

Defined Contribution versus Defined Benefit Comparison

For Employees Making a Pension Choice Decision

Read and evaluate each pension choice comparison feature, as it applies to Defined Contribution (DC) and Defined Benefit (DB) pensions. The worksheet is intended to give you an understanding of some of the key issues. Using the DB/DC dropdown box under “Your Preference?” select the pension plan/option you prefer. After completing the worksheet review your selections, to establish which plan best suits your needs.

Before using this form:

1. Download and save a copy to your computer or cloud storage.
2. Close the online version and open the copy you saved.
3. Enter your information and save the form.
4. Save again after making changes.

WHILE YOU'RE WORKING			
Your Choice	DC Option / Plan	DB Option / Plan	Your Preference?
Do you prefer your future pension service to build...	A DC account balance (contributions plus investment earnings/losses)?	A monthly fixed pension based on a formula that can be estimated before you retire?	
RRSP	18% of earned income less: - DC contributions up to an annual maximum.	18% of earned income less: - Value of DB pension earned as defined by CRA up to an annual maximum.	
	Consider your current and future RRSP room. Do you want a lower pension adjustment each year so you will have more RRSP room? Do you want to contribute to a spousal RRSP now or in the future?		

WHEN YOU RETIRE			
Your Choice	DC Option / Plan	DB Option / Plan	Your Preference?
Which option/plan offers greater potential retirement income?	This will depend on your personal situation. Use your company's modeling tool, if available, to view the difference in value between the two based on your estimated departure date.		
How long do you expect to work for your employer?	There will be a difference in value between the two pension options/plans based on your estimated departure date. If your employer has a pension modeling tool use it to compare DB versus DC values based on different estimated retirement dates.	If you plan to stay until retirement, the DB pension may have advantages, such as subsidies for early retirement and extra income before age 65, that you won't get with DC.	
Early retirement reduction - will you retire/leave prior to age 65?	There will be a difference in value between the two pension options/plans based on your estimated departure date. If your employer has a pension modeling tool use it to compare DB versus DC values based on different estimated retirement dates.		
Bridge payment - do you expect to retire prior to age 65?	There are usually no additional funds to provide a bridge benefit.	Your DB pension may have a bridge benefit. To take advantage of the bridge benefit you must retire prior to age 65. It's normally paid from your retirement date until age 65.	

WHEN YOU RETIRE (continued)

Your Choice	DC Option / Plan	DB Option / Plan	Your Preference?
<p>Consider your financial health, personal situation and expectations</p>	<p>Review your net worth: assets and liabilities. Identify your sources of retirement income. Include your spouse/partner’s information.</p> <p>Will your financial health in retirement be strongly dependent on your employer’s pension? Which track do you believe will provide greater financial security? Which one are you more comfortable holding? What about your spouse/partner?</p>		
<p>Are you diversified by “source of income”?</p>	<p>Consider diversifying by source of income (e.g. government and company monthly pensions, investment income and other income such as part-time work or rental income).</p> <p>Consider which track will provide greater income diversification during retirement.</p> <p>Does your spouse’s/partner’s type of retirement income complement yours? For example, does he/she have a DB pension or no pension? Do you want the same type of pension or different than what your partner will receive?</p>		

WHEN YOU RETIRE (continued)

Your Choice	DC Option / Plan	DB Option / Plan	Your Preference?
<p>Form of payment</p>	<p>Permitted retirement income vehicles for all or a portion of your DC account are:</p> <p>Life Income Fund (LIF) or similar vehicles based on the provincial pension jurisdiction that applies to you.</p> <p>Government regulation fixes the LIF withdrawal rates based on your age. The % increases with age, but is applied to a declining balance as you withdraw funds.</p> <p>You continue to invest the balance of the account and may withdraw the amount of money that suits your needs between the legislated minimum and maximum amounts.</p> <p>Life annuity - you buy the right to a monthly payment for your lifetime. The payment amount depends on your age, age of your spouse, interest rates and the options chosen (survivor benefit, guarantee period and COLA*).</p> <p>No changes can be made once the annuity begins.</p> <p>*COLA: Cost of Living Adjustment</p>	<p>The DB portion provides a monthly fixed pension based on a formula.</p> <p>Any bridge benefit payments are paid to eligible retirees, normally until they reach age 65.</p>	

WHEN YOU RETIRE (continued)

Your Choice	DC Option / Plan	DB Option / Plan	Your Preference?
<p>Flexibility in retirement and locked-in retirement account rules</p>	<p>Once you retire, taking income from your DC may begin at age 55 (or earlier subject to provincial regulation) or be deferred up to Dec. 31 of the year you turn age 71. The flexibility of payments/withdrawals depends on which retirement income vehicles you choose.</p> <p>When converting a locked-in savings account (DC, LIRA or locked-in RRSP) to a locked-in income vehicle you may unlock all or a portion of your balance.</p> <p>The amount of the portion you may unlock varies based on the jurisdiction governing your work location. Alberta also has an option to take up to 50% as taxable cash.</p>	<p>Once your basic pension (and bridge benefit, if applicable) begins, no changes may be made.</p>	

DURING RETIREMENT			
Your Choice	DC Option / Plan	DB Option / Plan	Your Preference?
Inflation protection and risk	<p>If you choose a locked-in retirement account, you may structure the payments to increase over time to help offset the effects of inflation by drawing down the capital.</p> <p>Investments would need to be appropriately managed to provide adequate returns for inflation protection.</p>	Your DB pension may include inflation protection or COLA. Review your pension plan to determine if it has inflation protection and if so, how it is calculated.	
Consider how you manage investments	<p>Is your spouse/partner willing and able to manage investments if you are incapacitated?</p> <p>How significant is it if you make a “mistake” or don’t manage it well?</p> <p>Have you estimated future retirement income from your investments based upon a range of investment returns? Will your income expectations be met, exceeded or will there be a deficiency? How will you manage any deficiency?</p> <p>What will be your long-term ability to manage investments?</p> <p>How good of an investor are you?</p> <p>Do you understand investment return?</p> <p>Do you have time to make up losses?</p>		

DURING RETIREMENT (continued)			
Your Choice	DC Option / Plan	DB Option / Plan	Your Preference?
How long do you (and your partner) expect to live?	<p>The balance in your DC account may or may not last for your lifetime depending on how long you live, your investment return, and how much you withdraw each year.</p> <p>If purchased, a life annuity provides an income for life.</p>	The DB pension is paid for your lifetime, and your spouse's lifetime (if applicable).	
Pension income splitting with your spouse/partner	Withdrawals from retirement income vehicles such as LIF and annuity income payments may only be split with a spouse/partner once the account holder turns 65.	DB pension income may be split with a spouse/partner at any age. Income from other retirement income vehicles may not be split until the account holder turns 65.	

AT DEATH			
Your Choice	DC Option / Plan	DB Option / Plan	Your Preference?
<p>Survivor benefits</p> <p>How important is it to provide an ongoing income versus a lump sum value to a surviving spouse/partner?</p>	<p>If you purchase a life annuity there are different types including those with an income for a surviving spouse/partner and/or a guarantee period.</p> <p>Any balance in a LIRA, LRRSP or LIF or similar account may be transferred tax-sheltered to a spouse/partner (if he/she is the beneficiary).</p>	DB includes a survivor pension for the life of your spouse/partner but no estate value (unless you are single at retirement and there is an unexpired guarantee period).	

AT DEATH			
Your Choice	DC Option / Plan	DB Option / Plan	Your Preference?
<p>Estate planning</p> <p>Do you want to leave an estate?</p> <p>Is leaving money to beneficiaries (e.g. children) important to you?</p>	<p>Any balance in a locked-in retirement account may be transferred tax sheltered to a spouse/partner (if an eligible beneficiary). If no spouse/partner, the account is de-registered and taxes paid. The beneficiary receives the proceeds.</p>	<p>DB has no estate value, except, any remaining payments with a guarantee period are paid to your beneficiary.</p>	

IF YOU LEAVE BEFORE RETIREMENT / TAKE A COMMUTED VALUE			
Your Choice	DC Option / Plan	DB Option / Plan	Your Preference?
<p>Leaving the company pension plan</p>	<p>If you don't require an immediate income from your pension account, inquire if you may leave your DC account in the company plan. When investment fund fees are low, there is a cost advantage to do so.</p>	<p>If you are leaving prior to retirement, you may defer receiving your DB pension to a later date.</p>	
<p>Termination value</p>	<p>If you expect to leave your employer before retirement, the money you take with you from DC may be more or less than the termination benefit you'd receive from the DB option/plan.</p>	<p>Age plays a factor in determining the commuted value of the DB option, accelerating as your retirement date approaches.</p>	

NOTE: There are many other factors which may influence your decision. Educate yourself on the differences between the tracks and the factors you need to consider. Review your personal situation, taking into consideration the results you obtain from a modeling tool. Weigh your options and make your decision only after careful deliberation. Consider seeking professional financial advice. Remember it's your future.