What To Do With Your Pension When You Change Jobs

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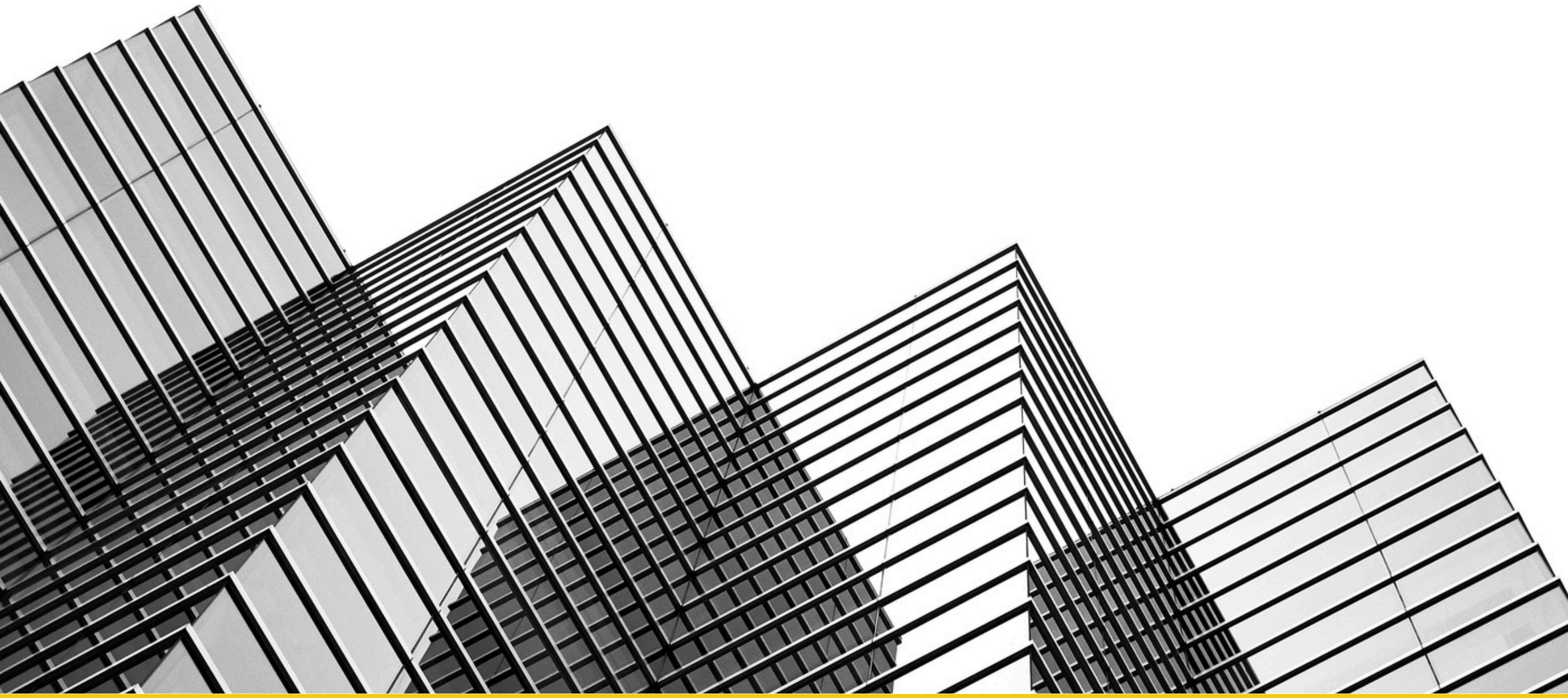
Financial Services

Protecting Your Retirement When Switching Jobs



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Step 1: Understand Your Pension Type

Before making any decisions, it's important to know what kind of pension plan you had with your employer. The type of plan determines your available options when changing jobs.

Defined Contribution (DC) Plan

A Defined Contribution (DC) Plan is a retirement savings plan where contributions are made by both the employer and the employee. The final retirement amount depends on:

✓ The total contributions made over time
✓ The investment performance of the pension fund
✓ Any fees associated with the plan

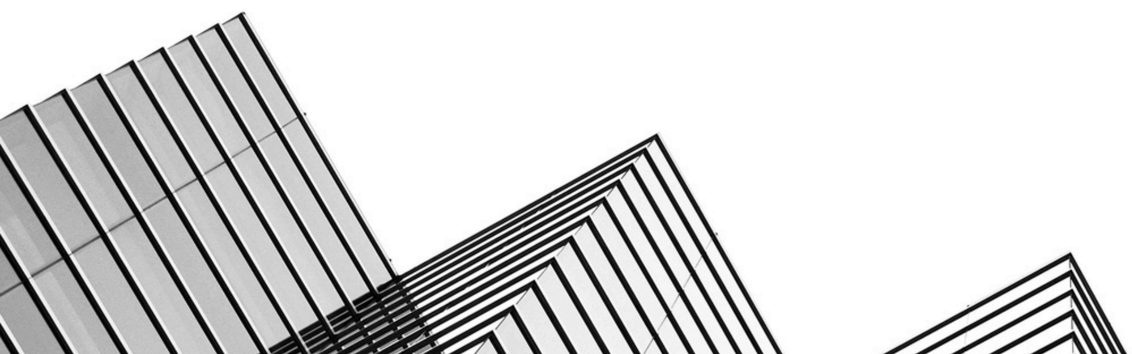
Unlike a Defined Benefit (DB) Plan, DC plans do not guarantee a specific retirement income. Instead, the accumulated value in your account at retirement determines your available funds.

Types of Defined Contribution Plans:

Group Registered Retirement Savings Plan (Group RRSP) – Contributions are made pre-tax, and the funds grow tax-deferred. Employers often match contributions up to a certain percentage.

Deferred Profit Sharing Plan (DPSP) – Employer-only contributions based on company profits, with tax-sheltered growth. Employees cannot contribute directly.

Pooled Registered Pension Plan (PRPP) – Common for small businesses and self-employed individuals, PRPPs offer professional investment management but function similarly to RRSPs.



Key Considerations for a DC Plan When Changing Jobs:

✓ You typically have the option to transfer your balance to a Locked-In Retirement Account (LIRA) or another employer’s DC plan (if permitted).

✓ Withdrawals before retirement may result in taxes and penalties.

✓ Your investments within the plan may need to be reallocated based on your personal retirement goals.

Defined Benefit (DB) Plan

A Defined Benefit (DB) Plan provides a guaranteed pension in retirement, based on a pre-determined formula. This formula often includes:

✓ Your average or final salary
✓ Your total years of service
✓ A fixed pension factor (e.g., 1.5% per year of service)

Unlike DC plans, DB plans do not depend on market performance. Instead, your employer is responsible for ensuring the pension fund has enough assets to pay out the promised benefits.

Types of Defined Benefit Plans:

Final Average Earnings (FAE) Plan – Your pension is based on your average salary during the last few years of employment (e.g., last 3–5 years).

Career Average Earnings (CAE) Plan – Your pension is based on your average salary over your entire career.

Flat Benefit Plan – Your pension is based on a fixed dollar amount for each year of service, rather than your salary level.

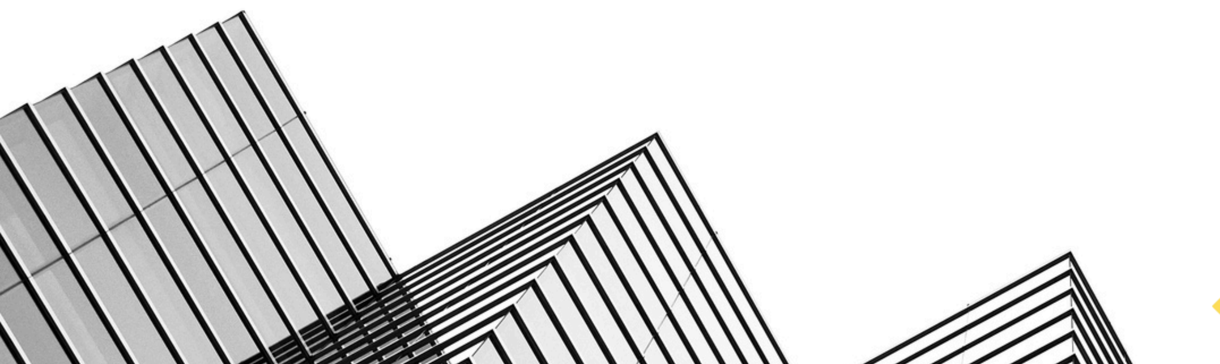
Key Considerations for a DB Plan When Changing Jobs:

✓ You may have the option to leave your pension with your former employer and receive benefits at retirement.

✓ Some plans allow you to transfer your pension’s commuted value (the lump-sum equivalent of future payments) to a Locked-In Retirement Account (LIRA).

✓ If you're close to retirement, it may be more beneficial to keep your pension rather than transfer it, as the guaranteed payments provide stability.

✓ If your pension is vested (you’ve met the minimum years of service required), you will still be entitled to benefits even if you leave the company.



Step 2: Review Your Options

When you leave your job, you typically have the following options:

1. Leave Your Pension with Your Former Employer

Some employers allow you to keep your pension in their company plan.

This may be beneficial if the plan offers strong investment options and low fees.
However, you will have limited control over investment decisions.

2. Transfer to a Locked-In Retirement Account (LIRA)

If you have a Defined Benefit (DB) or Defined Contribution (DC) pension, you may have the option to transfer it to a LIRA.

A LIRA functions similarly to an RRSP but has restrictions on when withdrawals can be made (usually at retirement age).

This option provides more control over how your funds are invested.

3. Take the Commuted Value (Lump Sum Payment)

This allows you to take the present value of your DB pension and transfer it into a LIRA or RRSP (subject to transfer limits).

Any amount exceeding the tax-free transfer limit is taxable as income unless managed using appropriate tax strategies.

While this option offers flexibility, it comes with investment risks and potential tax consequences.

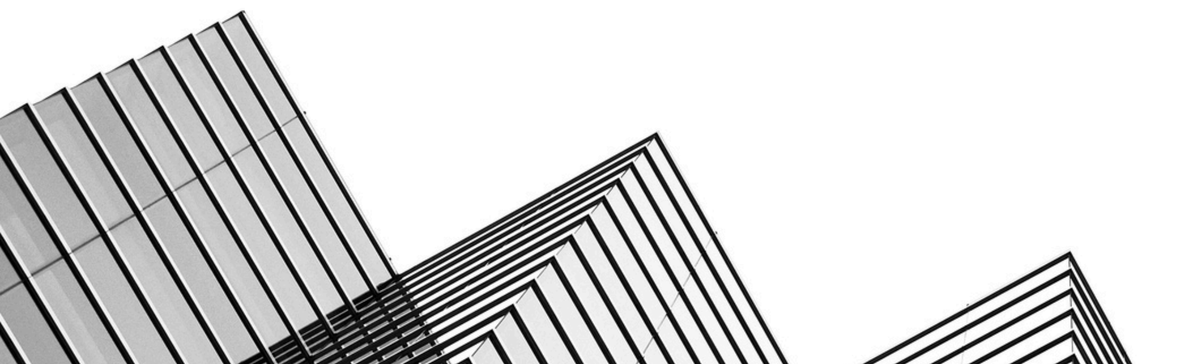
4. Transfer to Your New Employer's Pension Plan

Some employers allow pension transfers if they offer a similar plan.
This option can help consolidate your retirement savings, but eligibility depends on the new employer's plan rules.

5. Withdraw the Pension as Cash

You may choose to cash out your pension, but withdrawals are subject to withholding tax and could result in a high tax bill.

This option may significantly impact your taxable income, so careful consideration is needed based on your financial situation.



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Step 3: Consider Tax and Investment Implications

When leaving a job, it’s important to consider how your financial choices will impact your long-term security.

Tax Efficiency

Withdrawing funds from a workplace pension or retirement savings plan may trigger immediate taxes. In some cases, transferring funds into a tax-sheltered account—such as a Locked-In Retirement Account (LIRA) or a Registered Retirement Savings Plan (RRSP)—can allow for tax deferral. The best option depends on your specific situation, so it’s recommended to speak with a licensed financial professional before making a decision.

Investment Growth

Cashing out retirement savings early can significantly reduce the funds available for your future. Keeping funds invested may provide opportunities for long-term growth through compound returns, but investment decisions should align with your overall financial goals and risk tolerance.

Estate Planning Considerations

The way retirement funds are transferred can impact estate taxes and beneficiaries. Some registered accounts allow for spousal or dependent beneficiary designations, which may help minimize estate-related taxes and ensure a smoother transfer of assets. Estate planning rules vary by province, so consulting with an estate planning professional is recommended.

Step 4: Seek Professional Guidance

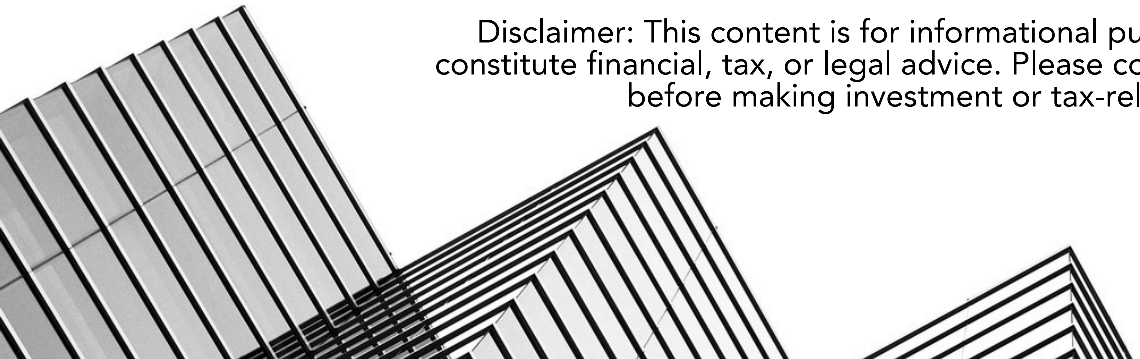
Making decisions about your pension and retirement savings is a significant financial step. Consulting with a qualified financial professional can help you make informed choices that align with your long-term goals.

A financial advisor can:

✅ Explain the tax implications of different options, including potential withholding taxes and long-term tax efficiency.
✅ Help develop an investment strategy suited to your retirement timeline and risk tolerance.
✅ Ensure your decision aligns with your overall financial plan, including estate and retirement planning.

Seeking professional advice can provide clarity and confidence, ensuring your retirement savings work best for your future.

Disclaimer: This content is for informational purposes only and does not constitute financial, tax, or legal advice. Please consult a licensed professional before making investment or tax-related decisions.



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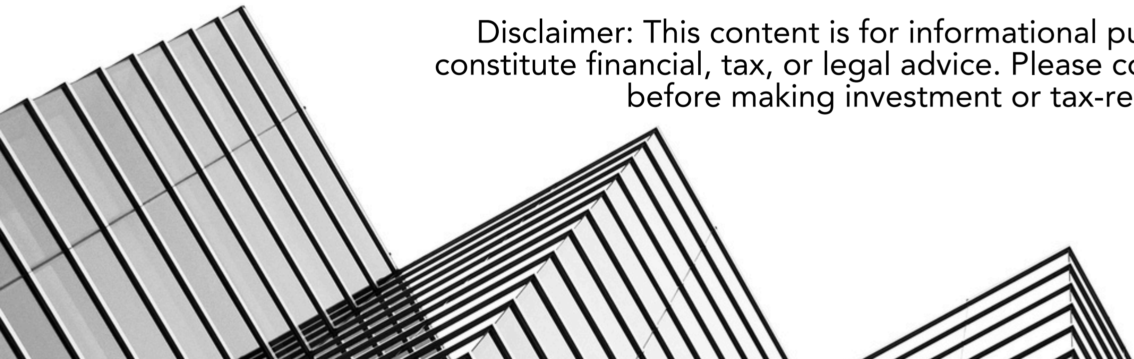
Next Steps

1️⃣ Request a pension statement from your employer to review your current balance and available options.

2️⃣ Review your plan’s rules to understand deadlines, restrictions, and potential impacts on your retirement savings.

3️⃣ Consult with a financial professional to explore the best option based on your unique financial goals and circumstances.

Understanding your pension options now can help you make informed decisions for a more secure financial future. Be sure to review your choices carefully and seek reliable information before making any changes.



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