

# Defined Benefit Pension Plan

## Options upon retirement or termination of employment

When leaving an employer where you have a defined benefit (DB) pension plan, it's important to consider your options. These may differ based on the specific DB plan, but most employees have the three options listed below. Some options could be more attractive if you are at retirement age, others may be more attractive for younger employees who will continue working.



### Keep the pension plan with your employer

- Provides income for life with no market risk.
- Continuing income depends on the financial health and continued funding of the DB plan.
- DB plan features and benefits could be reduced if the plan sponsor (the employer) can't meet its obligations to the plan.
- Income payments are pre-determined for life. Once DB plan income starts, you can't exchange your expected income stream for a lump sum cash payment.



### Transfer the commuted value of your pension plan to a (LIRA\*)

- Allows you to manage your own retirement portfolio.
- Returns on money invested in non-guaranteed investments are subject to market fluctuations. The amount of retirement income you receive, and how long it lasts, will depend on:
  - investment returns,
  - how you manage your portfolio, and
  - how high an income level you choose to take.
- Within limits, you may delay income and/or vary the amount of income you receive.
- How much you can transfer to a LIRA depends on the maximum transferable amount (MTA) limits.
- Amounts in excess of the MTA are paid to you in cash and are fully taxable to you.



### Transfer the commuted value of your pension plan to a payout annuity

- Guaranteed lifetime income with no market risk.
- Same features and benefits as the DB plan, often referred to as a "copycat" annuity.
- You can't exchange your annuity income stream for a lump sum cash payment.
- Not all payout annuity features will be allowed for all pension transfers.

\*Locked-in Retirement Account (LIRA) can refer to any kind of investment account designed specifically for pension money with locking-in provisions. These include Locked-in registered retirement income plans (RRSPs) or a LIRA provided under federal or provincial legislation. Each province and the federal government may use a different term to describe RRSPs and Registered retirement income funds (RRIFs) governed by their pension legislation.

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## Benefits of a payout annuity: your personal pension

- Guaranteed income for life backed by a life insurance company.
- No investment risk – your income is not exposed to market fluctuations.
- Early-retirement benefits (only available if they were included in the DB plan).
- Indexing. Some DB plans increase the income they pay, generally in line with increases in the consumer price index (CPI). Life annuities generally don't offer CPI indexing, but can offer fixed indexing instead.
- Survivor benefits.
- Assuris protection may apply in some cases if an insurance company fails. Please visit [assuris.ca](http://assuris.ca) for details.

## Steps to purchase a payout annuity

**1** | Contact your pension plan administrator to request your defined benefit plan documentation, and confirm:

- that your plan allows you to transfer your pension assets to a life annuity at this time;
- their procedures for payout annuity transfers;
- the expected transfer amount, also known as the commuted value, and;
- whether or not the plan offers CPI indexing – insurers generally do not offer this but may be able to substitute a fixed index rate.

### Spousal approval

Pension money is governed by the pension legislation applicable to the jurisdiction in which the income is earned. Each jurisdiction has its own rules, including special rights for spouses. In some situations, your spouse must waive these rights before an annuity can be issued and your income payments begin.

**2** | Meet with your advisor so he or she can request a payout annuity quote for you.

- The annuity quote may or may not be able to match the income that your plan would provide. If the commuted value is:
  - higher than the premium needed to purchase an annuity that matches the DB plan income, the difference is paid to you in cash as taxable income.
  - less than the premium needed to purchase an annuity that matches the DB Plan income, you can still choose the annuity option but the income will be reduced.
- If a payout annuity is the best option for you, your advisor will complete the application and transfer documents with you and handle the administrative details.

**3** | Meet with your tax advisor to discuss the transfer and any tax issues that may arise from it.

## You've got options. Talk to you advisor.

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