DJB WEALTH MANAGEMENT INC.

Integrating Our Collective Expertise To Help You Live A Better Life

Defined Benefit Pension Plan

When retiring with a Defined Benefit Pension Plan (DB Plan), employees have 2 primary options to choose from.

1 - Staying in the Pension Plan

Remain in the company plan and receive a monthly payout for the duration of their life (and often a reduced payout for a surviving spouse in the event of the pensioners death).

Advantages	Disadvantages
Simple Restricted	Restricted
Consistent guaranteed payout	Reduced Survivorship (Spousal) Benefits
Ease of management	Often no-indexing (loss of purchasing power)
Risk lies with company/ pension plan	Reliance on company/ pension plan for retirement income
	Forfeiture of income with early death

2 - Commuting Pension (Commuted Value Option)

Take the Commuted Value (CV) of the pension in the form of a lump-sum payment. This payment is equal to the amount needed today to payout a future stream of income for the duration of their life.

Advantages	Disadvantages
Control of your own retirement and income	No guarantees
Full spousal survivorship options	More ongoing management
Fully transferrable to beneficiaries (children, charity, etc.)	Requires investing
Indexing payout is available	Possible increased taxes-up front
Possibility of increased income	

Choosing the Best Option

When making a decision around which option is best, a mathematical comparison to determine which option provides the best payout is needed.

EXAMPLE: A retiring employee age 60 has a DB Plan. Assume life expectancy of 90.

OPTION A: Lifetime annual pension payout of $24,676 + Bridge Benefit of $6,480 until age 65. No indexing on the pension amount.

OPTION B: Commuted value of pension is $896,332.00.

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	Pension	CV 5% Rate of Return	CV 3% Rate of Return	CV 5% ROR with 1.5% indexing	CV 3% ROR with 1.5% indexing
Total Cashflow Paid to age 80	$550,596	$550,596	$550,596	$637,220	$637,220.22
Balance of funds at age 80	N/A	$789,578	$374,405	$668,356	$310,025
Total Cashflow Paid to age 90	$797,356	$797,356	$797,356	$998,260	$998,260
Balance of funds at age 90	N/A	$904,073	$177,400	$520,706	$31,102.43

In the above case, taking the commuted value makes mathematical sense in all scenarios. Individual circumstances, such as current health, life expectancy, and comfort with risk will help guide the decision of which option is best.

Choosing between these two options is a complicated decision (which cannot be reversed) and should be made with the help of your accredited Financial Planner. It is important to look at how each decision fits into your overall Financial Plan to help determine which is right for you.

Got Questions?

Contact DJB Wealth Management Inc. today - we can help you stay on the right path!

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