

Perspective

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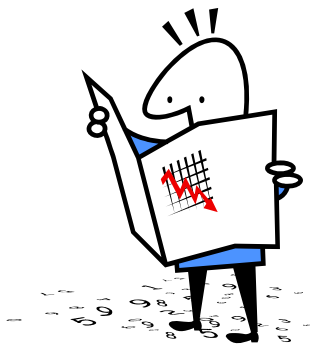
My 30th anniversary in the financial industry was in April. Until last year, the worst loss I had seen in the Canadian stock market in a single year was 1990. In that year the market fell by 14.8%.

In 2008 the investment markets suffered losses that current participants have never experienced. The Canadian stock market fell by a staggering 33%. Markets around the world also suffered large losses.

Before 2008, I thought we had a great pension plan. Today I'm even more convinced.

Most people that work in the private sector don't belong to a pension like the NSAHO Pension Plan. Usually they only belong to an RRSP or Defined Contribution pension. Employees decide how their money is invested. Their retirement benefits depend on what their investments grow to.

For most people that only belong to an RRSP or Defined Contribution pension, 2008 was devastating. Plans for retirement were in many cases postponed for years. Even worse is the plight of those already retired.



Compare the above situation to the NSAHO Pension Plan. The losses in the investment markets have not reduced our benefits. Members' retirement plans remain intact. Current retirees received a 3% increase in January.

Of course the NSAHO Pension Plan is not immune to investment market losses. Because of 2008 losses, contributions increased on April 1st and may increase again over the next year or two. While nobody likes contribution increases, within the NSAHO Pension Plan the increase is shared with employers. Compare this with an RRSP where employers do not share the cost of losses.

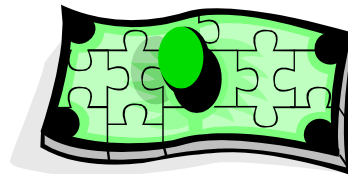
Of course planning for retirement would be easier for all of us if we could press "rewind" and skip 2008. But if that were possible, maybe I could also skip a few other things from the last 30 years...can I interest anyone in a box full of vinyl records and VHS tapes?



Putting the Pieces Together

Your Annual Pension Statement is included in the envelope with this Newsletter. This statement provides projections of what your pension may be when you retire. However, these projections only tell part of the story. Most of us can also expect to receive pensions from Canada Pension Plan (CPP) and Old Age Security (OAS).

Deductions from your income are usually less when you retire. Your cost for pension and benefit programs usually reduce or stop completely. Income taxes also usually go down.



How will these pieces fit together when you retire? Will you have enough or should you try to save a little extra? The answers to these questions, of course, depend on your personal situation. However let's consider Mary Smith's situation as an example.

Mary is planning to retire this year:

Mary's data

Age: 58

Base year (2006) Earnings: \$43,000

Earnings increases after 2006: 2.5%/year

NSAHO Pension Credited Service: 30 years

What will Mary's "take-home" be after she retires? The answer will change over the next few years. Her CPP is assumed to start at age 60. Her OAS starts at 65 and, at the same time her "Bridging Benefit" from the NSAHO Pension Plan stops.

We estimate that Mary's take-home relative to her pre-retirement take-home will be:

- 69% before age 60;
- 88% between 60 and 65; and
- 91% after age 65.

There are a few important things that we can learn from Mary's situation:

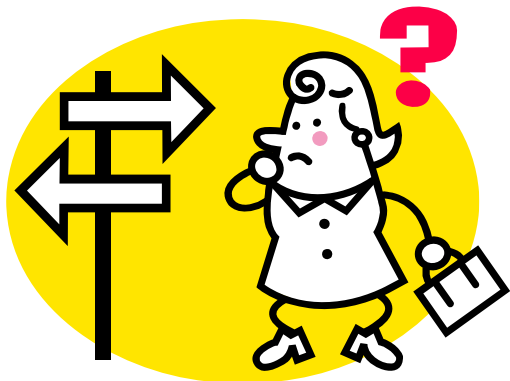
1. Mary's take-home during retirement is expected to be less than when she was working. She may find that this is at least partially offset by a reduction in her work-related expenses (such as commuting). To help prepare for this adjustment, many financial planners suggest an objective of being "debt free" by retirement.
2. Mary's take-home is lowest prior to age 60 before her CPP starts. If you plan to retire before age 60 and it's still a few years away, consider investing a few dollars to help provide for this period. Alternatively, many members are able to retire and work part-time during this period.

Your Pension Options on Termination

We usually think of retirement as being the main benefit of our pension plan. However, there are actually more NSAHO Pension Plan members who terminate employment each year than who retire. Over the last three years the ratio has been 1.8 to 1.

Most members who terminate before they are entitled to an immediate pension have two pension options. The options are to either stay in the pension plan or to transfer out.

If you stay in the pension plan, you will be a "deferred member." This means that you will eventually receive a monthly retirement income based on your service up to the date of your termination.



If you transfer out of the pension plan, you will, in most cases, transfer funds to a "Locked-In Retirement Account" (LIRA).

This is a special kind of RRSP that must eventually be used to purchase an income at retirement. There are limits on how much can be transferred to an RRSP, with any excess being paid out on a taxable basis.

Deciding which pension option is best can be difficult. Many terminating members choose to transfer to an RRSP but this doesn't mean that this is always the best option.

If you stay in the pension plan, your deferred benefit may be increased for inflation each year. These inflation increases are not guaranteed to occur, but the plan has a track-record of granting them in most years. If you transfer to an RRSP, you do not get the value of these inflation increases. Because of this, an RRSP transfer may not provide you with as much financial value, unless you take more investment risk.

As an example, let's look at a 40-year-old member who is terminating employment. Their RRSP would have to average about 5¹/₂% per year for the rest of their life to provide the same expected value as their deferred pension option. ^(See Note) To expect to do this well today, they would have to accept a fair amount of risk on their RRSP investments.

Perhaps the most common reason we hear in favour of transferring to an RRSP is to provide a better death benefit. This argument is only partly valid. Your two termination options have the same financial value based on various assumptions. One of these assumptions is that you will live for an average lifespan. The RRSP may provide more financial value if you retire and then die younger than average. However, if you live longer than average, the deferred pension tends to provide better financial value.

Ultimately your best pension choice will depend on your personal preferences and circumstances.

Note: Based on transfer value calculations that were applicable in April 2009 and assuming the deferred pension would be indexed for inflation each year.

Interesting Facts

At the end of 2008, there were about 5,600 members receiving pensions. Pensions and bridge benefits totalled over \$5.6 million per month. The number of retirees has grown by about 36% over the past five years.

In addition, there are about 23,000 members who have not yet started to receive a pension.