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Adviser: Look carefully at GM pension offer

Grand Blanc investment strategist recommends GM salaried retirees ‘seriously consider’ pension option

GRAND BLANC, MI - An **announcement by General Motors** Friday, that it is offering lump-sum pension options to 42,000 salaried retirees, is being met with encouragement by at least one local investment strategist.

"I definitely recommend they give it serious consideration because of the many advantages to the lump sum payment," said David Kudla, chief executive officer and investment strategist for Mainstay Capital Management in Grand Blanc.

GM says the move is expected to cut the Detroit-based automaker's pension obligation by $26 billion. Under the plan, GM will offer retirees the choice of continuing their pensions to be administered by Prudential Insurance Company of America, or take a one lump-sum payment.

"If you take the lump sum payment you take away the future risk," said Kudla.

"It potentially reduces the mortality risk when you die, the tax risks and the longevity risk of a non-COLA (Cost of Living Adjustment) pension payments where the payments become smaller as inflation grows," Kudla said. "And it completely eliminates the PBGC (Pension Benefit Guarantee Corporation) risk, where the government would assume control of your pension if the company goes into financial distress, much like what happened at Delphi."

Kudla expects the lump sums to be substantial, especially for younger retirees.

"For any younger retiree, let's say a 60-year old who would live with 20 more years of payments, if you take their stream of payments, it could be in the hundreds of thousands of dollars," said Kudla.

"Bottom line we know, if they have 20-25 years of pension payment, the lump sum could be two, three, four, five six hundred thousand. It depends on the person and their numbers," he said.

Given current interest rates, which Kudla says are at an all-time low, he sees it as an opportune time to consider the lump sum.

"The lower the discount rates, the larger the lump sum payment," said Kudla.

Kudla says it is hard for him to think of a situation where a retiree wouldn't at least want to consider the lump-sum pension.

But he says it is important to consider each situation individually before making such a decision.

"Run the numbers, estimate your lump sum. There's a hurdle rate, the rate of return. If you can meet or exceed what you're receiving now with your monthly payments, and you eliminate much of the risk, it's definitely something to consider," said Kudla.