It's your money — so why does your employer make your pension such a mystery?

Ted Rechtshaffen: Not being able to get full information or access to their pensions could be costing people millions of dollars

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I recently wrote a column about the timeliness of taking the cash or commuted value of a Defined Benefit pension plan when interest rates are low, payout values are high, and stock markets are low.

There was significant reader feedback on the concept, but also a great deal of frustration at getting the data necessary to make a decision.

Imagine the frustration at having worked at a job for 30+ years, having built up a financial asset that might be worth $1 million to $2.5 million, yet not being able to have full information or access to that asset?

This frustration could be costing people millions of dollars. As an example of the current power of taking commuted value, I recently ran an analysis on a major pension that is fully indexed to inflation. We ran an apples to apples comparison that took taxes into account. It turns out that the commuted value lump sum would only have to return three per cent annually in order to run out of funds at age 95. If the pension funds returned five per cent annually, this person would have more than $4 million in future dollars at age 95 *after* withdrawals to match the pension payments. If they died at age 95, this leaves $4 million instead of $0. Today, you could buy BCE shares and receive a six per cent annual dividend. Enbridge shares pay 7.6 per cent and TD Bank pays 5.5 per cent. The point is that five per cent returns are very achievable. On top of that for many retirees in the $50,000 income range, the marginal tax rate on Canadian dividends is around eight per cent while pension income would have a marginal tax rate of around 30 per cent.

I am not saying that everyone should take the commuted value lump sum instead of keeping their pension. My point is that everyone should take a look at the option rather than simply keeping the pension. The problem is that the companies and plan administrators are making it hard for you to even explore the option.

The largest frustration came from employees who asked their HR department for a pension analysis that includes information about the value of their pension, and options for how to draw on the pension. In many cases, companies have changed their policy to only allow one request a year or in some cases even less than that. I recognize that there is some work and cost to run a pension analysis, but if employees are abusing that request, maybe charge an administrative fee for requests above once a year? To simply tell people that they will have to wait another year to understand the values and options around their pension is unconscionable.

The next frustration is that for some, there is a temporary restriction on taking the commuted value of the pension. This applies to pensions covered under OSFI — the Office of the Superintendent of Financial Institutions. This would apply to most federal government pensions (not provincial ones) and federally regulated private pension plans — CN Rail as an example. It is unclear how long this will be in place.

The OSFI announcement at least is temporary. In many cases, to make it harder for people to opt to take the commuted value of a pension, they are forced to make the decision before their 50th or 55th birthday. In many cases, this forces someone to make a choice to stay in the pension plan even if taking the commuted value would make more sense for their personal situation. Also of importance is that many employees who face these birthday deadlines are not fully aware of them until it is too late to make decisions. It also forces them to make imperfect decisions to encourage them to hold on to the pension. Keep in mind, this pension is your money — you have earned it and paid into the plan.

A further important change comes from the Canadian Institute of Actuaries' Actuarial Standards Board. After many years of consultation, they will be implementing changes to key components of how commuted values payable from pension plans are calculated. This is currently expected to come into place on Dec. 1, 2020, and it appears that this will result in a meaningful decline in commuted values in many cases.

I have yet to hear from someone that has been shown the commuted value they would receive under the current calculation and what it would be valued at under the soon-to-be implemented number. The fact is that plan administrators are not currently required to provide that information and are very unlikely to do so.

The key changes here relate to assumptions about more people taking early retirement, and how interest rates are calculated. On the changes related to early retirement, Dean Newell, vice-president at Actuarial Solutions Inc., says "for large public pension plans that tend to have generous early retirement provisions, the changes could be material and would reduce commuted values for impacted members. In some cases, it could have no impact, but for many it would be material."

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The changes related to interest rates are focused on a change from using Government of Canada rates, to using something that looks at a blend of Provincial and Corporate bond yields. Looking at this historically over the past 17 years, this change on average, will also lower commuted values. Looking at it under current rates, where provincials and corporates are trading much wider than normal over Government of Canada bonds, if this stays the same until December, then there will be a sizeable hit to commuted values. The bottom line on this interest rate change is that, while it could be positive or negative to commuted values over time, right now it is definitely negative.

An educated guess is that this change could mean that many employees see a commuted value payout that could be as much as five to 10 per cent lower on Dec. 1, than on Nov. 30. This change puts pressure on many to make a decision prior to Dec. 1, 2020, for fear of suddenly receiving a value that could be as much as $200,000 lower than under the current formula.

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If you currently are employed and have a defined-benefit pension, the following are things you should consider doing.

First, ask for the current value of your pension, and all of your pension options. If you are in your late 40s or older, and you are not getting clear answers and numbers, you should demand this information and push your demands up the ranks. Delays in getting your information could seriously limit your pension options.

Second, ask for guidance on what the new commuted value formula will do to the value of your pension. Again, this is important information for you to understand, and it could impact decisions you make this year.

Finally, remember that in general, your pension plan wants to keep your money. They do not want you to take it. Many of the rules discussed above seem to discourage you from taking the commuted value of your pension. Based simply on this fact, you should be sure that you fully understand whether it makes sense for you to take the commuted value.

Always remember that it is your pension and your money, and you should be only getting clear answers. Anything less is an injustice.

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