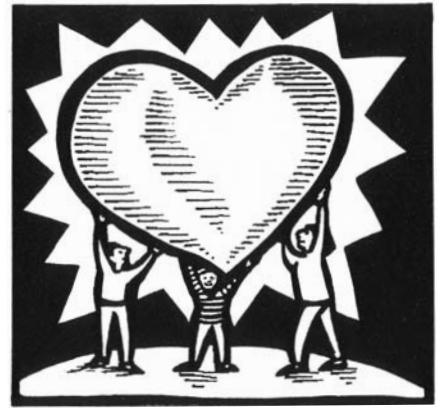


For BCGEU Community Social Services members: **Questions and Answers about RRSP's and Pensions**



Why have a pension?

Retirement plans are an important part of your overall approach to providing for income when you are no longer working. Many people will be on pension longer than they will have been in the paid work force, and this holds particularly true for women.

What about the universal programs in Canada?

Retirement plans are about replacing income at retirement. Most workers will receive a full or partial entitlement of their Old Age Security benefits (OAS). In 2005 the maximum benefit is just over \$475/month. The Canada Pension Plan (CPP) provides for a pension based on one's overall work history. In 2005 this benefit can be as much as \$828/month. These two public programs form a sound basis for retirement income planning – but perhaps don't replace enough income for a person to maintain a reasonable standard of living at retirement.

What type of pensions exist?

Most pension plans are based on a formula. Their attraction is that you can quickly assess how much income your pension will be able to replace at retirement. These plans most commonly give specific examples based on percentages. For example, you might have 20 years in a pension plan and expect to replace about 25% of your salary in the form of a pension. If that is added to your OAS and CPP benefits then a meaningful amount of your pre-retirement income will be replaced. These arrangements can be described as "defined benefit" pension plans.

What are the advantages of a defined benefit plan?

An attractive aspect of the defined benefit pension plan is that the benefits are not affected by the investment performance of the pension fund assets. The risk in a defined benefit plan is borne by the plan sponsor. As well, these plans often provide cost-of-living protection in retirement.

What role does a RRSP play?

Group and personal registered retirement savings plans (RRSPs) also form an important part of a worker's retirement income. In many cases these form a source of supplemental income. However, it appears that an increasing number of Canadian workers are becoming more reliant on RRSPs as part of their retirement income.

What are some of the features of an RRSP?

In order for an RRSP to be an effective retirement vehicle, requirements include:

- 1) high contributions, generally more than 8% of salary;
- 2) limitations on withdrawals before retirement;
- 3) disciplined and productive investment policies.

In addition to these factors, which members may not necessarily be able to control – you must be concerned about the prevailing interest rate at the time you wish to draw an annuity/pension from your RRSP account, as it is the basis determining the amount you will receive. If interest rates are low, as they are now, it means annuities (a fixed monthly payment for life) will not generate as much in monthly benefits.