Valuations of Pensions

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Pensions in Family Law

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WHAT TYPE OF PENSION PLAN REQUIRES AN ACTUARIAL VALUATION?

There are two primary types of (registered) pension plans:

Defined benefit plan – A lifetime pension is provided to the member. The lifetime pension is determined based upon a formula under the terms of the plan using the member's service and average earnings or in some cases the lifetime pension is calculated using a formula based upon a fixed dollar amount for each year of service, regardless of the member's earnings. The lifetime pension does not depend upon the investment income of the pension fund, nor does the lifetime pension depend upon the member's contributions with interest.

To determine the matrimonial value of a member's defined benefit pension, an actuarial valuation is required. The purpose of the actuarial valuation is to determine the capitalized value of future lifetime pension payments as of some specified date.

Defined contribution plan – Employer and employee contributions are defined under the terms of the pension plan. The amount of pension at retirement is not defined. Instead, we know the value of the member's account.

The value of the member's account is based on contributions made over the years as a plan member and investment income earned by the contributions. The contributions are often a fixed percentage of a member's annual earnings and are deposited monthly in an individual account in the member's name. Typically both the employer and the member remit contributions to the member's account.

The amount in the member's individual account will be used to provide a lifetime income upon retirement. The member's individual account could be used to purchase a life annuity from an insurance company to provide a regular pension income or invested in a tax-deferred vehicle to provide lifetime income.

The value of a defined contribution pension is equal to the balance in the member's account as of the specified date.

To determine the matrimonial value of a defined contribution pension entitlement, adjustments would be made to the value of the member's account to reflect periods of service that are not in the joint period of accrual. An actuarial valuation is not required for a Defined Contribution plan.

WHAT ARE THE MAIN FACTORS CONSIDERED IN A PENSION VALUATION?

The value of a defined benefit plan is the actuarial present value of the future pension payments to be made to the member from the pension plan. There are many factors required to determine the value of a defined benefit pension. Important factors required to determine the actuarial present value of a member's pension from a defined benefit plan could be divided into member data, plan factors and assumptions and include the following:

Member Data:

- Gender
- Date of birth
- Service in the pension plan
- Pensionable earnings

Plan Factors:

- Benefit formula,
- Normal retirement age and early retirement age
- Pre-retirement death benefit
- Post-retirement death benefit
- Adjustments to pension upon retirement prior to early retirement age
- Cost of living adjustments

Assumptions:

- The member's pension commencement date (retirement age),
- Mortality rate
- Discount rate
- Tax rate.

Gender

On average, females have a longer life expectancy than males. The longer life expectancy for females means that, on average, more pension payments will be made to a female member than a male member of the same age. Therefore, the actuarial present value of a defined benefit pension is greater for a female member than a male member.

Date of Birth

The period between the member's current age and future retirement age is known as the deferral period. The shorter the deferral period, the greater the actuarial present value of a defined benefit pension. For example, the actuarial present value of a $1,000 pension for a 45 year old member