TWIN CITIES
RETIREMENT GROUP

Why Will Lump-Sum Pensions Decrease in 2023?

One of the most common questions our clients ask in the lead up to retirement is "*should I consider the lump-sum pension?*" While the lump-sum option is not for everyone, over the last few years we have seen an increase in the amount of people electing to take it over a monthly annuity. While the formulas used to calculate lump-sum and monthly pension amounts are similar, there is one significant factor unique to the lump sum: interest rates.

The lump-sum pension is the *present value* of all future monthly pension payments. To calculate this present value, we need to use a discount, or interest rate. 3M uses an IRS-published set of interest rates, called *Minimum Present Value Segment Rates*, in their lump sum calculations. These rates are based on corporate bond yields and have been rising steadily since the beginning of 2022.

When rates are low, 3M must provide a higher present value (lump-sum) to equal the future stream of monthly payments. When rates rise, the present value (lump-sum) is decreased, on account of the higher discount rate. In sum, when rates decrease, lump sum pensions increase; when rates increase, lump sum pensions decrease.

3M uses the *November* Minimum Present Value Segment Rate from the previous year to governor lump- sum pensions values for the current year. For example, 2023 lump-sum pensions will be calculated using the November 2022 rate. With the rise in rates in 2022, it is safe to assume that the November 2022 rate will be *significantly higher* than November 2021, resulting in *significantly lower* lump-sum amounts next year. 3M employees electing a lump-sum pension would need to retire and commence their pension no later than 11/30/2022 to receive the higher, 2022 amount.

To learn more, please contact Twin Cities Retirement Group at 952-600-7555, info@TwinCitiesRetirementGroup.com, www.TwinCitiesRetirementGroup.com