



LAI-D-OFF CLIENT COMMUTES PENSION

CLIENT PROFILE

Georgi Balev*, 50, just got laid off. He was a senior manager at a major engineering firm in Ottawa, Ont., where he had worked for the past 26 years. His total annual compensation, including bonus, was about \$300,000. His dilemma: Does he wait until age 65 to start drawing his defined-benefit pension, or does he take the commuted value now?

The situation

It wasn't so long ago that Georgi wouldn't have needed to think twice about his options, notes Carol Bezaire, vice-president, Tax, Estate and Strategic Philanthropy, at Mackenzie Investments. Anyone in Georgi's shoes would almost always have been better off by taking the monthly pension rather than the commuted value, she notes. Now, as difficult economic and market conditions challenge the funded status of once-stable pensions, "you definitely want to take a look, case by case, and ask which option is better for the client."

THE EXPERTS



CAROL BEZAIRE
vice-president, Tax, Estate and Strategic Philanthropy, at Mackenzie Investments in Toronto, Ont.



CHRIS LONG
investment advisor at CIBC Wood Gundy in Kanata, Ont.

Georgi is married to Liesel, 53, a self-employed consultant in the tech industry. They have two university-aged children, Corinne and Jon.

Both Georgi and Liesel have significant investment holdings (see Table 1, page 21). Georgi was also a long-time member of a pension plan, so his RRSP assets are, given his income, lower than they otherwise might be.

Georgi has four main options:

- 1 take the commuted value now;
- 2 take the full pension at age 65;
- 3 take a joint-and-survivor pension at age 65; or
- 4 purchase an annuity.

With 26 years of service, Georgi would receive a lump sum of \$800,000 if he was to take the commuted value. If he opts for the full pension, he would get \$42,000 annually.

The joint-and-survivor option would cause Georgi's annual pension to drop by 40% to \$25,200. But in this case, after Georgi dies, Liesel would receive his pension until her death (assuming he dies first).

Option 1: Commute

To help Georgi decide if he should take the commuted value, it's important to know how much of that \$800,000 will go to CRA. Bezaire explains that a portion of the commuted value will get tax-deferred treatment; to determine the exact figure, the Income Tax Act specifies the following calculation: A (annual pension benefit) × B (Present Value Factor). (See "Present Value Factors," page 22.)

In Georgi's case, A is \$42,000, and B is 9.4, given that he's 50 years old.

This means Georgi would be entitled to tax deferral on the first \$394,800 (\$42,000 × 9.4). That money would go into a Locked-In Retirement Account (LIRA), notes Bezaire. A LIRA is just like

*This is a hypothetical scenario. Any resemblance to real persons is coincidental.