Retirement Planning:

Understanding pensions and other considerations

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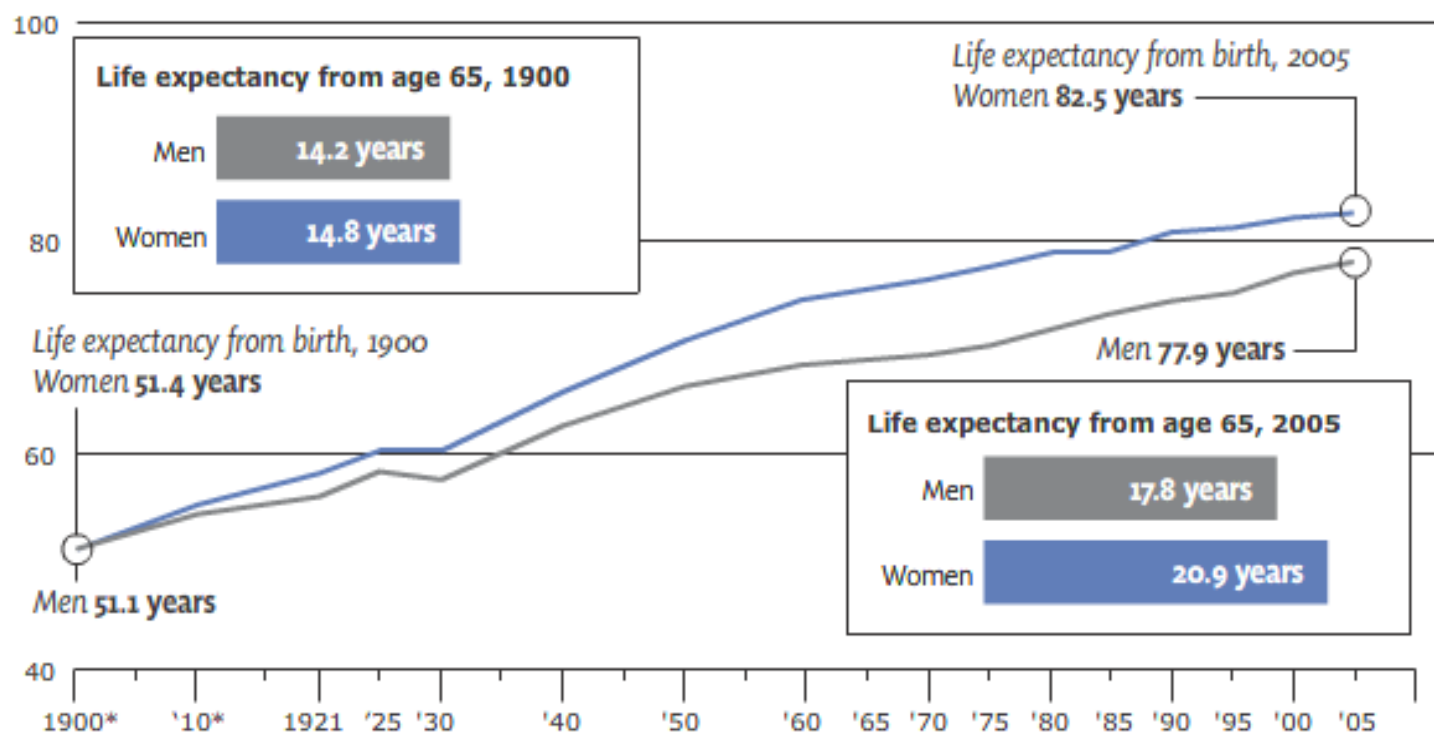TD Waterhouse Private Investment Advice

Agenda

- Introduction

- Pensions and Retirement Income Programs

- Understanding Pensions and Pension Terms

- Considerations

- Next Steps

Pensions, Yesterday and Today

Longer life: good for you, bad for your pension plan.

Life expectancy from age 65, 1900

Men 14.2 years

Women 14.8 years

Life expectancy from birth, 2005
Women **82.5 years**

Life expectancy from birth, 1900
Women **51.4 years**

Men 51.1 years

Men **77.9 years**

Life expectancy from age 65, 2005

Men 17.8 years

Women 20.9 years

1900*   '10*   1921 '25 '30   '40   '50   '60 '65 '70 '75 '80 '85 '90 '95 '00 '05

*1921 to 2005 figures are from CHMD, pre-1921 are from Statistics Canada
Source: Canada Pension Plan Report on Aging

Canada's Retirement Income Program

**Retirement Income Sources**

Government

Employer

Personal

OAS/GIS,
Spouse's Allowance

Registered Pension Plans
Deferred Profit Sharing
Plans, Other: SERPs,
IPPs, RCA,
Group RSPs

RSPs
RIFs
Annuities

CPP/QPP
Spouse's Allowance

Various provincial
Income supplements

Pension Facts

- Approximately 1/3 of the labour force is covered by a registered pension plan
- Registered Pension Plan coverage for paid workers has been declining

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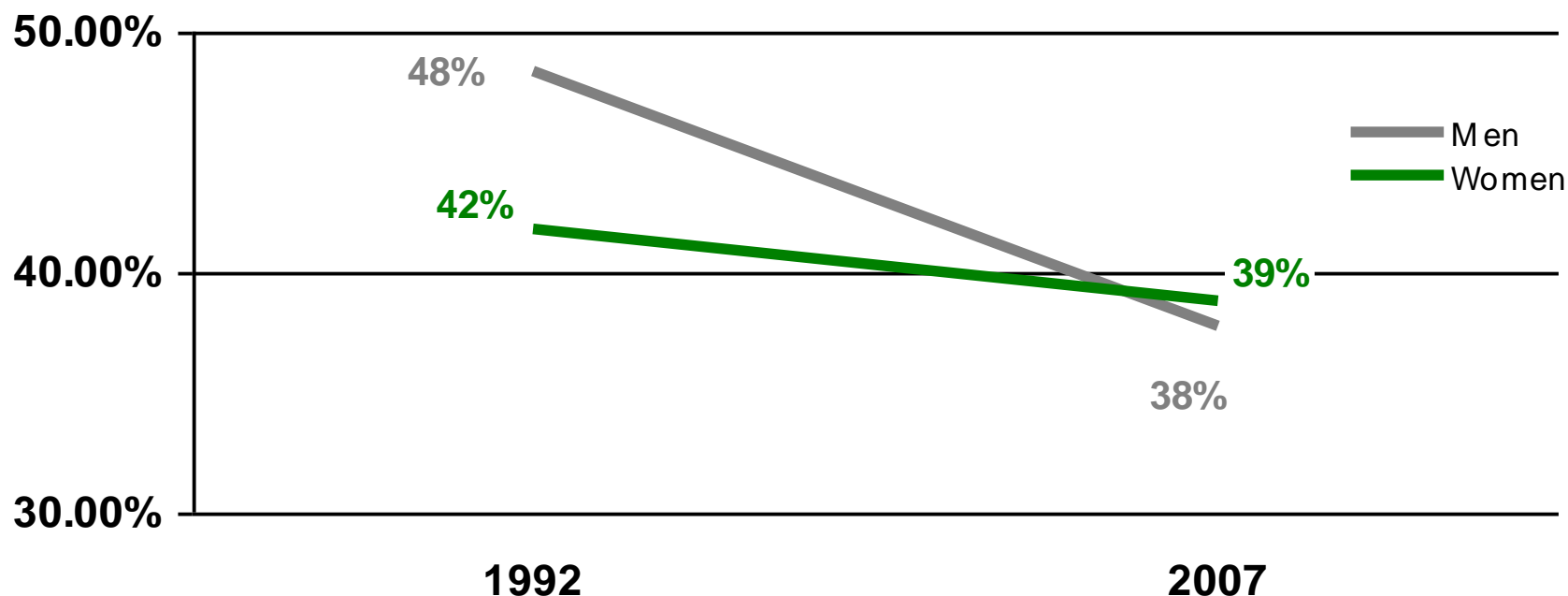
Understanding Pensions: Types of Pension Plans

- Registered Pension Plans

  – Defined Benefit (DB)

  – Defined Contribution (DC) or Money Purchase Plan (MPP)

- Deferred Profit Sharing Plans

- Other Pension Plans

"Many people unnecessarily crimp their lifestyle spending because they do not understand the level of retirement security their pension plans guarantee"

The Pension Puzzle [1]

1. The Pension Puzzle, 3rd edition, Cohen & Fitzgerald, 2007, pg XIV

Understanding Pensions: Terminology

- Contributory versus Non-contributory

- Vesting period

- Normal retirement age

- Canada Pension Plan integration

- Bridge benefit

- Inflation protection

- Reciprocal agreement

- Survivor benefit

Understanding Pensions: Defined Benefit Plans

- Created by an employer for the future benefit of the employees
- Promises a pre-set level of benefit

Defined Benefit Calculations

Benefit Type	Formula	Annual Benefit Example
Flat Benefit	Provide a fixed dollar amount per year of pensionable service	$30 per month x 30 years of service x 12 = $10,800/year
Career Average	Multiply a percentage of average earnings by years of service	2% (accrual rate) x $40,000 (average annual earnings) x 30 (years of service) = $24,000/year
Final/Best Earnings	Multiply a percentage of final/best average earnings for a selected period before retirement by years of service	Annual benefit = 2% (accrual rate) x $80,000 (average earnings) x 30 (years of service) = $48,000/year

Understanding Pensions: Defined Contribution Plans

- Money is set aside each year by the company for the benefit of employees

- Final benefits are based on accumulated contributions & investment return

- Unlike a defined benefit plan, a defined contribution plan provides no special features

Defined Benefit and Defined Contribution

Defined Benefit (DB)	
Pros	**Cons**
Promise a pre-set level of benefit	Tax rules cap the benefit at retirement
Employee bears no investment risk	No control of funds or flexibility
Income for life	No ability to leave an estate
Provide survivor benefits	Company may be insolvent

Defined Contribution (DC)	
Pros	**Cons**
Plan value is known	Employee bears the investment risk
Complete control and flexibility on how the funds are invested	No guarantee. Benefit based on contributions and investment return.
Ability to leave an estate	Cannot determine the benefit in advance
Lower interest rate risk through conversion options	Employee assumes interest rate risk at retirement

Understanding Pensions: Deferred Profit Sharing Plans

- Complements a Registered Pension Plan

- Employer makes tax deferred contributions on behalf of employees

- Contributions paid from company profits

- Reduces allowable RSP contributions

- Upon terminating employment benefits can be:

  – Withdrawn in a lump sum,

  – Transferred to a RPP, RSP or RIF

  – Paid in installments for up to 10 years.
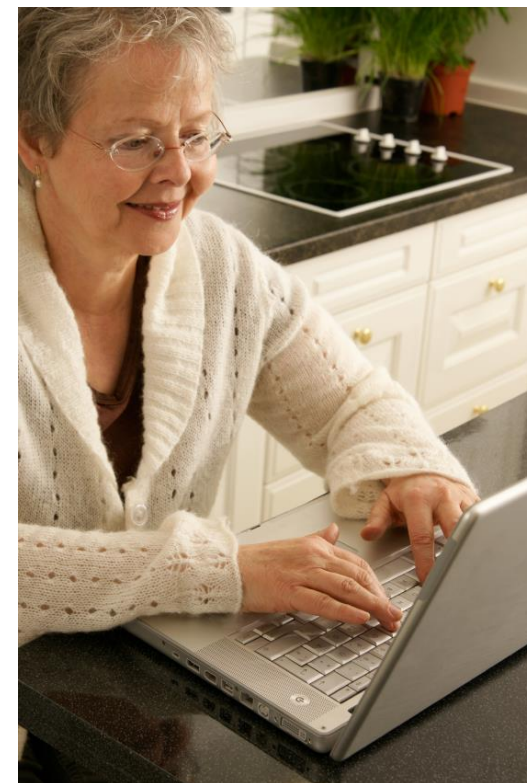
Understanding Pensions: Other Pension Plans

Supplementary Employee Retirement Plan (SERP):

Often used to provide additional retirement benefit for senior executives.

Retirement Compensation Arrangement (RCA)

A nonregistered pension plan funded by an employer, employees contribute as well for their own benefit.

Other Pension Plans

Individual Pension Plan (IPP)

A defined benefit plan with just one member, often used for key people in small businesses or executives.

Group RSP

Employers arrange for employees to make contributions, through a schedule of regular payroll deductions.

Understanding Pensions & Terms

Pension Adjustment (PA)

- May include the value of the benefits from:
  - employer registered pension plans,
  - deferred profit sharing plans,
- May reduce RSP deduction limits the following year
- T4 - box 52 or T4A - box 34

Understanding Pensions & Terms
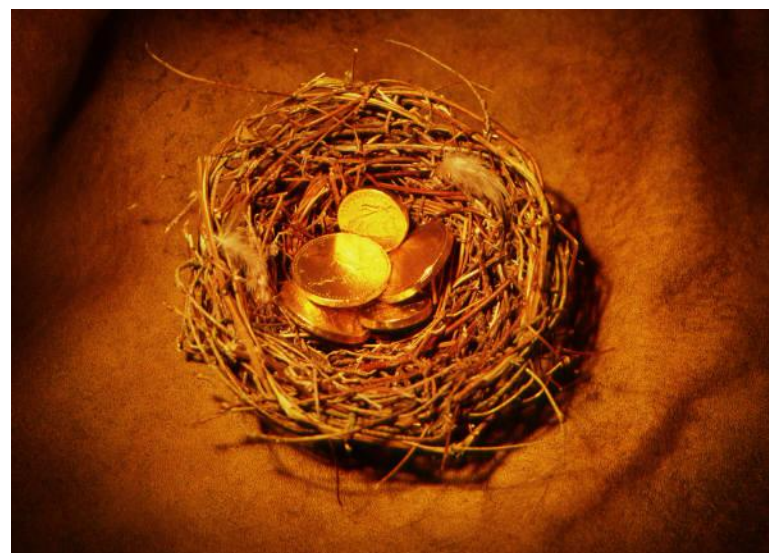
Pension Adjustment Reversal (PAR)

- Restores RSP contribution room lost by the Pension Adjustment

- Defined Benefit: compares cumulative Pension Adjustments since 1990 versus the pension transfer value for a Defined Benefit plan

- Defined Contribution: calculated when employers take back contributions upon employee termination

- RSP contribution room could increased by the PAR amount

Understanding Pensions & Terms

Past Service Pension Adjustment (PSPA)

- Measures the value of the past service benefits

- Only triggered when an employee receives additional pension credits as a result of upgrading the pension benefit or buying back past pension credits

- Difference between Pension Adjustments reported - Pension Adjustments that should have been reported

- Could impact RSP contribution room

What if you stop working earlier than planned ?

Health-related issues

Care for spouse / family member

47%

9%

44%

Job loss / downsizing
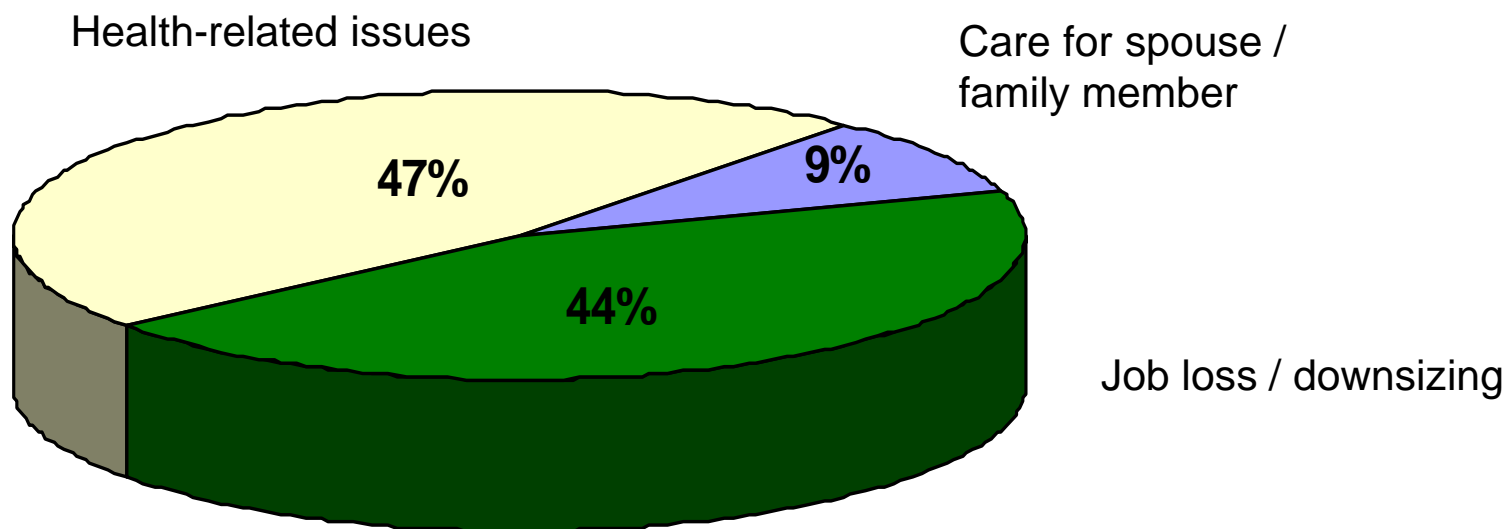
40% of Retirees stop working earlier than planned.

The Average Canadian Retirement Age is 61 years

What if you stop working earlier than planned ?

Step 1: Lifestyle and Non-Financial Considerations

- Take inventory
- Identify any immediate concerns you need to address
- Identify what is important to you and your family
- Determine if you plan to seek employment in the future

What if you stop working earlier than planned ?

Step 2: Financial Considerations

- Review your immediate financial situation and address concerns

- Align your financial goals to meet lifestyle objectives

- Reassess your level of risk tolerance

- Draft a cash flow budget or retirement income plan (if leaving full-time employment.)

- Understand your company's financial health; how is the pension funded?

Investment Strategies
Banking and Credit Management
Charitable Giving
Retirement Planning
Planning for Major Purchases
Wealth Accumulation, Preservation and Transition
Protecting Your Assets
Business Succession Planning
Protecting Your Income
Education Funding
Passing On Your Wealth
Tax Management

The goals and dreams you and your family share for your work and career, well-being, home, lifestyle, and legacy.

What if you stop working earlier than planned ?

Step 3: Pension Versus Commute Options

- Pension plan members are usually offered the following options:

  - Take an immediate or deferred pension

  - Transfer the pension value to a new pension plan

  - Transfer the commuted value to a locked-in plan

  - Additional options

What if you stop working earlier than planned ?

4. Checklist Review

- Understand your provincial pension legislation
- Review the features and benefits offered by your pension plan
- Assess your eligibility for a severance package
- Investigate your eligibility for employment insurance benefits
- Assess stock options if applicable
- Consult with an expert

Things to Consider . . .

- What type of pension plan do you have?

- How many pension sources do you have?

- What financial benefits will you be entitled to receive?

- What benefits will you be covered for if you cease full time employment and for how much? (dental, health, prescriptions)

- When can you access your benefits?

- Will receipt of your benefits align to when you leave the workforce?

- What contingency plans do you need to put in place?

Next Steps

- Take inventory of your family's pension plans

- Understand the applicable pension legislation

- Define your lifestyle and other non-financial family needs

- Review your financial goals and objectives

Thank you!

Talk to a TD Waterhouse representative today!
We're here to help!

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