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What is a commuted value?

A commuted value represents the dollar value today of your pension payable from the Plan at age 65. Said another way, the commuted value is the amount of money you need to set aside today, based on current interest rates and life expectancy, to provide a pension at age 65 equivalent to the monthly pension that you had earned under the Plan, payable out for the typical life expectancy of a retired worker.

Looking at an example, if a 45-year-old member has earned a monthly pension of $1,000 at age 65, the commuted value will provide the member with a lump sum amount that when invested at current interest rates for the next 20 years will provide a monthly pension of $1,000 starting at age 65. The commuted value is highly sensitive to both the member's age and interest rates at the time of the calculation. The older the member is, the larger the lump sum amount will be since there is less time to invest. Similarly, the lower the interest rates are, the larger the lump sum amount will be as there will be less expected interest earned on the investment. Unlike a pension payable from the Plan (which is paid for the life of the member), a commuted value is calculated using the "average" life expectancy for a retired worker. If a member lives until age 100 in the example above, the $1000 per month would likely stop around age 86 (for a male retiree).

Members may transfer their benefits out of the Plan via a commuted value at any time before the member reaches age 55. The commuted value must be transferred to a locked-in RRSP which cannot be accessed until the member turns age 55. Once a member transfers their benefits out of the Plan the member has no further benefits or rights under the Plan.

It should be noted that as the commuted value represents the member's pension at age 65 it does not include the value of the Plan's early retirement subsidies. With the consent of the Trustees, the Plan allows members to retire as early as age 55 on a reduced pension. The pension is reduced to account for the expectation that more payments will be made from the Plan however the reduction is less than the true cost of providing these additional payments. With Trustee consent, pension benefits are only reduced 18% at age 55. The true cost of providing a pension at age 55 would results in a reduction in monthly pension closer to 50%-60%.

On your Pension statement look at Accumulated Pension Payable at 65, **not** your contributions