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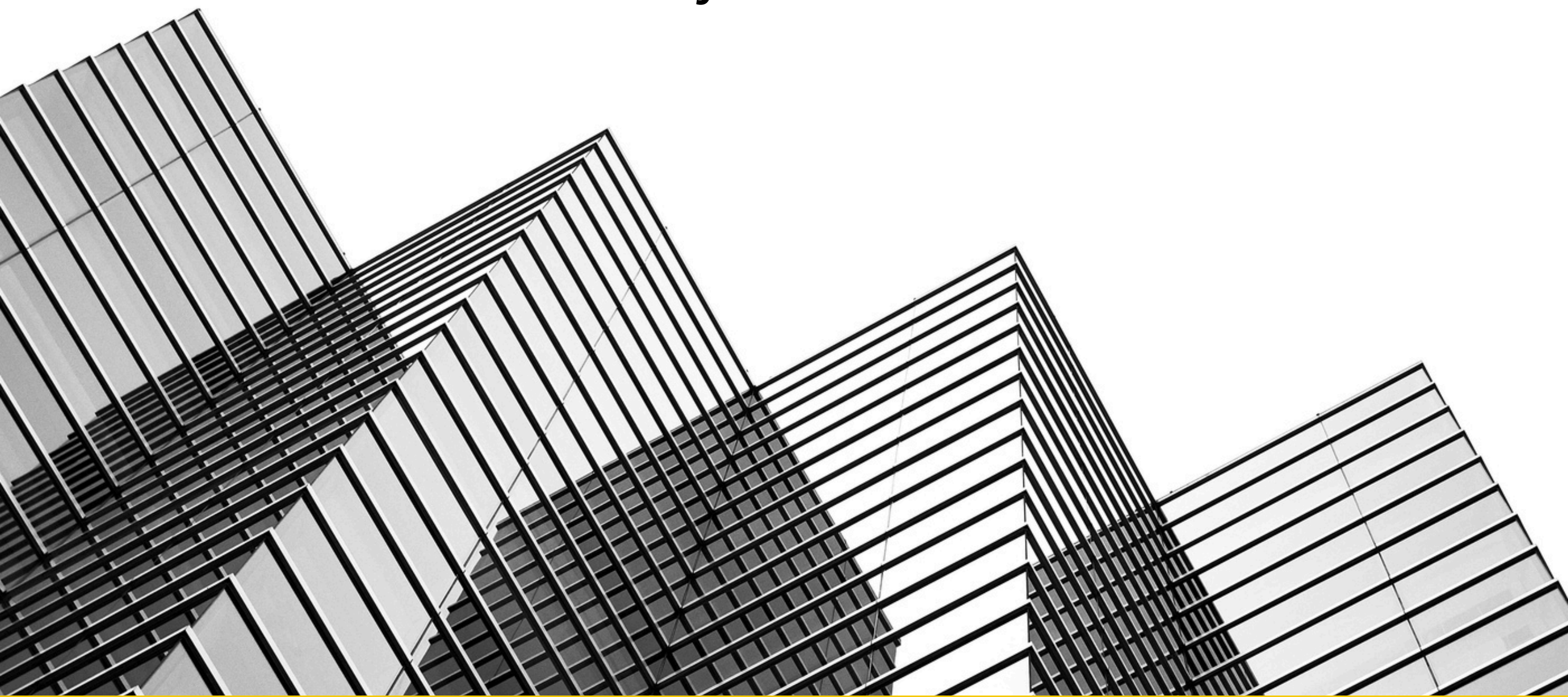
Your 2025 Pension Decision Guide

What to do with your pension — and how to avoid costly mistakes.



Lionspoint Financial Services
1 West Ave South
Hamilton, ON
L8N 2R9

289-408-8664
info@lionspoint.ca
www.lionspoint.ca

A Layoff Comes With Big Financial Decisions

Bell’s recent layoffs have left many employees facing one of the most important retirement choices of their careers:

Should you take the monthly lifetime pension or the commuted value lump sum?

This guide simplifies your options so you can make a confident, informed, tax-efficient decision.

Your Two Main Pension Options

Monthly Pension — Guaranteed Lifetime Income
A predictable payment for life.

Advantages

- Guaranteed income you cannot outlive
- No need to manage investments
- Market volatility does not affect your payments
- Survivor benefits may be available

Disadvantages

- No flexibility or access to a lump sum
- Payments stop when you and your spouse pass away
- No opportunity to invest the funds more efficiently

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Commuted Value — Lump Sum Flexibility

A one-time payout representing the present value of your future pension.

Advantages

- Full control over how your money is invested
- Potential for higher long-term returns
- Assets can be passed on to beneficiaries
- Greater planning flexibility with other retirement income sources

Disadvantages

- Only a portion can transfer tax-sheltered to a LIRA or RRSP (if you have contribution room); the remainder is taxable immediately.
- Immediate tax applies to the remainder
- Investment risk transfers entirely to you
- Requires discipline and a solid financial plan

The Tax Traps You Must Understand

Transfer Limits

When you take the commuted value of your pension, only a portion can move tax-sheltered into a LIRA (Locked-In Retirement Account) or, if you have room, an RRSP. Any amount above that limit is considered taxable income in the year you receive it. This can result in a significant immediate tax hit if not planned carefully. Understanding your transfer limits before making the decision is crucial to avoid surprises.

Withholding vs. Actual Tax

Bell will typically withhold 30% of your commuted value for tax purposes at the time of payout. However, this is only an estimate. Depending on your total income for the year — including severance, bonuses, or other earnings — your actual tax bill could be much higher, potentially resulting in a large payment due when you file your return. Planning ahead can help you avoid a cash flow crunch.

Severance + Commuted Value = Tax Spike

If you receive both your severance and the commuted value in the same calendar year, the combined income could push you into the highest federal and provincial tax brackets. This could significantly reduce the net amount you actually keep from your pension and severance. Some planning around the timing of payments can help reduce this tax impact.

Timing Can Save You Thousands

In some cases, employees may have the option to delay their pension decision until the next calendar year. By spreading income across two years or aligning it with lower-income periods, you can reduce overall taxes, prevent bracket creep, and make the most of your RRSP contribution room. Timing can make a meaningful difference in the net amount you keep.

Understanding the 50% Unlocking Rule at Age 55

The 50% unlocking rule is a unique feature available in Ontario and several other provinces that allows you to access up to half of your Locked-In Retirement Account (LIRA) after turning 55 without triggering immediate tax. The unlocked portion can be transferred into an RRSP or RRIF, where it enjoys greater flexibility and control over withdrawals.

How It Works

- Take your commuted value from your defined benefit pension.
- Transfer it into a LIRA.
- Once you reach age 55, convert your LIRA into a LIF (Life Income Fund).
- Unlock up to 50% of the LIF and transfer it to an RRSP or RRIF.
- The remaining 50% stays in the LIF and continues under standard LIF withdrawal rules.

Note: The unlocking option is available once you meet the criteria, but you can manage withdrawals from the remaining LIF portion over time according to LIF rules.

Why Unlocking Matters

Greater Flexibility in Managing Taxable Income

- RRSP/RRIF withdrawals can be scheduled strategically, allowing you to smooth income over time and avoid unnecessary tax spikes.

Better Coordination with CPP/OAS Timing

- Unlocking can help you manage your total retirement income and plan around government benefits to maximize overall retirement income.

Stronger Estate Planning Advantages

- Assets in an RRSP/RRIF are easier to leave to beneficiaries and can often roll over tax-free to a spouse, providing more control over what you pass on.

Broader Investment Choice

- RRSPs and RRIFs generally offer more investment flexibility than LIFs, allowing you to align your portfolio with your risk tolerance and retirement goals.

Who Benefits Most from Unlocking?

This strategy is particularly valuable for those who:

- Are retiring between ages 55–62 and want early access to funds
- Have a large commuted value and want to retain control over a substantial sum
- Want to smooth taxable income to avoid spikes in their tax bracket
- Value leaving assets to beneficiaries efficiently
- Prefer control over retirement decisions rather than being restricted by LIF withdrawal rules

LIRA → LIF → 50% to RRSP/RRIF + 50% stays in LIF

Before You Sign Anything

Ask your HR/pension team:

- What is my exact commuted value?
- How much is transferable to a LIRA?
- What are my survivor benefit options?
- Can I delay payment into next calendar year?
- When will severance be paid?
- Are bridging benefits included?

Making the Right Choice for Your Future

Choosing between your monthly pension and the commuted value is one of the most important financial decisions you'll face after a layoff. Each option has distinct advantages and risks, and the "right" choice depends on your personal retirement goals, risk tolerance, and financial situation.

Choose the Monthly Pension if you value:

1. Predictable Lifetime Income

- Payments are guaranteed for life, providing financial security no matter how long you live.
- You do not need to worry about market fluctuations affecting your retirement income.

2. Minimal Financial Management

- The pension administrator handles investment decisions.
- You don't need to manage or monitor your funds regularly, which reduces stress and potential mistakes.

3. Longevity Protection

- Even if you live longer than expected, your monthly pension continues.
- Some plans offer survivor benefits, helping provide security for your spouse or partner.

4. Stability over Flexibility

- Fixed payments provide certainty in budgeting and lifestyle planning.
- This option is well-suited for those who prefer predictable cash flow over potentially higher returns.

Choose the Commuted Value if you value:

1. Flexibility and Control

- You manage the investments yourself, allowing you to align them with your personal risk tolerance and retirement goals.
- You can choose when and how much to withdraw, giving you control over your retirement income stream.

2. Growth Potential

- Investing the commuted value provides the opportunity for long-term growth beyond what the pension could provide.
- While this comes with market risk, careful planning can result in a larger retirement nest egg.

3. Passing Assets to Heirs

- Unlike the lifetime pension, remaining assets can be left to beneficiaries.
- Provides estate planning advantages for those who want to leave a legacy.

4. Integration with Other Retirement Assets

- You can combine the commuted value with other retirement savings to optimize tax planning and income timing.
- Options like 50% unlocking, RRSP/RRIF transfers, and investment diversification are available.

Important Considerations

There is no one-size-fits-all answer — only what aligns with your goals, lifestyle, risk tolerance, and family situation.

Factors like your age, health, investment knowledge, other retirement assets, and potential tax implications should influence your decision.

Consulting a financial advisor can help ensure your choice maximizes your retirement income while managing risk.

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Common Mistakes to Avoid

Making a pension decision after a layoff can have long-lasting financial consequences. Many employees unintentionally reduce their retirement income or trigger unnecessary taxes by overlooking key details. Here are the most common pitfalls and how to avoid them:

Taking the Commuted Value in the Same Year as Severance

- Receiving both payments in a single year can push you into the highest tax brackets, reducing the net amount you keep.
- Tip: Consider spreading income across two years if your plan allows, to minimize taxes.

Not Understanding Transfer Limits

- Only a portion of your commuted value can move tax-sheltered to a LIRA or RRSP. Any excess is immediately taxable.
- Tip: Review your transfer limits and available RRSP room before making the move.

Misunderstanding the 50% Unlocking Rule

- Many employees mistakenly think unlocking at age 55 is “one-time.” In reality, you can access up to 50% of your LIRA when converting to a LIF, while the remaining portion remains under standard LIF rules.
- Tip: Plan carefully to take advantage of unlocking and manage withdrawals strategically for tax efficiency and flexibility.

Assuming Withholding Tax = Actual Tax

- Bell may withhold 30% on the commuted value, but your actual tax bill could be higher depending on your total income.
- Tip: Factor in other income sources and consider consulting a financial advisor for a realistic tax estimate.

Taking the Commuted Value Without a Tax Plan

- Investment and withdrawal decisions impact both your taxes and long-term retirement income. A lack of planning can significantly reduce your nest egg.
- Tip: Create a comprehensive plan that integrates tax strategy, retirement income needs, and estate considerations before accepting the lump sum.

💡 Why This Matters:

Avoiding these mistakes can save tens of thousands of dollars, reduce stress, and help ensure your pension funds last throughout retirement. Thoughtful planning now prevents costly missteps later.

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Real-Life Example: How One Bell Employee Protected His Pension Future

When Mark was laid off at age 47, he had an important choice to make. Bell offered him two options:

1. A monthly pension of $40,000 per year at retirement

2. A lump-sum commuted value of $400,000 today

Like many people, Mark wasn’t sure what was best.

The Challenge

Mark had always planned to slow down work around age 55.

But if he chose the monthly pension, he would lose flexibility:

- He couldn’t access income early without penalties
- None of the funds would remain for his family when he passed
- The income would be fixed, with no potential for growth

What We Discovered Together

A large portion of his commuted value — $350,000 — could be transferred tax-free into a Locked-In Retirement Account (LIRA).

The remaining $50,000 would normally be taxed.
Fortunately, Mark had enough RRSP room to move that amount into his RRSP — reducing the taxes owing today.

The Plan Mark Chose

✓ Transfer $350,000 into a LIRA
✓ Move $50,000 into his RRSP to reduce taxes
✓ Continue investing the funds while he keeps working
✓ At age 55, convert the LIRA into a LIF so he can start retirement income early
✓ Delay withdrawals from his RRSP until around age 65, when he starts CPP and OAS

Why This Worked Better for Him

- More control over when he takes income
- Less tax over his lifetime by spreading income out
- Growth potential while the funds stay invested
- Money stays in the family if he passes away

Mark walked away feeling confident.

His pension now supports his plan — not the other way around.

This example is for education only. Individual pension decisions depend on personal tax situations, risk tolerance, and retirement goals.

Next Steps: Get Clarity on Your Pension Decision

Deciding between a monthly pension and a commuted value is a significant financial choice. Taking the time to understand your options, potential tax consequences, and long-term retirement goals is crucial. Here's how to move forward confidently:

Review Your Numbers

- Determine your exact commuted value and how much is transferable tax-sheltered.
- Understand the monthly pension amount and any survivor benefits.
- Consider how your severance, other savings, and government benefits (CPP/OAS) integrate into your plan.

Consider Timing & Tax Implications

- Evaluate if delaying your pension decision to the next calendar year could reduce your overall tax burden.
- Plan around potential withholding taxes, bracket creep, and your overall retirement income strategy.

Use a Personalized Pension Analysis

- A tailored analysis can show side-by-side comparisons of lifetime income vs. lump-sum.
- This includes after-tax projections, growth potential, survivor benefits, and how the 50% unlocking rule might affect your options.

Contact Paul Davis, Financial Advisor

I'm here to help you make an informed decision — no pressure, no sales pitch, just clarity.

Phone: 905.599.6117
Email: paul.davis@lionspoint.ca
www.lionspoint.ca – for additional resources on pension options, guides, and tools.

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