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Despite the recent recovery in the stock market, the “meltdown” in the equity markets in the past twelve months has negatively impacted the retirement plans of many individuals. In this issue of the Canadian Financial Planner, we shall review a number of the issues facing Canadians who are concerned about the security of their non-government retirement income. We shall review issues related to the retirement income of the following groups:

- individuals that are still working
- those who have retired, but have not yet collapsed their RRSP
- retired individuals that have transferred their RRSP to a Registered Retirement Income Fund or an annuity

For purposes of this article, we shall not review income from either the Canada/Quebec Pension Plan or Old Age Security on the assumption that these payments are not in jeopardy.

Retirement Issues while Employed

Individuals that are still working may have a number of concerns related to their retirement income, including:

- is the stock market sell off of the past twelve months, a “once in a lifetime event,” such as the great depression or is it the start of a period of extreme volatility? It is possible that individuals who believe we have experienced a unique situation will return to a classic asset allocation model that has the majority of their investments in equity. Others may believe we are entering a period of increased volatility and as a result they may become risk averse and move their assets into low risk/low return investments. If the assessment of the latter group is incorrect, they may miss future bull markets and the growth in their portfolio may be severely restricted
- unless one is a member of a defined benefit pension plan from the public sector, there is no certainty of receiving 100% of future pension payments. Private sector defined benefit plans

have a level of uncertainty as witnessed by the issues with the pensions of the North American car companies. Even though the provinces may have a pension protection fund, it may be inadequate to fund potential shortfalls. For example, Ontario has a Pension Benefits Guarantee Fund to protect insolvent pension plans, but the fund has \$100 million dollars in assets and the GM Canada pension deficit may be in the \$6 billion dollar range. As result, the government has announced that a lack of funds will restrict the maximum payout to \$1,000 per month to each retiree

- to maximize the income from a defined benefit pension plan, it is important to attain the necessary years of service within the plan, which normally means working for the same employer. During a recession, or period of economic slowdown, this becomes more challenging as the concept of cradle to grave employment is becoming increasingly rare
- many companies that currently offer defined benefit plans are converting new employees to either defined contribution plans or group RRSPs. Whereas others firms are requiring greater employee contributions or considering the elimination of any type of retirement plan due to the cost
- there is a formula to determine the maximum payment from a defined benefit pension plan. There are variables, but for the most part the maximum pension payment will be just over \$72,000. What happens if a high income individual has a pension formula that promises an annual payout in excess of this amount? For example, let's assume the employer's formula provides an annual pension of \$200,000.

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