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Rising Interest Rates Impact on the Legacy Pension

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1. **How is the Legacy pension lump sum calculated?**

   The Legacy pension is an annuity benefit with a lump sum payment option. To convert the annuity to a lump sum payment, three inputs are required. 1) The annuity benefit amount, 2) The participant's life expectancy, and 3) The Pension Protection Act (PPA) published interest rate.

   Example: Assume a $4,000 projected monthly pension annuity benefit, 30-year life expectancy, and PPA interest rate of 2.5%. The projected lump sum is $1M.

2. **PPA rates are rising. What is the impact on the legacy pension lump sum?**

   Using the example above but assuming the PPA Rate increases to 4% in the next quarter. The projected lump sum would be reduced to $830,000 – a 17% reduction in one quarter. In other words, a 1.5% increase in rates resulted in a $170,000 reduction in the pension lump sum, in this example. If rates continued to rise in future quarters, additional reductions to the lump sum would occur. Keep in mind that the annuity benefit did not change, only the lump sum value.

3. **Is the Cash Balance Plan impacted by rising rates?**

   The Cash Balance pension plan is not impacted by the rise in PPA rates. However, it is impacted by the rise in inflation. There are two sources of contributions to the Cash Balance plan.

   A. Company Contributions. Based on age and years of service.
   B. Interest Credits. 3% plus the annual Consumer Price Index (CPI)

   Consider the recent rise in the CPI (currently up to 8.3%).

   For example, assume an executive age 55 with 20 years of service and salary and bonus totaling $300,000 and $100,000 current balance in the Cash Balance Plan.

   A. Company Contribution = $30,000 (10% of total pay)
   B. Interest Credits = $11,300 (11.3% - annual CPI plus 3%)

   Total projected company contributions for the year total $41,300.

4. **Retire now given the recent rise in rates or continue working?**

   This question should be answered using the totality of one's financial position, including consideration to the change in the pension lump sum. We recommend a comprehensive financial plan to answer this question.

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