

PENSION PLANNING

Question : I am currently 57 years old, and I have been a member of our employer's pension plan for the past 10 years. The normal retirement age for our pension plan is 65. However, my health is starting to deteriorate, and I would like to quit working now and take some time to travel. If I retire early, am I still entitled to receive a pension?

Answer : Most pension plans will permit members to retire at any time up to 10 years prior to the normal retirement age, and still allow them to collect some form of pension. However, if you choose to retire early, you will not receive the same pension as you would have if you continued to work to age 65. Your pension will be reduced to account for the fact that you did not contribute to the plan until normal retirement age, as well as the fact that you will be collecting payments for a longer period of time. This reduction will remain in effect for the duration of your lifetime - your pension will not increase back to the full amount at normal retirement age.

The extent of this reduction depends on the individual pension plan, and you should check with your plan's administrator. Some plans require a full actuarial reduction, which can result in quite a dramatic decrease in your monthly pension payment. For example, the actuarial equivalent pension taken early at age 60 may have a monthly payment of about 35% less than the same pension taken at age 65. If you retire at age 57, this reduction may be even more significant.

However, many pension plans do not do a full actuarial reduction for early retirement, and instead they apply a standard but somewhat arbitrary reduction for every year of early retirement, often in the order of 3% per year. If this is the case, you could expect your pension to be reduced by about 24% (e.g. 8 years early times the 3% "penalty").

You may also be eligible for a disability pension which may not be subject to an actuarial or arbitrary reduction in payments.

You need to speak to the personnel department at your employer to get more information on the specific features of your pension plan.

Need further clarification or help, give us a call at 613-475-5109,
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