

# ALU LUMP SUM OFFER

- The two most important things to remember if you receive a lump sum offer are:
  - 1. If you are currently receiving a pension you cannot be required to take the lump sum offer
  - 2. If you receive the offer and are considering whether to accept, talk to **A FINANCIAL ADVISER** (Either an advisor you already have a relationship with or one you trust)

# WHAT THE LUMP SUM OFFER WILL TELL YOU

- 1. The total Lump Sum
- 2. The lump sum converted to a new monthly annuity
- 3. The new monthly annuity with 50% and 75% survivor option

# HOW THE LUMP SUM IS CALCULATED

YOUR ANNUAL PENSION IS MULTIPLIED BY THE NUMBER OF YEARS OF LIFE EXPECTANCY REMAINING TO YOU. (Actually based on Mortality Tables)

THAT TOTAL IS THEN USED TO CALCULATE HOW MUCH THAT AMOUNT WOULD BE IN A LUMP SUM RECEIVED TODAY BY DISCOUNTING IT TO PRESENT VALUE

A MORTALITY TABLE DETERMINES YOUR LIFE EXPECTANCY AND THREE INTEREST RATES ARE USED TO DISCOUNT YOUR LUMP SUM TO A PRESENT VALUE

# HOW THE LUMP SUM IS CALCULATED

- THERE ARE ONLY TWO VARIABLES IN THE CALCULATION
  1. MORTALITY TABLES (LIFE EXPECTANCY )
  2. INTEREST RATES TO REDUCE THE LUMP SUM TO THE AMOUNT YOU WILL RECEIVE TODAY

# HOW THE LUMP SUM IS CALCULATED

- BOTH OF THE TWO VARIABLES ARE PRESCRIBED BY THE IRS TO DETERMINE A MINIMUM AMOUNT OF THE LUMP SUM
- THESE ARE REFERENCED IN THE IRS CODE

# THE TWO VARIABLES

- MORTALITY TABLES ARE PUBLISHED PERIODICALLY BY THE SOCIETY OF ACTUARIES
- THEY HAVE PUBLISHED NEW TABLES FOR EXPECTED USE IN 2016 WHICH INDICATE LONGER LIFE EXPECTANCY THAN THE CURRENT TABLES IN THE IRS REGULATIONS
- ALTHOUGH ALU USED THE NEW TABLES FOR ACCOUNTING, THEY PROBABLY WILL USE OLD TABLES TO CALCULATE LUMP SUM

# THE TWO VARIABLES

- THERE ARE THREE DIFFERENT INTEREST RATES USED IN EACH CALCULATION. EACH WILL BE BASED ON THE 120 YEAR MORTALITY TABLE
  - A RATE FOR 5 YEARS OF REMAINING LIFE EXPECTANCY
  - A RATE FOR YEARS 6-20 OF LIFE EXPECTANCY
  - A RATE FOR YEARS BEYOND 20 YEARS

# MORTALITY TABLES

- ALU HAS TOLD US THAT A ONE YEAR INCREASE IN LIFE EXPECTANCY WOULD ADD \$ 1.5 BILLION TO THEIR PENSION OBLIGATIONS
- THEY USED THE NEW MORTALITY TABLES FOR ACCOUNTING PURPOSES IN 2014
- IF THEY USE THE OLD TABLES THE LUMP SUM FOR A 65 YEAR OLD WILL BE LESS BY THE PRESENT VALUE OF AN ADDITIONAL 2-3 YEAR'S PENSION

# INTEREST RATES

- THE MONTH SELECTED FOR INTEREST RATES HAS A SIGNIFICANT EFFECT ON THE LUMP SUM

EXAMPLES: 5 YEARS                      6-20YEARS                      25 YEARS

- AUG. 2011                      1.85%                      4.62%                      6.02%
- SEPT. 2012                      1.02%                      3.71%                      4.67%
- ON A \$100,000 LUMP SUM THE DIFFERENCE IN PRESENT VALUE FOR 25 YEARS IS ABOUT \$ 10,000 OR 10% BETWEEN AUGUST 2011 AND SEPTEMBER 2012

# INTEREST RATES

- ALU HAS TOLD US THEY PLAN TO USE AUGUST 2014
- WHEN THE OFFER IS MADE WE WILL COMPARE THOSE RATES WITH OTHER PERIODS

# DECISION FACTORS

- 1 EFFECT CAUSED BY USE OF NEW OR OLD MORTALITY TABLES
- 2 EFFECT OF USING DIFFERENT MONTHS TO CALCULATE PRESENT VALUE
- EITHER OF THESE COULD AFFECT YOUR DECISION