Your Nortel Pension Payment Choices

Last Managerial Plan Participation in <u>Ontario</u>

Important Issues to Consider

Segal Group

Disclaimers

- The material included in this presentation involves generalities that have exceptions. **It is highly recommended that you obtain professional guidance prior to finalizing your decisions.**
- Your choices will depend on where you last worked under the Nortel Managerial Plan. This presentation is only for **Ontario.**
- The presenters and their employers specifically disclaim any responsibility for your decisions or the results of those decisions.

Risks

- Academic research suggests that people who do not have a guaranteed lifetime pension worry about running out of money, so they spend less and leave some of their retirement money as a death benefit for their survivors.
- If you choose to take risks in hopes of getting a better return, be sure to have a backup plan if things don't work out as you planned.
- Don't make winning the lottery a part of your retirement planning.

Nortel Pension Payment Choices for Retirees

1. **Annuity**
   - Fixed monthly payments for life (see your Morneau Shepell personalized statement)
   - No opportunity for estate planning
   - No indexing

2. **Lump Sum Rollover to a Locked-in Alternative**
   - A single one-time payment
   - Regulated actuarial calculation factors may be unattractive
   - May have current income tax implications
   - Funds remaining after death form part of your estate

Your choice of payment is a very important decision. Once you complete and submit your forms, your decision cannot be changed.

Nortel Pension Payment Choices
for Non-Retired Participants

1. **Annuity**
   - Fixed monthly payments for life (see your Morneau Shepell personalized statement)
   - Little opportunity for estate planning
   - Payment is deferred until you are old enough to retire (unless you already are)

2. **Lump Sum Rollover to a Locked-in Alternative**
   - A single, one-time payment into a locked-in alternative (exception: small amounts)
   - Regulated actuarial calculation factors may be unattractive
   - May have current income tax implications
   - Funds remaining after death form part of your estate

Your choice of payment is a very important decision. Once you complete and submit your forms, your decision cannot be changed.

Before Making Your Payment Choice, Think About…

How well have you planned for life surprises in retirement?

- **You have already had to adjust your ordinary living expenses to your reduced pension.**
- **Other financial "shocks" to factor into your planning:**
  - Health care costs (dental work, prescription drugs, long term care)
  - Home repairs (new roof, etc.)
  - Kids needing financial help (lost jobs, etc.)
- Partner death or separation may cut income or increase costs.
- **Plan how you will pay for such surprises**

The biggest surprise would be going through your retirement years with no financial surprises.

Before Making Your Payment Choice, Think About…

Which choice fits best with your financial situation?

- **If your Nortel Pension Plan payment is your largest source of retirement income, you might think differently about how to receive it than if you have other assets and retirement income**
- **If you have other assets, consider which choice best suits your needs:**
  - Steady monthly income stream (like the traditional pension) or…
  - Single large investable sum (the Lump Sum Rollover to a locked-in alternative)

Before Making Your Payment Choice, Think About…

How's your health? What about the health of your parents and grandparents?

- **Your locked-in alternative is calculated based on average mortality**
  - **Longer than expected:** if you (or your spouse, if you have a joint and survivor pension) live longer than the average, you are likely to outlive your locked-in alternative (assuming you make withdrawals at the same rate as would be payable under the annuity)
  - **Shorter than expected:** if your and your spouse's combined life span is substantially shorter than expected, your annuity payments combined may be worth less than your locked-in alternative
  - **Length-of-life factors:**
    - Your health
    - Your family's health history
    - Your health habits
    - Your medical care
    - Your luck

A key factor in your decision is whether you expect to live for 10 or 35 more years.

Before Making Your Payment Choice, Think About…

How confident are you about managing money?

- **With the locked-in alternative:**
  - You are responsible for investing and managing this money for the rest of your life
  - After you die, your surviving spouse assumes this responsibility for the rest of his/her life
  - You can always purchase an annuity later, but individual annuities can be expensive

Whom do you trust?

- **You should seek financial/investment help from a professional, but:**
  - Make sure the advisor does not have a stake in the outcome of your decision (ask whether he or she receives commissions or payments on your investments)
  - Are they looking out for your interests or theirs?

The idea of having a large pot of money to control is tempting, but making that money last may be daunting.

Before Making Your Payment Choice, Think About…

There's no "free lunch" – do your research

- **Mutual fund companies:**
  - Charge fees for investing and managing your money
  - May have a "load" charge when you buy or sell shares
- **Review fee information from investment funds you are considering**
- **Financial advisors charge fees for providing investment advice**
- **Annuities also have an implied cost factored into your monthly payment**
- **Ask advisors:**
  - What are the total fees for the investments they suggest?
  - What are the investment risks and returns?
  - How has the fund performed in the past one, five, and 10 years, and over the life of the fund?
  - Is there an annual fee for managing your money, or a transaction fee, or both?

Consider the expenses of investing in a locked-in alternative. Hidden fees can reduce rates of return—and the value of your account—dramatically.

Before Making Your Payment Choice, Think About…

How do you feel about risk?

- **Investing will result in gains and losses**
  - Are you emotionally (and financially) prepared to withstand the *ups and downs* and the *downs and ups* of the market?
  - For instance, five consecutive years of losses followed by five consecutive years of gains will produce a far poorer result than the other way around. Is this a circumstance you can live with?

Investing a locked-in alternative requires skill—and also sheer luck.

Before Making Your Payment Choice, Think About…

What about your heirs?

- **Traditional joint and survivor pension annuity:**
  - Provides a payment stream if your surviving spouse at retirement outlives you
  - Your monthly payment amount was reduced to provide this payment stream
  - When you and your spouse die, payments stop; no payments will be made to other heirs
- **Locked-in alternative:**
  - A properly managed locked-in alternative could allow you to leave money to your heirs
  - After your death, the locked-in alternative balance can be transferred to your surviving spouse or other designated beneficiary(ies), or to your estate if you are not married
- **How will you be taxed?**
  - Regular annuity payments: taxed when received
  - Locked-in alternative: payments are taxed when received, but investment earnings continue to accumulate on a tax-sheltered basis

A locked-in alternative can be left to your heirs—IF there's money left after you (and your spouse) die. A pension ends after you and your spouse die.

Pros and Cons of a Pension

Pros (+)	Cons (-)
You can't outlive your monthly benefit	You cannot leave money to your children; payments stop at the end of your life (or your surviving spouse at retirement dies if you elected a joint and survivor pension)
You don't have investment management decisions or responsibilities	A fixed monthly annuity will not keep up with inflation
You don't need financial advisors who may not have your best interests at heart	Your monthly benefit is fixed; you cannot vary your income stream

Pros and Cons of a Lump Sum Rollover to a Locked-in Alternative

Pros (+)	Cons (-)
You reap the rewards of investing successfully	You take all the investment risk
You may be able to leave money to your children	You may be vulnerable to financial advisors who do not have your best interests at heart
You can vary the amount you withdraw each year if you choose (Actual withdrawal amounts are governed by Income Tax Act and provincial regulations, and are subject to change each year)	You can outlive your money

Monthly Pension vs. Lump Sum Locked-in Alternative

	Pension (Monthly)	Locked-in Alternative (Lump Sum)
Is your income guaranteed?	Yes	No
What if you live longer than expected?	You continue to receive your monthly income	You can run out of money
How is your money distributed?	In a continuous stream of lifetime monthly payments	Rolled over to an investment fund where you can withdraw funds, subject to your needs, according to annual minimum and maximum withdrawal limits set each year
Are you responsible for investing your money?	No	Yes
What if the stock market falls or you make bad investments?	Your monthly income stays the same	Your money can be less or can be lost
Do you pay investment management or other fees?	Not directly. Fees are built into annuity pricing. (This fee has been taken into account in the annuity amount shown in your Morneau Shepell personalized statement)	Yes. There may be multiple layers of fees to advisors and funds

Monthly Pension vs. Lump Sum Locked-in Alternative

	Pension (Monthly)	Locked-in Alternative (Lump Sum)
Is your money protected against inflation?	No	It depends on your investment choices; in exchange for attempting to keep up with inflation, you must be willing to accept lower returns or risk investment loss
Can you leave anything for your spouse?	Yes, if you elected a joint and survivor annuity when you retired. If your spouse at retirement outlives you, your spouse will continue to receive a reduced lifetime annuity	Yes. If there is money left when you die, the remaining balance will be payable to your surviving spouse or other designated beneficiary
Can you leave anything for your children?	No	Yes. If there is money left when you die and your children are your designated beneficiaries, the remaining balance will be payable to them