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Partial Lump Sum Distributions A Compliment to Monthly Pension Benefits

Does your retirement system pension plan offer a Partial Lump Sum Distribution option (PLSD)? Many state, local, or other pension plans allow retiring participants to receive part of their pension benefits in the form of a one-time partial or periodic lump sum distribution. For many retirees, this option can be a very useful retirement and financial planning tool.

Reasons for a PLSD

One of the primary benefits of a PLSD is that you can elect to roll over your distribution into a Traditional IRA without tax consequence (a PLSD cannot be rolled over to a Roth IRA). Rolling over a PLSD can be useful in estate planning or to create a portfolio of growth investments to compliment your state retirement system benefits. You could also use your distribution to pay off bills such as children's college or debt on your home.

Another potential strategy is to use a PLSD to purchase additional life insurance so that you can create a larger beneficiary benefit. This could allow you to receive a higher monthly pension benefit by electing the single life payout option that is based only on your life expectancy and not the combined life expectancy of you and your spouse. In addition to higher monthly benefits during your living years, this strategy could also provide your spouse with more flexibility than a continued monthly pension benefit after your death.

Disadvantages

The primary disadvantage of a PLSD is that it will permanently reduce the monthly benefit you would otherwise receive from your plan. Any cost of living adjustments or periodic "extra" benefits provided through your plan would also be lowered if you choose a PLSD. If you do not roll over the PLSD to an IRA, the distribution will be subject to income taxes and the plan will withhold 20% of the distribution to pay towards these taxes.

Is a PLSD Right for You?

A PLSD is not right for everyone. I would be happy to work with you on calculations and help you weigh the pros and cons. We'll look at the specific rules for your pension plan and your personal situation in order to make the decision that is right for you.

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Is a PLSD Right for You?

There are several things to think about when considering a Partial Lump Sum Distribution option (PLSD) from your state, local or other pension plans. The table below offers a few general considerations when deciding if a PLSD is right for you.

YES	Do You. . .	NO
✓	Want to Roll a Portion of Pension Benefits into an IRA?	
✓	Want to Use Pension Benefits for Estate Planning?	
✓	Want to Pay Off Bills such as Kid's College or Mortgage?	
✓	Want Savings to Cover Expenses Above Monthly Benefit?	
	Want Highest Possible Monthly Pension Benefit?	✓

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