

Take a GM pension or lump sum? Do the math

By Greg Gardner (excerpt)
June 2, 2012

So much for settling into a relaxing retirement. General Motors' salaried retirees will be getting extra homework beginning this summer to decide whether they want to take a lump-sum payment or simply keep receiving monthly pension checks.

If you're one of the 42,000 GM retirees getting the offer, it could be difficult, even macabre, math. ...

...Experts say you must seriously review options, study offers, dig deep into the paperwork and even try to figure out how many more years you might have left before leaving this mortal coil.

"Everyone eligible should take a serious look at this option," said David Kudla, CEO and chief investment strategist for Mainstay Capital Management in Grand Blanc. "While retirees will assume investment risk with a lump-sum pension payment, there are many advantages."

First, know that no one is being forced to take a lump sum at GM -- or at Ford, where a group of retirees were recently given a similar deal. They will have until July 20 to make a decision.

The retirees can continue receiving monthly pension payments, but GM is transferring its salaried pension plan to Prudential Insurance Co. of America. About 118,000 U.S. salaried retirees are affected by this transfer, depending on their retirement dates.

GM says the move is expected to cut its pension obligation by \$26 billion. ...

..."We see additional opportunities down the road," Chief Financial Officer Dan Ammann said. "We've taken a lot of steps over the last few years. We've gone about it in an orderly way."...

...Generally, lump sums are more attractive to older retirees because monthly payments would stop when they die. Younger retirees who expect to live 20 or 30 years may want to continue receiving monthly payments. ...

...GM will buy a group annuity contract from Prudential and make cash payments of between \$3.5 billion and \$4 billion to the plans. In exchange, Prudential would assume responsibility for the benefits covered by the agreement and begin making the benefit payments in January 2013. The transactions are expected to be completed by the end of 2012, following completion of regulatory review.

Ammann said the plan will reduce the long-term risk of paying benefits to white-collar retirees. GM had worldwide pension obligations of \$107 billion at the end of 2011, but only \$94 billion available to pay them.

Active salaried employees will maintain their current benefit level, but their pensions will be transferred into a new plan overseen by Prudential. They can choose to receive benefits in a lump sum or as monthly payments when they retire.

In February, GM announced that it would freeze all traditional defined-benefit pensions for all salaried workers. In the future they can make contributions, which the company matches, into a defined-contribution, or 401(k), retirement account.

Ammann said GM will be able to cut its obligation by \$26 billion no matter how many retirees choose to take the lump sum. "Whatever is not taken in lump sums will be saved in the transfer over to Prudential," he said. ...

© 2012 Detroit Free Press.
Reprinted with permission.