



If you or a member of your family is facing a permanent lay-off, voluntary early retirement or “forced” early retirement, there are many important decisions to be made – decisions that can have a significant impact on your financial future. There are some major issues that must be addressed at the termination of employment, and we’ve laid out some effective strategies that can help secure your financial independence. Although early retirement is the theme of this Special Report, please note that most of the information also applies to those who are facing their “regular” retirement date.

When you find yourself facing an early retirement package, the first thing you should do is obtain any written documentation provided by your employer and review it very carefully. Likely, this documentation will have been prepared with the consultation of lawyers, pension consultants and group benefits experts, and will clearly spell out information on severance amounts, pension options and other termination details that relate to your particular package.

You may not always be able to determine straightforward rules, regulations and “universal” guidelines regarding all of the issues involved, as there are many different factors that come in to play. For instance, the Income Tax Act has a major impact on pension plan issues, as does federal and provincial pension legislation. In fact, pension legislation is evolving so rapidly that it is often difficult to get definitive answers, even from government offices, and it is not unusual to run across conflicting information. Overall, the actual text of your particular pension plan and the design of your total benefits package will generally override many other considerations.

Since it is increasingly common for employers to offer formal retirement counseling these days, you may find that you have professional help readily available to you at no cost. However, if you seem to have an unusually complex package to sort through, you may wish to consider enlisting the help of an actuary or other pension and benefits specialists.

Severance Pay

At termination, employees are typically offered some sort of severance payment. If your severance is paid out as a retiring allowance it may receive special tax treatment. Subject to certain limits, it may be eligible for a tax-free rollover to your Registered Retirement Savings Plan (RRSP).

The Definition Of A Retiring Allowance

A retiring allowance is broadly defined under the Income Tax Act as a payment in respect of a loss of employment, or a payment upon or after retirement in recognition of long service. This includes unused sick-leave credits, as well as damages for loss of employment (whether paid voluntarily by the employer or not). According to Canada Revenue Agency (CRA), the definition does not include a pension benefit, vacation pay or pay in lieu of statutory notice. Payments that qualify as retiring allowance may be eligible for a tax-free rollover to a Registered Pension Plan (RPP) or to your individual RRSP (not to a Spousal RRSP), but only up to specified limits. This special rollover does not affect your annual RRSP contribution room.

Maximum Retiring Allowance Eligible For Tax-Free Rollover To An RRSP

- \$2,000 for each year or part year of employment, up to and including 1995; **plus**
- \$1,500 for each year or part year of employment, up to and including 1988, if you were not entitled to receive any benefits you earned under a pension plan or deferred profit sharing plan from contributions that your employer made for each such year.

Direct Or Indirect Transfer To Your RRSP

The tax-free transfer of a retiring allowance to an RRSP may be indirect; that is, the retiring allowance may be paid to you, but then it must be contributed to an RRSP within 60 days following the end of the year of receipt. You must complete Schedule 7 with your tax return (there is no “carry-forward” allowed in this case). It is also possible to have your employer contribute the eligible retiring allowance directly to your RRSP, in which case the tax normally withheld from the payment would be waived. You should still receive an RRSP contribution slip, and report the amounts as income, claim the RRSP deduction and complete Schedule 7 with your tax return.

Salary Continuation Or Retiring Allowance?

Severance money is usually paid out in one lump-sum amount and, if it is paid out on or after your termination date, it is generally characterized as a retiring allowance. However, if your severance pay will total more than the maximum retiring allowance that you can rollover to your RRSP, and you would like to increase your regular RRSP contribution room, your employer may be able to structure your final compensation to make this possible.

Determine the maximum retiring allowance that you can rollover to your RRSP and, if you are entitled to a severance amount that exceeds the maximum, consider receiving the excess severance amount as a continuation of salary in order to increase your earned income for RRSP contribution purposes.* You can then make use of your increased RRSP contribution room by depositing the maximum to your RRSP, and, on your termination date (the date that your continuation of salary ceases), transferring the maximum lump-sum amount that you can rollover to your RRSP or RPP.

The way your severance amount is paid not only affects its treatment under the Income Tax Act, it may also have an impact on payroll taxes and premiums. For instance, salary or regular employment income is subject to Canada Pension Plan (CPP) contributions and Employment Insurance (EI) premiums, and the employee may have to continue contributions to his or her pension plan if it is a contributory pension plan. On the other hand, a retiring allowance is not subject to CPP contributions or EI premiums.

**Your annual RRSP contribution limit is based on 18 percent of your previous year’s earned income, up to the current tax year’s maximum annual contribution limit, less your pension adjustment (PA). For example, to be eligible for the full \$20,000 maximum contribution for 2008, your 2007 earned income must have been approximately \$111,000, assuming no PA.*

Employment Income (continuation of salary until termination date)	Retiring Allowance (payment on or after termination date)
<ul style="list-style-type: none"> • Earned income for RRSP purposes • Subject to CPP contributions and EI premiums by the employer and employee (as well as continued contributions to company/employer pension plan, if required) • Upon payout, employer withholds tax at ordinary rates for salary • Not eligible for rollover to an RRSP • Normally reported on a T4 for tax purposes 	<ul style="list-style-type: none"> • Not earned income for RRSP purposes • Not subject to CPP contributions or EI premiums (does count as earnings when determining start of EI benefits) • Upon payout, employer withholds tax (if lump-sum payment is made) at the same rates as RRSP withdrawals • Eligible for rollover to an RRSP, subject to the maximum permitted amount • Normally reported on a T4A for tax purposes

Tax Withheld At Source

Commonly referred to as withholding tax, this type of tax is not an additional tax; rather it is the “withholding of tax at source.” Just as employers are required by law to keep back a certain percentage of tax on amounts paid out as salary or bonus (essentially a down payment on your taxes based on an estimate of your financial situation for the year), they are also required to withhold tax on severance amounts that are not directly transferred to a registered plan. In addition, financial institutions are also required to withhold tax at a prescribed rate on withdrawals from RRSPs and other registered plans. However, the tax you owe the government when you file your income tax return, or the refund the government owes you, is dependent on your total annual income.

Make sure you will be able to take advantage of the maximum retiring allowance rollover. This special tax treatment is not eligible for the “carry forward” treatment available for your regular RRSP contribution room.

Pension Plan Options

If you are a member of a money purchase pension plan, also referred to as a defined contribution plan, then you should have a specific accumulated value made up of contributions and tax-sheltered investment earnings in the plan (this basically works much like an RRSP). If you are facing early retirement, you will probably be given the option of immediately rolling the accumulated value to a locked-in plan.

Deferred Pension Vs. Commuted Value To Locked-in Plan

If you are a member of a defined benefit plan, your pension income is generally calculated according to a formula based on a number of factors (e.g., final average employment earnings). The employer must provide this guaranteed income stream regardless of the investment climate. In many cases, if you are a member of a defined benefit pension plan and facing early retirement, you will be given the option of staying with the plan and receiving a pension at retirement, or transferring a lump-sum commuted value to a locked-in plan. If you are terminated or you retire after the early retirement age set out in your pension plan (usually age 55), you may not have this option.

If you choose to transfer the commuted value to a locked-in plan under your own control, you will then have to manage the money appropriately in order to provide adequate retirement income. When comparing the deferred pension option versus the commuted value option, there are many factors which should be weighed. Professional actuarial advice is required if you wish to make a true actuarial comparison between the two options. Please refer to the Deferred Pension Option Vs. Commuted Value Option table on page four.

Transferring Benefits To Another Employer Or Purchasing A Deferred Life Annuity

If permitted, you may also be able to transfer locked-in pension benefits to a new employer’s pension plan. In addition, you may be able to use the commuted lump sum to purchase a deferred life annuity - buying an annuity to start at some time in the future based on a quote using today’s interest rates, and which is payable for life. However, if interest rates are low, this is usually not perceived as a worthwhile option. If you roll the commuted value to a locked-in plan, you will still have the option of buying an annuity at a later date.

The Commuted Value

The commuted value is the amount of money you would have to invest today in order to replace your deferred pension. Basically, an actuary uses various assumptions to calculate a present value for your future pension benefits. The actuarial assumptions may include projected investment rates, mortality rates, your retirement age, marital status and the value of inflation protection terms in the pension plan.

Deferred Pension Option	Commuted Value Option
<ul style="list-style-type: none"> • Stay with the plan and receive pension at retirement • Employer provides guaranteed lifetime income according to a set formula (usually based on final average earnings). • Employee may feel more comfortable knowing that he or she will receive guaranteed pension payments for life, and that no investment decisions need to be made with respect to the pension benefit. • By law, the spouse or partner of a pension plan member must receive the pension upon the death of the member, unless this right has been formally waived by the spouse. Therefore, pension for the surviving spouse or partner is guaranteed even though payments are typically a reduced percentage of what the pension plan member received. • The plan may provide significant benefits above and beyond the basic pension entitlement, such as: <ul style="list-style-type: none"> – Early retirement rights (although usually reflected in commuted value). Early retirement rights may or may not be extended to deferred pensions granted on employment termination. – Option to delay pension past age 65. – Inflation protection over and above regular indexing provisions – Supplementary benefits if pension exceeds CRA limits for defined pension benefit pension plans – Reinstatement of prior pensionable earnings if employee is later re-hired (some plans permit this only where commuted value has not been taken) 	<ul style="list-style-type: none"> • Roll lump-sum present value to a locked-in plan • Employee controls management of the funds. • If employee has excess income, and wealth accumulation is a main objective, this option offers tax-deferred compounding within a Locked-In RRSP/LIRA/LIF/LRIF/Prescribed RRIF. • The surviving spouse or partner will receive full value of the plan, to be rolled into the spouse's own registered account upon the death of the planholder. Under some pension laws, this account must be a locked-in plan or life annuity, while others permit a rollover to a regular registered account or a cash withdrawal subject to taxation. • Additional benefits under the pension plan and other factors should be evaluated. For instance, if life expectancy is greater than average, guaranteed lifetime income from a deferred pension may be the better choice. • If employee opts out of the pension plan, the employer could require that other group benefits be forfeited (such as dental, health and life insurance). • Mortality tables used may affect the commuted value.

Excess Transfer Amounts

The Income Tax Act sets limits on the amount of money that can be transferred tax-free from a defined benefit pension plan to a locked-in plan. If the commuted value of your pension happens to exceed the prescribed limits, your employer should notify you of this fact in your termination documentation.

Amounts that cannot be transferred to a locked-in plan are called “excess transfer amounts,” and in most cases are paid out directly to the employee as fully taxable income. While a lump-sum commuted value within the limits can be rolled over to a locked-in plan and earn tax-deferred compounding investment returns, an excess transfer amount is fully taxable and future investment returns are not tax-sheltered. This means that it may be very difficult for the commuted value option to compare favorably with the deferred pension option if the commuted value exceeds the limits.

However, if you have sufficient RRSP contribution room, excess transfer amounts may be transferred to a non locked-in RRSP as a regular RRSP contribution.

Locked-in Plans: Locked-in Retirement Account And Locked-in RRSP

Locked-In Retirement Accounts (LIRAs) and Locked-In RRSPs are RRSPs that are subject to restrictions under provincial or federal pension legislation. Funds transferred to a LIRA or Locked-in RRSP are allowed to grow tax-deferred until age 71. As with an RRSP, the plan matures when you reach age 71 and funds must be used to purchase a life annuity, rolled over to a Locked-In Fund (LIF) or, if permitted by the pension law which applies to your funds, to Locked-In Retirement Income Fund (LRIF) or Prescribed Registered Retirement Income Fund (Prescribed RRIF). Ordinarily you are **not** allowed to withdraw funds from a LIRA or Locked-in RRSP; access to the funds is permitted by pension law only under very limited circumstances. Generally, you can only access funds from these plans by rolling the funds to a life annuity, a LIF or, if legislation permits, an LRIF or Prescribed RRIF, in order to create income, providing any minimum age requirement is met.

Life Income Funds, Locked-In Retirement Income Funds And Prescribed RRIFs

These registered vehicles were created as an alternative to buying a life annuity with matured funds from a LIRA or Locked-In RRSP. They are very similar to a RRIF in allowing a person to retain investment control. As with a RRIF, there is a minimum annual payout, but there is also a maximum annual payout for LIFs and LRIFs (please note that LRIFs are currently available for Manitoba, Newfoundland/Labrador and Ontario—regulated plans only; please see LRIFs below). A Prescribed RRIF has no maximum annual payment. There are major differences between LIFs and LRIFs: with a LIF, any remaining funds may have to be transferred to a life annuity at age 80, but you never have to transfer the funds to an annuity with an LRIF or Prescribed RRIF. The maximum annual payout formulas are also different. For a LIF, the maximum payout is generally based on the November CANSIM Rate. For an LRIF, the maximum payout formula is based on investment earnings.

LRIFs: Ontario*, Manitoba And Newfoundland/Labrador Only

Locked-in plans regulated by Ontario, Manitoba and Newfoundland/Labrador pension laws have an additional income option called a Locked-In Retirement Income Fund (LRIF). If your plan is regulated under one of these pension laws, you can choose either a LIF or LRIF. Please note there may be restrictions on transfers between locked-in plans.

**In 2007, Ontario made numerous changes to the rules governing locked-in accounts under Ontario legislation: the LRIF and "Old LIF" (that is, the original version of the Ontario LIF prior to the 2007 changes) will be available for purchase only until December 31, 2008. A "New LIF," subject to the new rules, was introduced in 2008 and is available for purchase.*

Prescribed RRIF (PRIF): Manitoba And Saskatchewan Only

Locked-in plans regulated by Saskatchewan* and Manitoba** pension laws have an additional income option called Prescribed Registered Retirement Income Fund (PRIF), which is similar to a regular RRIF except:

- Minimum age requirements must be met
- May only contain funds locked-in under Saskatchewan and Manitoba pension rules
- The funds must be paid out to the spouse or common-law partner upon death of the annuitant, with some exceptions

**For locked-in funds regulated by Saskatchewan pension law, a Prescribed RRIF and a life annuity are the only retirement income options.*

***Manitoba allows a prescribed, once per lifetime transfer of up to 50 percent from a Manitoba-regulated LIF or LRIF, but not from a LIRA or pension plan, to a PRIF. Given Manitoba's one-time transfer limitation (not one-time per LIF or LRIF), planning is required in cases of multiple LIFs and LRIFs and professional advice is recommended.*

RETIREMENT INCOME PLANNING

Temporary Unemployment Or Permanent Early Retirement?

Your income planning may depend to some extent on whether you are facing temporary unemployment or permanent early retirement. If you expect to be employed again, then short- to medium-term cash flow planning will likely be critical. However, you should still strive to maximize your registered plans (see General Financial Planning Issues). Regardless of whether you are facing temporary unemployment or permanent early retirement, the main principle to remember is that you should strive to maintain your tax-sheltered registered plans for as long as possible.

You can generally roll Locked-In RRSP or LIRA funds to a LIF or, if allowed by law for your funds, to an LRIF or Prescribed RRIF if you are age 55 or older, or earlier if permitted by your pension plan and/or applicable pension law allow. As long as you are under age 71, you may be able to roll any remaining assets in a LIF, LRIF or Prescribed RRIF back to a Locked-In RRSP or LIRA if you become re-employed afterwards and do not need the income.

Options For Locked-In Pension Funds

Until You Need Income Or You Turn 71	If You Need Income Or You Turn 71 And Do Not Want To Purchase A Life Annuity
<ul style="list-style-type: none"> • LIRA or Locked-In RRSP: – Similar to an RRSP, but withdrawals are generally not permitted – You must choose a maturity option when you turn 71 	<ul style="list-style-type: none"> • LIF/LRIF/PRIF: – Similar to a RRIF, but there is a maximum annual withdrawal amount (LIF and LRIF only) – Unlike a RRIF, a LIF may need to annuitize by age 80

LIF Vs. LRIF

LIF	LRIF
<ul style="list-style-type: none"> • May need to annuitize by age 80 (e.g. Newfoundland/Labrador-regulated LIF) • Same minimum annual withdrawals as a RRIF • Maximum annual withdrawals are largely based on November CANSIM rate 	<ul style="list-style-type: none"> • Annuitization not required • Same minimum withdrawal amount as a RRIF • Maximum withdrawal is largely based on plan earnings

Employment Insurance

You may wish to apply for Employment Insurance (EI) payments as soon as possible so there is no delay in your receipt of benefits. EI will establish a benefit rate and a time when benefits should start. Severance pay will generally delay your start date for benefits. If you are in a certain income bracket, you will be subject to a clawback of EI benefits. Please note that CPP income may reduce your EI benefits.

CPP*: Early Or Late?

You can choose to start receiving CPP at any time between the ages of 60 and 70. When you apply to receive CPP before 65, you must stop working or earn less than the current monthly maximum CPP retirement pension payment in the month before your pension begins and during the month it begins. If you choose to receive payments when you turn 65, you will be given your base CPP pension amount. If you elect to begin payments between the ages of 60 and 65, your base amount is reduced by 0.5 percent for each month between the date your CPP payments begin and the time you turn 65. For each month that you delay receiving payments after age 65 (until age 70), your base amount is increased by 0.5 percent.

Because of increased life expectancies, it could be to your advantage to consider starting CPP payments at age 65 (at the full base pension), or delaying CPP payments until age 70 (at an increased pension), instead of taking a reduced amount early. However, because of concern about the general viability of the CPP program and the uncertainty associated with estimating life expectancies, many people believe they should just take it as soon as it is available to them. You can change your mind and withdraw an application for early CPP within six months, providing you return any CPP benefits received.

**QPP in Quebec*

Integration With Government Benefits

You may be given the option of integrating your employment pension with government benefits. This generally means that your pension is increased before age 65 to make up for the fact that you are not yet receiving government benefits, and then decreased after age 65 (when you start receiving them). If you are given the option of choosing integration, make sure to look at your projected income streams at different ages, with and without integration, before making a decision. In some cases, you may be given an outright bridging benefit or temporary extra pension to tide you over until age 65 (subject to government rules and limits), with no requirement to adjust your lifetime pension.

The Retirement Income Planning Process

These steps can help you determine if you can meet your income goals:

- Start with your income need by estimating your living expenses.
- Calculate your after-tax guaranteed income streams (add up your CPP, if any, pension and other non-investment income). If your guaranteed income won't cover expenses, identify any assets that can generate income and estimate the income stream that your assets can provide.
- Project various assumptions using different portfolio, tax and inflation rates.

GENERAL FINANCIAL PLANNING ISSUES

Maximizing Registered Plans

When facing early retirement or termination, people often wonder how they should allocate their severance proceeds. Generally, you should take advantage of the maximum retiring allowance rollover to your RRSP. Remember that your eligible retiring allowance must be contributed to your RRSP within 60 days following the end of the year of receipt. There is no carry forward provision for a retiring allowance as there is for regular RRSP contribution room.

In addition, you should try to take advantage of any regular RRSP contribution room which you might currently have available. If you have any carry forward room from previous years, this may be an ideal time to catch up. You can contribute now to gain the advantages of tax-deferred compounded returns within your RRSP, but you do not have to use the deduction until a later year when it may be more advantageous. For instance, when you will be re-employed or in a higher tax bracket. Also, any possible Pension Adjustment Reversal may increase RRSP contribution room available (see Pension Adjustment Reversal).

Before looking at any non-registered or non-RRSP investment programs, the issue of debt management should be addressed.

Reducing Non-Deductible Debt

As a general rule, elimination of non-deductible debt should be a planning priority, especially if the non-deductible debt is high-interest credit card debt. Non-deductible debt includes loans for personal expenses or personal use assets including your principal residence. For example, if your marginal tax rate is 40 percent, you would have to earn \$3,000 of pre-tax income in order to have enough after tax funds to cover a loan interest cost of \$1,800. To appreciate how important it is to pay off non-deductible debt you should always consider the pre-tax cost of such debt.

In other words, what is the real cost once you consider how much income you have to earn before taxes, in order to come up with the loan interest? (See High Cost of Non-Deductible Debt in the Appendix).

Pension Adjustment Reversal (PAR)

The 1997 Federal Budget introduced a Pension Adjustment Reversal (PAR) to restore lost RRSP contribution room. Generally, your RRSP contribution limit is 18 percent of your previous year's earned income up to the current tax year's maximum annual contribution limit, less your PA. Consequently, while you were a pension plan member, a Pension Adjustment reduced your RRSP contribution room. If you left a pension plan or a deferred profit sharing plan after 1996 and before retirement, and you lose unvested benefits or receive a commuted value that is low relative to the RRSP room given up while a plan member, PAR should largely restore the RRSP room that would otherwise be lost forever. Although each situation should be reviewed individually, in most cases, the PAR should restore RRSP contribution room to the extent that your PAs exceed your pension benefits.

Cash Flow Planning

Pay particular attention if your retiring allowance is being directly rolled to your RRSP with no tax withheld and you withdraw the funds from your RRSP later in the year. Although tax is being withheld at source at the time of withdrawal, there may still be tax owing at year-end. When receiving severance payments, people often forget that taxes withheld may not be enough to cover their total tax liability at year-end. A ballpark tax projection should be done as well as an estimate of taxes that will be withheld, so you can earmark enough money to make up any shortfall in taxes collected via the withholding tax (see Example Of A Year-End Tax Situation in the Appendix).

Replacing Lost Benefits

Sometimes employers offer medical and dental benefits until the regular retirement age. If this is not part of your severance package, then you should explore extended health care coverage as soon as possible. Most major medical costs are covered under provincial medical and health insurance plans, but out-of-country costs may not be covered. A number of insurance companies do offer individual dental and out-of-country health coverage at reasonable rates.

Note that group long-term disability insurance coverage usually stops immediately. However, you can generally convert your group life insurance to individual coverage without medical evidence within 30 days of the expiry of group coverage. If you are not insurable, this may be a very important consideration. If you are fully insurable, you should immediately review your insurance requirements and investigate competitive quotes on the appropriate level of coverage to meet those requirements.

Other Termination Issues

This report provides a general overview of the major issues that you may face when your employment is terminated. However, you should note that it is by no means an exhaustive study of this whole area of financial planning. Furthermore, it is important to realize that changes are continually being made to pension and income tax legislation and that these changes can have a significant impact on your overall retirement planning. It is generally advisable to get specialized legal, tax and/or actuarial advice to ensure that your strategies are up-to-date and appropriate to your personal circumstances.

Your own particular termination package may largely depend on the size, nature and financial means of the company or organization that employs you, as well as your years of service and individual status within the organization. In some cases there may be considerable room for flexibility in the ultimate design of your termination package. In other cases, there may be very little room for flexibility. If you are facing complex issues such as stock option or stock purchase plans, enhanced income options, supplementary pension plans or retirement compensation arrangements (RCAs), loan repayments or other potentially complicated matters, it might be particularly important for you to consult a benefits specialist.

In most cases today, employers go to great efforts to be responsible, fair and generous in their early retirement packages. If for some reason, however, you have serious concerns about your termination settlement, you may wish to consider consulting a lawyer specializing in employment law.

APPENDIX

High Cost Of Non-Deductible Debt

Assume you have \$10,000 of credit card debt (a non-deductible debt) with interest being charged at 18 percent, and you need \$1,800 to pay the interest charges. If your marginal tax rate is 40 percent (your personal marginal tax rate may differ), the pre-tax cost of your debt will be \$3,000 (\$1,800 divided by 1-40 percent).

Pre-Tax	Tax At 40 Percent	After-Tax
Taxable Income: \$3,000	\$1,200	After-Tax Income: \$1,800

If you are in a higher marginal tax rate, the cost of paying down a new non-deductible debt will be higher.

Example Of A Year-End Tax Situation

Assuming there is a direct rollover of a \$10,000 retiring allowance to an RRSP (effectively tax-free), and a withdrawal of the \$10,000 later in the same year.

Salary	\$60,000
RRSP withdrawal	\$10,000
Year-End income <i>(ignoring retiring allowance and offsetting deduction)</i>	\$70,000
Tax on income after various deductions and credits*	\$20,000
Tax withheld by employer on a \$60,000 salary	\$16,000
Tax withheld on \$10,000 retiring allowance rollover	\$0
Tax withheld at 20 percent on \$10,000 RRSP withdrawal	\$2,000
Total Tax Withheld	\$18,000
Taxes Owing At Year-End	\$2,000

GLOSSARY

Commuted Value: A lump-sum present value of your future pension benefits that is calculated by an actuary using various factors and assumptions.

Deferred Profit Sharing Plan (DPSP): An employer-sponsored savings plan that allows an employer to set aside a portion of company profits for the benefit of an employee.

Defined Benefit Pension Plan: A company pension plan that states exactly how much you will receive when you retire, regardless of how much you have contributed or how well the plan's investments have performed. Usually this amount is calculated by a formula that takes into account years of service and salary level.

Defined Contribution Pension Plan: Also referred to as a money purchase plan, this is a company pension plan that states how much your employer will regularly contribute to the plan, and how much you will contribute, if required, or if you have chosen to make contributions. The amount of pension you will receive is dependent on the accumulated value at retirement.

Life Income Fund (LIF): An income option that is similar to a RRIF. As with a RRIF, there is a minimum annual payout but there is also a maximum annual payout. Any funds remaining in a LIF may need to be transferred to a life annuity at age 80.

Locked-in Retirement Account (LIRA) / Locked-in RRSP: RRSPs that are subject to restrictions under provincial or federal pension legislation. Generally, you are not allowed to withdraw funds from these plans but you can create income by rolling plan assets to a life annuity or LIF or, if permitted by applicable pension law, to an LRIF or Prescribed RRIF (generally, if you are age 55 or older, unless applicable pension law and/or your pension plan allow an earlier transfer).

Locked-in Retirement Income Fund (LRIF)*: An additional income option for locked-in funds. As with a LIF, there is a minimum and maximum payout. However, the maximum formula is based on investment earnings and the funds never have to be transferred to a life annuity. Ontario LRIF will not be available for purchase after December 31, 2008.

**For pension plans regulated by Manitoba, Newfoundland/Labrador and Ontario only*

Pension Adjustment Reversal (PAR): The 1997 Federal Budget introduced a Pension Adjustment Reversal (PAR) to restore lost RRSP contribution room. If you leave a pension plan or a deferred profit sharing plan after 1996 and before retirement and you lose unvested benefits or receive a commuted value that is low relative to the RRSP room given up while a plan member, PAR should largely restore the RRSP room that otherwise would be lost forever.

Prescribed RRIF*: An income option for locked-in funds. A Prescribed RRIF is the same as a regular RRIF, except:

- May contain only funds locked-in under Saskatchewan or Manitoba pension rules
- Minimum age requirements must be met
- Must be paid to the spouse (or common-law partner) on death of the annuitant with certain exceptions

**For pension plans regulated by Saskatchewan or Manitoba only*

Retiring Allowance: A payment in respect of a loss of employment, or a payment upon or after retirement in recognition of long service.

Action Plan Checklist

- Carefully review all written documentation from your employer

Severance Pay:

- If being paid as a retiring allowance, confirm the maximum amount that can be rolled over into your RRSP
- Consider a direct rollover to your RRSP (taxes will not be withheld)
- If you do not directly rollover your severance pay to your RRSP, you must contribute the funds to your RRSP within 60 days after the year-end
- If your severance pay is in excess of the maximum retiring allowance that can be rolled over to an RRSP, consider receiving some of the excess as a continuation of salary (if it will increase regular contribution room)

Pension Plan Options

- Money Purchase Pension Plan: Determine the accumulated value and consider rolling it into a locked-in plan, if permitted
- Defined Benefit Plan: Consider possible benefits of transferring value to your new employer's pension plan or buying a deferred life annuity
- Carefully weight the deferred pension option versus rolling commuted value to a locked-in plan. Find out how much a LIF/LRIF/PRIF would pay by asking your IA to run a projection.
- If you choose the commuted value, and there is an excess transfer amount, consult a tax advisor regarding tax treatments, forms and procedures

Retirement Income Planning

- Consider applying for employment insurance as soon as possible
- Decide whether to receive early or late CPP
- Consider if splitting CPP with your spouse would be advantageous (both spouses must be at least 60)
- If your retirement is permanent, determine hierarchy for receiving income in a tax efficient manner.
- Follow retirement income planning process suggested in this report (see page 7)

General Financial Planning Considerations

- Use excess cash to make regular RRSP contributions
- Use additional cash to take advantage of any RRSP carry forward room available
- Review any possible Pension Adjustment Reversal and its impact on RRSP contribution room
- Pay off or reduce non-deductible debt, especially high-interest consumer debt, such as credit card balances
- Make sure to set aside adequate funds to cover taxes at year-end
- Arrange placement of dental and out-of-country health coverage, if required
- If there is a medical problem, consider converting group life insurance within the 30-day limit
- If facing complex issues, consider seeking actuarial advice and consulting with specialists in tax pensions and benefits
- If unable to retire completely, consider the services of an "outplacement" firm
- If you are very concerned about termination, consider consulting with a lawyer who specializes in employment law

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