Options for pension plan members

Due to changing circumstances in your life, you will need to make choices that will have both short- term and long-term implications. Looking at these options within the context of your overall financial situation and life plan, will help you make the best financial choices.

If you participated in the company pension plan, you may have several options to consider with regards to your pension benefits. These will be among the most important decisions you will need to make.

Once you have read over the following information, speaking with your pension and benefits representative is the best way to find out what specific options may be available to you.

Pension options on termination of employment

Once you know what options are available to you upon terminating employment, you can start the process of deciding which option is best for you. The following diagram summarizes the options that have been discussed.

OPTION 1 – Remain in the pension plan.

You may be able to stay in the company pension plan, but stop contributing to it. The pension benefits you've earned will be paid to you as early as the time that you have attained the minimum age set by your plan.

TRANSFETR THE VALUE OF YOUR PENSION PLAN

OPTION 2 – Transfer your pension to a new employer.

In some cases, you may be able to transfer the vested amount of your pension into your next employer's pension plan. However, this is possible only if your new employer is willing.

OPTION 3 – Transfer to a locked-in retirement account.

You can choose to transfer your pension value into a locked-in retirement account (LIRA), which could be a life income fund (LIF), a locked-in retirement income fund (LRIF), or a prescribed retirement income fund (PRIF).

This may be an attractive option in certain situations such as where you prefer to manage your own retirement funds, or where you have a desire to use these funds to potentially increase the size of your estate in the future.

OPTION 4 – Purchase an annuity

You may be able to receive the value of the pension benefits you have earned as a lump-sum payment and use it to buy a deferred annuity. The annuity will pay you a set income for life, beginning at retirement age. A life annuity will be managed by the insurance company you purchase the annuity from.

Pension "grow-in" provisions

Some provinces now offer a grow-in provision for pensions being wound down. A grow-in is an enhanced benefit for long-service employees that allows you to take advantage of early retirement even though you may not meet all the criteria under normal circumstances.

Your employer will tell you if they are offering a grow-in provision for your package. Once you know what options are available, you can start to decide on the course of action that's best for you.

When analyzing which pension option is best suited for you, there are a number of factors that must be considered. Essentially, what you are trying to determine is which option will provide you with the best cash flow throughout your retirement, at a risk level that allows you to sleep at night. In order to assess the available options, you must make a number of assumptions, such as long-term interest rates, investment rates of return, inflation indexing of specific options, and your life expectancy.

In many cases, you will also want to choose the option that will provide the largest benefit to your spouse or estate upon your death. Therefore, it is important to determine what the survivor benefits are under the different pension options, and to weigh this information when making your choice.

Locked-in retirement accounts

There are limits as to how much pension money can be transferred into a locked in account, so you might not be able to contribute all the money you're due. Whatever you cannot contribute will be paid to you in cash, less withholding taxes.

Locked-in plans are governed by provincial or federal pension legislation and they are creditor proof. Because of this, there are several types of plans and each type of locked-in plan has different features.

At retirement, you will need to convert your LIRA to an income-producing account. Typical income producing accounts are LIF's, New LIF's, LRIF's and PRIF's. Some provinces allow you to unlock a percentage of the funds upon conversion. Others have special unlocking provisions for financial hardship, shortened life expectancy and non-residency. Generally, they all have minimum and maximum annual payments.

Here is a summary of the different types of plans available in each province. As it is only a high-level view, you can ask your advisor for more details specific to your situation.

	Federal	British Columbia	Alberta	Sask.	Manitoba
Locked-in plans	LIF	LIF	LIF	PRIF	LIF LRIF
Annuity	Life annuity	Life annuity	Life annuity	Life annuity	Life annuity

	Ontario	Quebec	Nova Scotia	New Brunswick	Nfld. and Labrador
Locked-in plans	New LIF	LIF	LIF	LIF	LIF LRIF
Annuity	Life annuity	Life annuity	Life annuity	Life annuity	Life annuity

Life annuity

An annuity is a retirement income option where in essence you "lend" a lump sum of money to a financial institution which, over a fixed period of time or for life, will periodically repay your capital with interest. Because there are many types of annuities and options to choose from, you can always ask your advisor to help you decide what's right for you.

Please contact your Investment Advisor and accountant or tax advisor for assistance with your pension plan.

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