

Current Pension Topics

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Q.: I'm new to city employment, having started about a year ago. I just got a letter from my former employer offering me a choice between two retirement options. The first one is to receive a lump-sum settlement for \$32,088. If I reject this option they will pay me \$5,076 per year for the remainder of my life beginning at age 65. I am now 51. Can you assist me in making the right choice?

P.A.

A.: I'll try. Let's assume you elect the annual pension of \$5,076 starting at age 65. How will the \$32,088 be handled going forward? It remains the property of your former retirement plan and is part of the plan's investment holdings. That \$5,076 is, simply, your vested annual pension. Vested because the plan will first start making payments to you in 14 years, at age 65.

With that said, if we assume annual growth of 6 percent, the \$32,088 will grow to \$72,488 in 14 years. But your vested future pension of \$5,076 will not grow, at all, during the 14 years you will be waiting for it to start. This is what guys and gals like me call "cold-storage" vesting. There is no way for your vested benefit of \$5,076 to increase during the waiting or vesting period of 14 years. And now for your pension partner, inflation. How much will the \$5,076 buy in goods and services beginning in 14 years? No one knows, but we

all know it will be substantially less than what it will buy today, at age 51. And let's not forget your other partner...the income-tax collector known as the IRS.

With all that said, I would take the lump-sum of \$32,088 and roll it over to the NYCE Roth IRA. I would invest it all in the 2035 Fund. Assuming the same 6-percent growth, your Roth IRA balance will be \$102,911 in a short 20 years when you are 71. Your NYCE Roth IRA will not be subject to Required Minimum Distributions and all withdrawals will be voluntary and tax-free during your lifetime. Moreover, you need not make any withdrawals, at all, during your lifetime. Your spouse beneficiary will have the same, identical rights as you. Your non-spouse beneficiary(ies), however, must take tax-free withdrawals during their lifetimes.

It looks like taking the vested pension of \$5,076 will be a bummer, especially, when you recognize that the pension is fixed (will not increase in your lifetime) and will be eroded by taxes and inflation during your lifetime. This is the reasoning behind effectuating a rollover of the \$32,088 to your NYCE Roth IRA.

Tip: Never take a pension loan unless you are prepared to pay it off, in full, prior to retirement. Likewise, never take a 457(b)/401(k) or 403(b) loan unless you are prepared to pay it off, in full, prior to retirement. An outstanding loan that is not paid back becomes a taxable distribution.

This is something to be avoided.

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Honor Court Officers

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came a respiratory therapist. He worked at Memorial Sloan-Kettering for more than 20 years before becoming a Court Officer in 1986.

He died Feb. 3, 2015. Survivors include three daughters and three grandchildren.

The court system also held a ceremony Sept. 9 honoring three officers who died at Ground Zero in the collapse of one of the towers. They were Capt. Harry Thompson and Sgts. Mitchel Wallace and Thomas Jurgens. The three were among scores of Court Officers who rushed to the scene after the attack.

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