

Pension decisions when you leave a job

By Terri Williams, CFP®

When you leave one job for another, or even when you retire, there are many decisions that need to be made about your pension. There are two main types of pension plans, defined contribution and defined benefit. With defined contribution plans, during your employment your company provides you with a regular lump sum of money and traditionally you have to decide how to invest that money. Whatever that money grows to is what you get at retirement (or when you leave your job) to generate an income.

With a defined benefit plan you are told how much you will receive as a pension income at retirement based on a formula determined by your company.

When you leave your defined contribution plan, you know the value of your account so the decisions are much easier to make. With defined benefit plans, when you leave your job before retirement age there is a complicated formula that values how much your pension would be worth the day you leave your job (commuted value) vs. the future value at retirement.

If you are vested in your defined benefit plan (meet a certain minimum time frame in the plan), there are number of possible options for you.

1. Transfer your pension credits to your new company if they have a defined benefit plan.
2. Leave your money in the old plan. You will receive pension payments at retirement age based on your employment with the company.
3. Transfer the commuted value into a special retirement savings plan called a locked-in plan. You control how this money is invested but you can't access it until retirement age.
4. You may be able to transfer some of the value into a Registered Retirement Savings Plan.

Deciding what to do when you leave a defined benefit pension plan can be very complicated. You need to consult with a financial advisor to help you determine your next steps. The decision depends on a number of factors such as your age, the details of your pension plan, your length of employment there, and your financial situation. Your financial advisor can help you make the right decision for your personal circumstances.

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