LANDMARK
FINANCIAL ADVISORS, LLC

WEALTH MANAGEMENT

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2015

LUMP SUM OR PENSION PAYMENTS?

We are seeing a lump sum option offered to vested pension participants on an ever more frequent basis. The decision in choosing one option over the other could reap (or cost) you hundreds of thousands of dollars. It is our job to help you weigh the differences.

The crux of the rise in offering the lump sum option rests in the burden of the company's or public entity's ability to meet its future obligations. As a result, it is no surprise that the number of pension plans offered in the US has steadily declined. The primary benefit of a pension is that you are shifting the mortality and investment risk to your employer.

The following are some key items we evaluate when presented with this lump sum decision

•OUT OF YOUR CONTROL—Once you start receiving a monthly pension there is no turning back. You cannot change the time or beneficiary calculation options down the road, and it is impossible to get an advance of future payments. In addition, a pension means there is no money left for survivors (outside of the beneficiary), such as family members or charities. In contrast, a lump sum rolled over into an IRA can be dispersed according to your wishes at death and allows flexibility for varied distribution amounts during your lifetime.

•PORTFOLIO ALIGNMENT—A rollover to an IRA allows you to tailor a portfolio that is aligned with your needs and risk tolerance. A pension portfolio has to be managed on behalf of thousands of recipients, so it is safe to say that portfolio decisions may differ from what you would like done with your money. If you are unable to stick to a long term investment strategy and handle volatility in the markets, then the pension may be your best bet.

•OVERLY OPTIMISTIC—Pensions are required to report how close the plan assets are to meeting its future obligations. A number near 100% percent will give you some confidence that your plan is properly funded. The Kentucky Employees Retirement System, for example is, only funded to 21% of obligations as of 2014 (Kentucky Teachers Retirement isn't much better at 51%), and based on multiple bankruptcies, most notably Detroit and GM, pensions can be cut and reduced and are not guaranteed. Even if the funding level is high, it is important to look at their expected return. We often find their projections to be overly optimistic especially with current low interest rates. Even though properly funded, a plan that doesn't achieve their target return can quickly go south. If the lump sum option is taken you have the ability to increase/decrease payments as you see fit based on your actual results.

•TAX OPPORTUNITIES—A pension is almost always fully taxable. A rollover to an IRA gives you major flexibility. For example, you may decide to delay payments (grow tax deferred) or even implement partial conversions to a Roth IRA at low or no tax.

In general, we find that taking a lump sum and rolling the funds into an IRA is our preference. Almost everyone already has one pension-- Social Security, therefore one guaranteed income stream is already in place. We believe that investing and managing money for your specific goals can better be accomplished outside of a pension. One caveat that could alter our opinion is if the client has trouble controlling their spending. A pension acts as a spendthrift provision and prevents overspending.

"When money talks, there are few interruptions." –Herbert V. Prochnow

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EXPECTATIONS FOR 2015

Global economic growth continues to be very fragile, however the US expansion remains one of the bright spots in the world. It is likely the Federal Reserve will finally raise interest rates this year, which in our opinion will be a catalyst for volatility to re-emerge from the shadows. We still believe a deflationary threat hovers around the world. The question becomes whether the Fed will be able to keep rates up or if this will derail our expansion.

On the equity front we have been surprised by the strength of the US market this year. We remain guarded about our expectation for future returns as they are reduced because PEs expanded again this year. We were early this year increasing our allocation to International equities, as they have lagged dramatically. As of December 26, 2014 the S&P 500 was up 15.32% for the year compared to the MSCI All Country World Ex-US down -3.51%. However, we continue to believe that International equities have lower current valuations and foreign central banks will be easing money supply vs. the US tightening going into 2015. The combination of these two forces leads us to believe that higher returns and lower downside risk can be found overseas, which warrants an overweighting based on expected returns vs risks over the next seven years.

In regards to bonds and interest rates we expect more of what we have seen recently. We do not expect rates to rise significantly, in our opinion, due to the Fed being very slow with their increases. The deflationary threat in place over the developed world is a result of deleveraging which will remain in place for some time and, in addition, lower commodity prices will give them room to err on the side of caution. The real catalyst in 2015 which could alter our expectations would be a spike in labor wage costs, however we view this as a low probability due to global forces at play which could mute this.

"They say money isn't everything. That's true — but look at how many things it is." –Robert Orben

LANDMARK FINANCIAL ADVISORS WEIGHTINGS AGAINST THE S&P 500