So, you've been downsized? Now what are you supposed to do with your company pension?

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When you joined Nortel 10 years ago, you thought…"This is great! It's a big company, I'm ambitious…I'll be here until retirement." I have no doubt that during the glory years when the shares were trading in the high double digits and low hundreds, that you know doubt felt the long term prospects of staying aboard. The company pension plan was great, the benefits were great, the people were great…Life was grand!!

Then came this thing called the "tech meltdown" and low and behold, you, who have been working like a demon, find yourself….downsized???" Yes, that ugly pink slip has made its way to your desk and wow, are you angry and surprised. But they like you and they like your work? What's going on? What am I going to do?

Well, welcome to the new millennium where employer – employee loyalty is as fleeting as a glimpse of Mars on the pathfinder probe.

So, the company now starts this trail of paper to lead you out the front door without the prospects of your returning. Along with all the mail you've been receiving from the human resources department (also in downsize mode), you have no doubt received information about your company pension. What is this stuff all about? While this article will not address your need to find new employment (no doubt a concern) it will address what you can do with your pension plan.

So, what are your options? Let's talk about the type of plan you had. There are really two types of pension plans, defined benefit plans and defined contribution plans. The easier one to establish the value of is the defined contribution plan which, in most cases, your employer contributed a percentage of your salary and you, if you chose, could contribute a percentage of your salary. There's a value to these investments and usually, you could choose what type of investment options to invest in like S&P 500 indexes or Canadian equities. Whatever it is, there will be value of this pension as related to how it performed on the market. So, for all intents and purposes, let's say it's worth $50000. Regardless, these monies are ear marked for retirement and cannot be taken out as cash for daily living.

The other type of pension plan is a defined benefit plan. A defined benefit plan is any plan that defines the amount of the pension payable at retirement, usually by way of a formula that relates the value of the pension benefits to earning levels and years of services. These plan differ from defined contribution plans since the benefit is defined up front, but not the amount the employer has to contribute. Often, the employer has to contribute more money to make sure the pension can be funded down the road. Examples of defined benefit plans include career average plans, final and best earnings

pension plans, and flat benefit plans. An example of a pension would be a plan that pays 2 percent per year of service and is based on the career average salary of the individual. So, if you worked for a firm for 20 years and your average salary was $60000, you would receive 40 percent (20 years x 2 %) of your career average salary ($24000 / year). . That being said, you didn't stay there 20 years and now, you've got this money that was earmarked for retirement. They will prescribe a "commuted value" to this pension for the purpose of valuing it.

So, now what are your options? The 20-year stay at Nortel has turned into an 8-year stay and your suddenly faced with some options for your pension. What are they?

Well, there are 4 options. Option # 1 – Do nothing and leave it in the pension plan. If you have a defined contribution plan, the monies will stay in the pension investments and accumulate until retirement age (usually 65). At which point, you will have a lump sum that you can take out as taxable income as an annuity. The value of this annuity is your choice. The same applies for a defined contribution plan, but the amount of benefit will be pre-determined as per the schedule. So, you would be paid 8 years multiplied by 2 percent per year equals 16 percent of your income at age 65.

Another option is that you could transfer your benefits into another pension plan. You were never one to feel sorry for yourself, so you went out and got another job with a new firm that has a killer pension plan. Your pension monies can go to this new pension.

Another option would be to transfer the proceeds of the pension into a locked-in RRSP. A locked in RRSP is different from an RRSP in that the release of funds is prohibited by pension legislation unless the release is in the form of retirement income. The proceeds of the funds must be used to provide a lifetime retirement income, to commence no later than age 69.

There are numerous advantages to having a locked in RRSP in that you can choose to invest in numerous types of investments such as mutual funds, stocks, ETF's, etc. Since the monies are for retirement, often this allows for a long term investment horizon. Your options are numerous.

And finally, you might have had it with the working world and have decided to throw in the towel and travel the world in a 38-foot sloop. The pension monies can be drawn out as retirement income.

What you can't do, is take the money out as immediate lump sum if your not retired.

Obviously, your choice of options depends greatly on your situation. You are best to speak with an advisor before proceeding.

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