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Welcome. My name is Andrew Baron, and this is, Well… It Depends! The podcast where I address different financial decisions that can't be answered with a simple yes or no. In this episode, I ask the question; should I take the lump sum from my pension?

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But before we begin a short disclaimer. This is being recorded on September 14th, 2023. The contents of this podcast are strictly for informational purposes only, and nothing such should be taken as investment, tax or legal advice is important to consult with the professional before making any financial decisions as to strategies discussed may not be suitable for you specifically.

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Getting into it. Should I take the lump sum from my pension? Well… It Depends!

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Before getting into it, we should review what a lump sum benefit is. When you go to retire or leave a job, some retirement pension plans allow you to take a one-time lump sum benefit instead of regular monthly checks for life, as you'll see later in the episode. There are both pros and cons to this approach.

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Why might someone be attracted to the lump sum option? Well, first we have flexibility. By choosing the large sum of money, you allow yourself to pursue additional investments or spend the money as you see fit. This could mean pursuing additional investments, purchasing real estate, addressing debt, giving it away, or perhaps treating yourself to a once in a lifetime event.

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Another consideration is legacy. If you happen to pass away significantly earlier than expected, by choosing the lump sum option, you may provide your family with more money.

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Now let’s address some of the cons. Longevity risk. This is the big one. If you live significantly longer than expected and you didn't manage your lump sum correctly, you may run out of money.

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Compare this to regular guaranteed monthly paychecks for life. By taking the lump sum, the risk is on you to make it last. Then we have decision fatigue. If you take the lump sum option, you need to manage it for the future as well as knowing when to take distributions. This can be complicated, and some people may prefer the ease of use that regular paychecks provide for budgeting.

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And then we have taxes. Depending on your tax bracket and the total dollar value, the lump sum option may cause you to pay higher taxes than you would have otherwise paid by taking it in smaller chunks.

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You should also consider your personal circumstances, such as health and life expectancy. If longevity runs in your family, it may be best to take the regular monthly paychecks to preserve for security. Conversely, if you do have health concerns, it may be best to take the lump sum.

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Another factor is, what is your makeup of income in retirement? If most of your money is provided from income streams such as Social Security and a second pension, it may make sense to take the lump sum option to provide yourself a pool of money in case an unexpected expense arises.

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To recap. The benefits of taking the lump sum from a pension option include the flexibility in how it is invested or spent, as well as the accompanying legacy.

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Cons include longevity risk, possible decision fatigue, as well as potentially higher taxes. Personal considerations also include your health, family, longevity, and what your personal make up of income will be in retirement. So, to answer the question, should I take the lump sum for my pension? Well… It Depends!