Select Committee on Pension Policy

Lump Sum Benefit

Issue

Should members of Washington's retirement system be given the choice to have their benefits paid out in monthly, lifetime payments (an annuity), provided as a one-time lump sum payment at the time of retirement, or a combination of both?

Background

Currently, members cannot receive their full retirement benefits in a lump sum at the time of retirement. Some lump sum benefit payment options are offered in limited circumstances:

- ❖ Separation from service.
- ❖ Teachers' Retirement System Plan 1 benefits.
- ❖ Small monthly benefits.
- ❖ Deferred Compensation Program.

These payments are generally restricted to the following:

- ❖ Member contributions, plus interest;
- ❖ Provided at the time of retirement or separation from service; and
- ❖ Subject to federal income taxes.

Otherwise, members do not have the option to choose a lump sum payment of their full (actuarial equivalent) retirement benefits at the time of retirement.

Highlights

Lump sum payment policies can be driven by two key policy goals: providing member flexibility or retirement security.

- ❖ On the one hand, policymakers may view the purpose of a retirement plan as the means in which individuals are afforded lifetime financial security after they exit the workforce.
  - ◊ Those who hold this view may value retirement security over member flexibility and may be reluctant to allow members to cash out their pensions.
- ❖ On the other hand, policymakers may view the purpose of a retirement plan as one strategy to accumulate savings for retirement or see a retirement plan as another form of deferred compensation.
  - ◊ Those who hold this belief may place a stronger value on member flexibility and may not have concerns with allowing the option for members to select a lump sum payment.

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Lump sum benefit payments can provide increased member flexibility and control over their finances in retirement. A lump sum may:

- Accommodate members' financial needs at the time of retirement.
- Provide portability options for those with multiple retirement benefits.
- Allow members to pay for large, unexpected costs in retirement.

Increased flexibility may impact the member's guaranteed retirement income.

- Certain risks are transferred from the plan to the member when a lump sum payment is selected.
- Members become responsible for managing those risks and ensuring that they have adequate lifetime benefits.

Additionally, lump sum benefit payments may impact the investment strategy of the retirement system.

Committee Activity

The Committee held a work session at the October 2019 meeting. No recommendation was made.

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