

Types of Pension Plans

For many retirees, a company pension plan will represent a substantial part of their retirement income. For this reason it's important to understand more about these plans.

Defined Contribution (also known as money purchase plan)

With this type of pension you contribute a percentage of your income (or a fixed amount) to the plan. The employer contributes an additional amount, usually a percentage of your contributions. At retirement you will have accumulated a sum of money based on the value of the money contributed plus the plan's tax-sheltered investment earnings. This can then be used to provide income by way of converting to an annuity, Locked in Retirement Fund (LRIF), or Locked in Income Fund (LIF.)

Defined Benefit

With this plan a future pension is promised based on a formula which will include a percentage (usually 1-2%) of your final average earnings times your years of membership in the plan. You may or may not contribute to the plan, however the company must be sure the expected future pension is fully funded.

Pension Income Options

- **Life Income** – This option will provide an income for as long as you live, however, there are no benefits available to your heirs (the pension dies with you.)
- **Life Income With Guarantee (typically 5, 10 or 15 years)** – This option will also provide you with an income for your life, however, if you die before the end of the guarantee, the remaining payments left in this period will be paid to your beneficiary. For example: If you died in the 5th year of a 15 year guarantee, 10 years of payments would be paid to your beneficiary.
- **Joint and Last Survivor (J&LS)** – With this option you will receive a pension for life and provide a survivor income for the life of your spouse. This survivor income will usually represent a percentage of your pension income. E.g. 50, 67, 80, 100%
- **Joint and Last Survivor with guaranteed period** – You may add a guarantee, as described previously, to your J&LS pension. This is an important consideration if you and your spouse want to be sure there is money payable to your estate in the event of both your premature deaths.

Pension Income Reductions

It's important to know that with each of the above options, starting with the life annuity, your pension income will decrease each time you elect a longer guarantee.

The lowest initial pension would be paid by the selection of a joint last-to-die 100% to your spouse with a 15-year guarantee. Because of this it's important to request complete information about your pension options so you can make an informed comparison and choice.

Pension Guarantee to Your Spouse

When you make a decision about which income option you want to take, be aware that most provinces require that your spouse receive a survivor pension of 50 or 60% of your pension. Your spouse may elect to sign a waiver form, which will eliminate this requirement.

Notched Pension

This is an increase in your pension payable prior to your entitlement to CPP. At age 65 when the CPP is paid your pension is reduced, such that, the total of the reduced pension and the CPP equals your income prior to age 65. There is no additional cost to your employer to fund this benefit.

Bridged Pension

This benefit will pay an extra amount, in addition to your regular pension, prior to you being eligible to receive CPP. At age 65 this supplement ceases, however, your level of income remains the same. This benefit is paid for by your employer.

Pension Adjustment (PA)

As a member of either a defined contribution or a defined benefit pension plan you will receive a pension adjustment. This PA represents the cost of funding the future benefit of your defined benefit plan, or the contribution you and your employer make to your defined contribution plan. This PA reduces the amount you may contribute to your RRSP.

Pension Adjustment Reversal (PAR)

A pension adjustment reversal will result if you terminate your pension plan prior to retirement and receive a lump sum. If the termination benefit from the pension plan is less than the total of all pension adjustments previously assigned by the employer, the difference will be reported as a PAR. This PAR will increase the amount you may contribute to your RRSP.

Conclusion

Pension plan benefits can represent a significant portion of your retirement income. Because this can be such a substantial asset it is important to understand how your plan works, the options that are available to you and how your other assets will combine with this income to support your retirement goal. Your ScotiaMcLeod advisor can help you understand these plans.