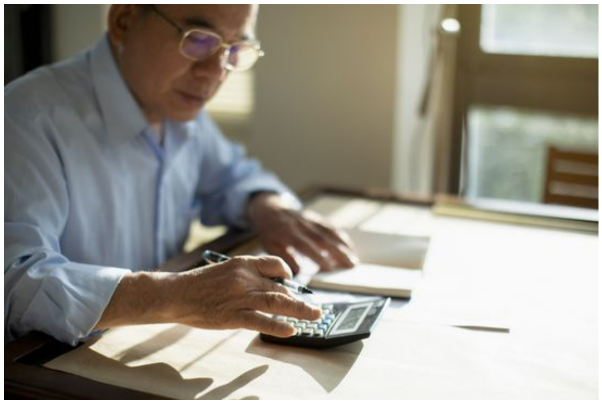
Carrick on Money

THE GLOBE AND MAIL

April 8, 2021



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He's losing confidence in his company pension - what should he do? - Rob Carrick responds to a reader considering cashing out his defined-benefit pension into a LIRA

ROB CARRICK

Having a defined-benefit pension plan is a luxury because it means lifetime income in retirement, no matter what happens in financial markets from year to year. But even the minority of people with this type of pension have their worries.

"I have a company pension but am losing confidence with the company," a reader of this newsletter recently wrote. "Young people are not career-minded in this industry (I see them come and go), and the industry is old and past its glory days. I am thinking of cashing out into a locked-in retirement account (LIRA). Any advice?"

Let's consult on this question with David Field, a certified financial planner (CFP) with Papyrus Planning.

"I hate rules of thumb in personal finance, but let me break my own rule for this one. It is almost never advantageous for someone to commute the value of their defined-benefit pension," Mr. Field wrote in a detailed answer to this reader question.

"This is especially true for a government employees, but also very true for private-company pensions. There could be personal reasons why commuting the value of your pension makes sense, such as shortened life expectancy, but generally it is not advantageous."

The reason for this is that there's a maximum transferable amount to a LIRA when the pension is commuted, Mr. Field said. Often when you have worked at your employer for a while, this results in the remainder of the commuted value being paid as taxable income in the year you commute and is taxable on top of your current employment income.

This causes a huge portion of the commuted value to be paid in income tax. Some extra funds could be sheltered in a registered retirement savings plan, but only up to your available contribution room accumulated from previous years.

One further reason not to commute is that guaranteed pension income becomes more valuable when interest rates are as low as they are right now. To match the returns from a defined-benefit pension, you would have to take on even greater investment risk.

Now, regarding this reader's concern about the health of his pension and the company he works for. Mr. Field suggests researching the pension's funding ratio to see how consistently it is funded near or above 100 per cent. Frequent ratios below 100 per cent could cause concern.

Mr. Field's final suggestion for this reader if he remains concerned about the health of his pension: "When you are about to apply to start your pension, look at transferring the benefit to a copycat annuity – creating an identical pension amount guaranteed instead by a life insurance company."

He said that in a time of low interest rates, the commuted value of a pension can be higher than the cost of purchasing the annuity – depending on the retiree's age and the guarantees to a surviving spouse. Therefore, the pensioner can lock in a guaranteed benefit with the annuity and still have money afterward that goes into an RRSP or is paid out in cash as a retirement-type bonus.

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ROB'S PERSONAL FINANCE READING LIST

TWO VIEWS ON TAXING HOUSES

A former adviser to the federal Department of Finance and the Canada Revenue Agency says it would further the cause of tax fairness if the federal government put a limit on the amount of tax-free capital gains you can make on the sale of a principal residence. The C.D. Howe Institute says that taxing principal residences would not help cool the housing market, a key reason why taxing houses is being talked about right now.

ONE MILLENNIAL'S STORY ABOUT BUYING A TORONTO HOUSE

A 30-year-old talks about how she and her partner bought 900-square-foot semi-detached house in Toronto's Danforth and Main area for $900,000 last June.

NOT ALL INVESTMENTS ARE SOARING IN VALUE

To mark the opening of the Major League Baseball season, here's a look at how the value of each team has changed in the past year. Disappointing numbers compared to stocks, housing, bitcoin et al.

ATTENTION, SOCIALLY RESPONSIBLE INVESTORS

Help in understanding some of the exchange-traded fund options for socially responsible investing, also known as ESG for the environmental, social and governance factors used in screening the stocks that go into these ETFs.

TODAY'S FINANCIAL TOOL

The website Insureye is building a database of customer reviews of car and home insurance, life insurance, disability and more. Not a lot of love out there for these companies.

THE MONEY-FREE ZONE

As you may know from an earlier newsletter, one of my favourite pandemic TV diversions is the Netflix reality show *Formula 1: Drive to Survive*. Here's an amusing ranking of drivers featured in the series according to their story arcs.

IN CASE YOU MISSED THESE GLOBE AND MAIL PERSONAL FINANCE-RELATED STORIES

- Can I split income and use the Home Buyers' Plan to increase my down payment?
- Why some young Canadians are investing their CERB money
- If you're a racialized woman, everything you've heard about salary negotiation is wrong

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- ✔️ A 10-point pandemic personal finance checklist: Create a "wartime" family budget; stop worrying about bank deposits; clean out your big-bank savings account; get relief on car payments; get preapproved for a mortgage; WFH? Save $1,000 a month; save, save, save; build resilience by not anxiety-buying; consider the cost of mortgage deferrals; get ready for the second wave of financial distress.
- 📈 Investing: The case for a tight portfolio of big blue chips dividend stocks; robo-advisers beat human advisors (and they're thriving), why online banks that are better than the branch; is it time to invest your 2020 TFSA; don't get your mortgage at a bank; why it's so hard to invest in preferred shares; stock up on stocks to retire early; and are you following the 10-year rule with your investments?
- 💰 Saving: Food waste is wasted money; why you might regret that SUV and find out if CAA is worth it; juice your PC Optimum points; how an ex-Bay Street lawyer got out of debt; blindly easy tweak to your retirement investments to survive economic downturn; should you buy that latte?

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