

PENSION PLANS

Defined Benefit Plans

While being gradually faded out, these are most certainly what people think of when they hear the term pension plan. You would rarely get a new job these days which would provide this type of pension.



Defined Contribution Plans

This is typically the type of pension plan new entrants into a company or the workforce will receive. Although more common, some organizations do not offer pension plans at all.

The Company

The company takes on the responsibility for making investment decisions. They also take on the risk that the pension plan is underfunded.

Risk Taker

The party "on the hook" for the investment strategy and ensuring the funds meet long-term expenses.

The Employee

Typically the employee takes on the responsibility for selecting investments and runs the risk of not having enough to retire with.

The Company

The company will typically contribute a fairly sizable amount to the pension plan and may need to continue making deposits long after you retire.

Deposits

Money needs to be set aside in order to fund the pension plan. This typically comes from the employee, but sometimes the employee cannot control how much they are contributing.

The Company

The company will typically match contributions from the employee dollar for dollar up to a certain point. Once the limit is reached, the company does not need to put in further funds.

The Employee

The employee will also be contributing to the pension plan, but at a rate that is pre-determined by the company. The employee can typically only opt-out of the plan all together.

The Employee

The employee is responsible for selecting the amount of deposits they would like to make to the plan. Anything deposited beyond what the company will match is still considered a contribution

Fixed Payments

Based on many factors, the employee receives a guaranteed payment for as long as they live. The only increase in these payments would be inflation-based.

Payout

Once a pension plan is set to begin paying out, periodic payments will flow to the employee. These amounts are based off of many different factors.

Variable Payments

Depending how well the investments performed and how much the employee was able to save, the employee can set how much money they would like to receive.

Additional Thoughts

These days, getting a pension at all seems to be a pipe-dream. With companies cutting back on expenses and risk, pensions have started disappearing. While the Canadian Government has 2 pensions, these are always up for review and the government has the power to make changes that may dramatically impact your ability to retire.

If you find a job with a defined benefit pension, congratulations, you are one of the lucky few. If you find yourself in a defined contribution plan, make sure to maximize the employer matching, as you will miss out on "free money" by choosing not to contribute.



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how they could fit into
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