



The 3M Lump Sum Pension Option

Several years ago, 3M began offering employees a lump sum option in addition to the lifetime monthly pension option (annuity). The decision about whether to take the lump sum option vs., the lifetime income option is one of the most important for any 3M employee approaching retirement and as you might expect, the best answer for you may be different than for a friend or colleague.

Landmark Group Wealth Advisor Gary Tangwall states that “many of our clients select the lifetime income option from 3M because the monthly pension (plus social security) provides a strong lifetime income base. Others select the lump sum option. However, each case should be analyzed individually.”

Below are some of the things you should consider when making a decision about your pension options:

- 1. Risk Tolerance** - If you are a more conservative investor, you might prefer the stability of a monthly annuity payment from 3M. For others, a tax-free rollover of your lump sum amount to a traditional IRA in a moderate aggressive or aggressive portfolio may make more sense.
- 2. Rate of Return Assumptions** - The internal rate of return is calculated by comparing the lump sum amount, your age, life expectancy, and the projected pension amount you are considering. Tina Swanson, Chief Investment Officer for Landmark Wealth Management Group, says, “If you roll over the lump sum, you may invest it and take some level of risk from conservative to aggressive depending on your risk temperament. The lifetime pension option reduces your risk, as 3M has committed to providing you with lifetime income. Therefore, 3M is taking the investment risk, not you. We’ve also discovered through helping our clients with the calculations that the 3M internal rate of return is generally higher than other corporate pensions. This means, when compared to other companies, 3M participants taking the lump sum option would need to take on more risk in their investments to beat the monthly pension payment over time.”
- 3. Life Expectancy** - The most difficult variable to estimate is how long you will live. That said, we ask our clients to review their own health history and the longevity of their parents and grandparents. If your family tends to live longer, then the monthly pension payment may make more sense for you.
- 4. Your Other Assets and Income Sources** – You should take into account your projected social security monthly payment, the value of your 401(k), non-qualified stock options, restricted stock units, 3M stock purchased through the employee stock purchase plan, and other asset and income sources. The greater and more varied the amounts, the more likely you may be to consider a lump sum option.

5. Legacy - Our team asks our 3M clients as part of the estate planning process about their wishes with regard to leaving something to children, grandchildren and/or charitable causes. If leaving a legacy is important, you may be more inclined to take the lump sum option. The 3M monthly pension will not have a benefit to children/grandchildren unless you choose a period certain option.

6. Income Flexibility –The monthly pension payment is a fixed payment amount (not adjusted for inflation) and continues for your lifetime and, depending on which payout option you select, the lifetime of your spouse. The lump sum option on the other hand, offers you more flexibility in terms of how much and when to take distributions. If you take the lump sum option and roll it over to an IRA, withdrawals can be deferred until the year in which you turn 70 ½ when you must begin taking your required minimum distribution (RMD). Some clients even consider utilizing the Roth conversion strategy from the lump sum amount prior to reaching age 70 1/2.

7. Strength of the pension fund - The latest public filing, indicates that 3M’s pension is one of the strongest in the U.S. However, if you fear that 3M may not honor its lifetime payment obligation, due to board action or perhaps through a merger or acquisition, you might decide to take the lump sum option in the unlikely event that 3M cannot make the pension payment, the PBGC (Pension Benefit Guaranty Corporation) may pay a portion up to a legally defined limit.

For more information about the advantages and disadvantages of the lump sum pension option and to discuss this option in the context of your particular financial situation, please contact Landmark Wealth Management Group.

Copyright Landmark Wealth Management Group 2019

Landmark Group is an independent practice of Thrivent Financial.

Landmark Group is not affiliated with 3M, nor representatives of its benefits, retirement or pension plans. They have knowledge of the 3M Benefit and Retirement Plans, but do not have full expertise for a complete discussion of the details of your specific situation. For complete details, contact the 3M Human Resources department and/or Retirement Plan Administrator for complete details.

Thrivent and its financial professionals do not provide legal, accounting, or tax advice. Consult your attorney or tax professional.

THRIVENT IS THE MARKETING NAME FOR THRIVENT FINANCIAL FOR LUTHERANS. Insurance products issued by Thrivent. Not available in all states. Securities and investment advisory services offered through Thrivent Investment Management Inc., a registered investment adviser, member FINRA and SIPC, and a subsidiary of Thrivent. Licensed agent/producer of Thrivent. Registered representative of Thrivent Investment Management, Inc. Advisory services available through investment adviser representatives only. Thrivent.com/disclosures.

2438416-022619