

White-collar GM retirees must decide today on lump sum

By Susan Tompor (excerpt)
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Today is the deadline for a group of white-collar General Motors retirees to make their white-knuckle choice.

Will GM salaried retirees decide to take that lump sum or leave it?

Depending on the paperwork before them, these salaried retirees can opt for a one-time payout of \$300,000 or \$500,000 or even \$1 million in some cases. Or they'll stick with a steady monthly check.

GM salaried retirees must have completed their election forms and have their letters postmarked by today.

For many retirees, it has been one unsettling summer when they had to actually ponder giving up something they worked so hard to get -- a regular monthly check in retirement.

If the election form is not postmarked by today, GM said, the salaried retirees would automatically continue to receive the same monthly benefit from GM this year and they would be transferred to an annuity through Prudential Insurance of America beginning in January.

If they select a big payout, the lump-sum distribution checks are scheduled to be mailed Aug. 24 and electronic payments will be made Aug. 27, according to Dave Roman, a spokesman for GM.

If opting for a lump sum, financial planners have suggested that retirees avoid taking a paper check in their name and have the money rolled over directly to an IRA to avoid tax headaches. ...

...If you receive the check in your name as a lump-sum distribution, a qualified plan must withhold 20% for taxes.

Problems can arise if you later wanted to make a full rollover to a retirement account because you'd then need to come up with the 20% out of pocket to complete the rollover to avoid an immediate tax hit, said Barbara Weltman, contributing editor for J.K. Lasser's "Your Income Tax 2012."

Say your lump sum is \$100,000. If you make a direct transfer to an IRA, the full amount is transferred, with no immediate tax consequences.

But Weltman noted if you take a distribution, you'll receive \$80,000 and would have to come up with another \$20,000 to complete the \$100,000 rollover to an IRA.

If you roll over only the \$80,000 received in this example, you'd be taxable on the \$20,000 from the \$100,000 distribution that was not rolled over.

Some people face a 10% penalty for early withdrawal if they take a distribution before age 59 1/2, unless certain exceptions are met.

GM won't say what the median lump-sum offer is or the median age of the retirees who are facing the choice.

GM is terminating the current GM salaried retirement plan for all participants. GM is making the change and offering the options to U.S. salaried retirees who retired from GM on or after Oct. 1, 1997, and before Dec. 1, 2011. On June 1, GM began mailing about 118,000 pension benefit packages to salaried retirees or surviving spouses. ...

...David Kudla, CEO for Mainstay Capital Management in Grand Blanc, said retirees don't want to wait until the last second. He noted that married retirees are required to have a notarized signature on the form. ...