086 | -0.002086 | -0.002086 | -0.002223 | -0.002223 | -0.002223 | -0.002154 |
| 100 | -0.002112 | -0.002112 | -0.002112 | -0.00225 | -0.00225 | -0.00225 | -0.00218 |
| 101 | -0.002138 | -0.002138 | -0.002138 | -0.002277 | -0.002277 | -0.002277 | -0.002207 |
| 102 | -0.002164 | -0.002164 | -0.002164 | -0.002304 | -0.002304 | -0.002304 | -0.002234 |
| 103 | -0.00219 | -0.00219 | -0.00219 | -0.002331 | -0.002331 | -0.002331 | -0.00226 |
| 104 | -0.002216 | -0.002216 | -0.002216 | -0.002358 | -0.002358 | -0.002358 | -0.002287 |
| 105 | -0.002242 | -0.002242 | -0.002242 | -0.002385 | -0.002385 | -0.002385 | -0.002313 |
| 106 | -0.002268 | -0.002268 | -0.002268 | -0.002412 | -0.002412 | -0.002412 | -0.00234 |
| 107 | -0.002294 | -0.002294 | -0.002294 | -0.002439 | -0.002439 | -0.002439 | -0.002366 |
| 108 | -0.00232 | -0.00232 | -0.00232 | -0.002467 | -0.002467 | -0.002467 | -0.002393 |
| 109 | -0.002346 | -0.002346 | -0.002346 | -0.002494 | -0.002494 | -0.002494 | -0.002419 |
| 110 | -0.002372 | -0.002372 | -0.002372 | -0.002521 | -0.002521 | -0.002521 | -0.002446 |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |

**Disclosure:**

This material is for informational purposes only and is not intended to serve as a substitute for personalized investment advice or as a recommendation or solicitation of any particular security, strategy or investment product. Diversification cannot assure profit or guarantee against loss. There is no guarantee that any investment will achieve its objectives, generate positive returns, or avoid losses. Sequoia Financial Advisors, LLC makes no representations or warranties with respect to the accuracy, reliability, or utility of information obtained from third-parties. Certain assumptions may have been made by these sources in compiling such information, and changes to assumptions may have material impact on the information presented in these materials. Investment advisory services oﬀered through Sequoia Financial Advisors, LLC, an SEC Registered Investment Advisor. Registration as an investment advisor does not imply a certain level of skill or training.

**Appendix D Uniform Lifetime Table**

|  |
| --- |
| **(For Use by:*** **Unmarried Owners,**
* **Married Owners Whose Spouses aren't More Than 10 Years Younger, and**
* **Married Owners Whose Spouses aren't the Sole Beneficiaries of Their IRAs)**
 |
| **Age** | **Distribution Period** | **Age** | **Distribution Period** |
| 72 | 27.4 | 87 | 14.4 |
| 73 | 26.4 | 88 | 13.6 |
| 74 | 25.5 | 89 | 12.9 |
| 75 | 24.6 | 90 | 12.1 |
| 76 | 23.7 | 91 | 11.5 |
| 77 | 22.8 | 92 | 10.8 |
| 78 | 21.9 | 93 | 10.1 |
| 79 | 21 | 94 | 9.5 |
| 80 | 20.2 | 95 | 8.9 |
| 81 | 19.3 | 96 | 8.3 |
| 82 | 18.4 | 97 | 7.8 |
| 83 | 17.6 | 98 | 7.3 |
| 84 | 16.8 | 99 | 6.8 |
| 85 | 16 | 100 | 6.4 |
| 86 | 15.2 |

**Disclosure:**

This material is for informational purposes only and is not intended to serve as a substitute for personalized investment advice or as a recommendation or solicitation of any particular security, strategy or investment product. Diversification cannot assure profit or guarantee against loss. There is no guarantee that any investment will achieve its objectives, generate positive returns, or avoid losses. Sequoia Financial Advisors, LLC makes no representations or warranties with respect to the accuracy, reliability, or utility of information obtained from third-parties. Certain assumptions may have been made by these sources in compiling such information, and changes to assumptions may have material impact on the information presented in these materials. Investment advisory services oﬀered through Sequoia Financial Advisors, LLC, an SEC Registered Investment Advisor. Registration as an investment advisor does not imply a certain level of skill or training.