Boilermakers Lodge 191 Pension Plan 2017 Year in Review

https://boilermakers191.org/

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Annuity or Variable Benefit?

You are ready to draw an income from your workplace pension plan and/or your personal RRSP savings.

What are your options? How do you decide which option is the right one for you?

In this article, we will give you the unbiased, factual information you need to make an informed decision. But first, let's get the jargon out of the way.

Retirement – We need a term to mark the time when you start spending your savings. The word "retirement" will not cut it these days, as we each have our own unique and personal vision of what "retirement" means. Dipping into your savings may or may not coincide with when you consider yourself retired. So, let's just use "when you are ready to draw an income."

Annuity – This is a contractual financial product purchased from a life insurance company (insurer). It is designed to provide a stream of income for the purchaser's (annuitant's) lifetime in exchange for a lump sum payment made to the insurer (premium).

Variable Benefits – Under the tax rules, you may transfer your registered savings (from your work-place pension plan and/or your RRSP) directly into a registered decumulation (spending) vehicle, referred to here as "variable benefits." Unlike an annuity, you have flexibility to choose how much and how often you withdraw from your variable benefits account, within certain parameters.

Registered Retirement Income Fund (RRIF) – This is a variable benefits vehicle subject to tax rules. You may transfer your RRSP savings directly into a RRIF. Annual minimum withdrawals are prescribed by the Income Tax Act (Canada), but there is no maximum withdrawal.

Life Income Fund (LIF) – This variable benefits vehicle is subject to both tax and pension rules. You may transfer your savings under a registered pension plan such as your workplace plan, or a LIRA directly to a LIF. The annual minimum withdrawal is the same as a RRIF. The annual maximum withdrawal is prescribed by provincial/federal pension legislation and varies among different pension jurisdictions.

Locked-in Retirement Account (LIRA) – A LIRA is a savings vehicle for locked-in funds. You can think of it as a resting place for your savings from your workplace plan until you are ready to draw an income. You transfer from a registered pension plan or a LIRA to a LIF; from an RRSP to a RRIF.

Now, let's look at your two options: annuity or a variable benefit.

Did You Know?

Plan Expenses (Compare to 2%-3% in Retail Market): **0.7%**

$37.8M Plan Assets (Net)

Investment Earnings

Year	Earnings
2017	$3.5M
2016	$2.8M

Gross Rate of Return: **9.6%**

637 Total Pension Plan Members

Contributions: **$2.9M**

5 Participating Employers

Benefit Payments: **$2.3M**

$3.8M Increase in Net Assets

Your Options

In a nutshell:

- If you want to 'set and forget' your income withdrawal, then buying an annuity may be an appropriate strategy.
- If you prefer the flexibility offered by variable benefits, then you will have to pay attention to your investments and adjust your withdrawals when needed. The trade-off for having this flexibility is that you bear the investment risk and the longevity risk (the risk of outliving your money).

Remember that you can use one or a combination of these two strategies. For example, you can use part of your savings towards purchase of an annuity to give you the peace of mind of a fixed income and use the remainder towards variable benefits. You can also buy an annuity later in life when you no longer wish to manage your money.

The following table provides you with a comparison between annuity and variable benefits.

	Advantages	Disadvantages
Annuity	• You have a secure, fixed income for the rest of your life – you cannot run out of money • Insurance company bears any investment and longevity losses • You don't have to worry about investing your money • You can choose death benefits that provide for your dependents	• Insurance company reaps investment gains • Income may be lower than you want • It is a one-time choice - You have no flexibility and cannot change your mind later • You could die early and have less to leave to your heirs • When you die, any death benefit payable is subject to the terms of the contract
Variable Benefit	• You have control over your investments and may reap investment gains • You have some flexibility in how much you withdraw • You can always buy an annuity later • When you die, the amount remaining in your account goes to your beneficiaries	• You may not want to manage your investments, especially as you age • You bear the investment and longevity losses • You can run out of money if investment returns are not good or if you live a long life

Ready to Draw an Income?

Let's say you are ready to draw an income from your savings under the Plan and you have made your choice between an annuity, variable benefits or a combination. The next thing to do is to implement that decision. Here's how you go about it:

- **Annuity** – You need to obtain quotes from a few insurance companies and compare them. You also need to choose the form of annuity you want to purchase. The most common forms of annuity are:
  - Single life – Under a single life annuity, you receive payments for the remainder of your life and payments cease upon your death (paid for one life);
  - Joint & survivor – Annuity payments continue for your life and your surviving spouse's life (paid for two lives). Payments continuing to your surviving spouse may be in full or at a lower amount;

  To enhance the type of annuity, you may purchase:
  - Guarantee period - Annuity payments are paid for life, or for the guarantee period, whichever is longer.

- **Variable Benefits** – You need to open an account with a provider and start investing your money. Your two main options here are:
  - A financial institution of your choice; or
  - The Plan's internal LIF option

The Plan's Internal LIF Option

You can leave your money in the Plan and receive payments from the Plan. Your account balance will remain invested with the Plan and you can continue to take advantage of the following benefits:

1. Robust governance structure – The Plan is overseen by the Board of Trustees. In carrying their fiduciary duties, the Trustees engage professional advisors and consultants and together they continuously monitor the Plan's investments and operation.
2. Professional fund management – the Plan's assets are invested with professional fund managers in intstitutional funds. These funds are accessible only to Plan sponsors.
3. Low fees – Given the pooling of assets under the Plan, the fees are substantially lower than what you can obtain in the retail market on your own.
4. Dedicated and bias-free support – The staff at D.A. Townley are engaged by the Trustees to provide member services. They provide member support in a non-conflicted environment.

Not Ready to Draw an Income?

Under the tax rules, you have until December 31 following your 71st birthday to convert your registered savings, whether it is your personal RRSP savings or your account balance under the Plan, to a stream of income (annuity or variable benefits). If you are not yet ready to draw an income from your savings under the Plan, you have the following options:

- Transfer your account balance to a LIRA with a financial institution of your choice; or
- Leave your funds in the Plan and enjoy the benefits described above.

The staff at D.A. Townley are available to discuss these options with you and answer any questions you may have. Please contact Craig Drake-Johnson at D.A. Townley at (604) 918.4263 or cdrakejohnson@datownley.com. If you are seeking financial advice from a professional advisor, you may find the article "How to Choose a Financial Advisor" useful.

How to Choose a Financial Advisor

You may want to consider the following criteria when looking for an advisor. Please keep in mind that these criteria are suggestions — only you can decide which advisor is right for you.

What are their qualifications? Make sure your advisor is qualified. Certified Financial Planner (CFP) or Registered Financial Planner (RFP) designations are recognized qualifications which indicate a solid base of education, training, and knowledge in financial planning.

Do they have the right expertise and experience? Different financial advisors have different areas of expertise, so it's important that you find someone who can address your specific needs. For example, if you wish to consult an advisor on matters related to your pension plan, the financial advisor you choose should have a primary focus and experience in pension issues and financial planning (as opposed to, say, investment management).

How are they compensated? Financial advisors can be compensated in a number of ways. This is an extremely important question to ask because you want to be sure they are advising you with your best interests in mind.

- Commission — Traditionally, this has been the most common way financial advisors are compensated. What this means is that when you purchase an investment, a certain percentage of the total purchase will be deducted and a portion of that will go directly to your advisor.
- Fees based on assets — Some financial advisors charge an annual fee that is based on a percentage of the assets you have invested with them. Often, this is what is meant when the advisor claims to be "fee based."
- Flat fees — Another method of compensation is through a flat fee. Some advisors charge a flat hourly rate or a flat fee for putting together a comprehensive financial plan. Typically, there is little concern for a conflict of interest since they are getting paid whether you purchase any investments or not.

Suggested Criteria

Qualifications
Experience and Expertise
Method of Compensation
Location
Referrals
In-person interview

Although these are the three most common methods of compensation, you may find that advisors will offer a combination of these approaches. You need to understand how the advisor is compensated and whether you are comfortable with the arrangement based on the purpose of the work.

For example, if a financial advisor is paid through commissions on investment or retirement income products, or through fees that are a percentage of assets held, then that financial advisor will get paid only if you take your money outside your pension plan. An advisor in that situation has a potential conflict of interest in advising you on these decisions.

For this reason, you may want to consider advisors who are compensated on a flat fee only basis. Implementation of your financial plan often involves purchasing financial products and services. Insofar as your decisions involve such purchases, a flat fee financial advisor may or may not be able to execute them. In that case, you can still implement your plan with the help of other service providers, , e.g., your banking and brokerage contacts, or a financial advisor who is compensated on a commission basis.

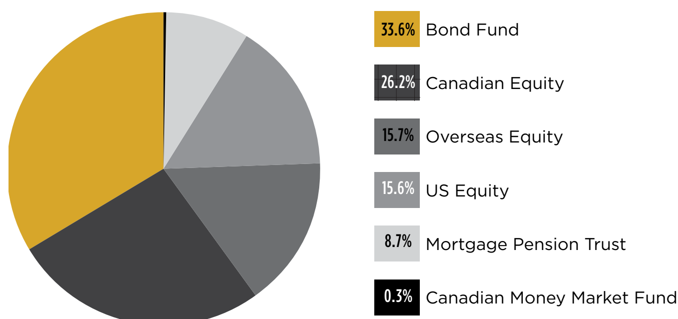
What province do they work in? Finding a financial planner in your province of employment ensures that he/she will be accessible to you and that they understand the pension and tax rules applicable to you.

Talk to others. One of the best ways to find potential financial advisors is by talking to others. You may want to ask your accountant if they know any financial advisors, or check with friends and family or anyone else that you trust for referrals. It is better to get some personal recommendations before turning to the internet or the phone book.

Interview the candidates. Once you have found a few advisors who appear to meet your requirements, it is time to meet with them. Most financial advisors will hold an introductory meeting at no cost. This first meeting is beneficial to both you and the advisor. It provides an opportunity for you to explain what you are looking for, ask questions, and determine if you are comfortable with the individual. It also allows the advisor to determine if they are suitable for the job.

Boilermakers 191 Pension Plan Asset Allocation

For the period ending December 31, 2017



Source: PH&N Investment Management Report

Your Retirement: How Much to Withdraw?

It's your first day in retirement! You look out the window – it is a gorgeous day and the birds are chirping. That day and the rest of your life is yours to spend in whatever way you like. A sense of euphoria takes over until you remember you have important decisions to make – not necessarily for that particular day but for the rest of your life. For one, you have to manage your money from here on as the paycheques will no longer roll in. But fear not – this article will help you gather your thoughts so you can tackle the issue with confidence.

How much money you need is a personal decision. While there is a different right answer for each person, you may wish to factor in these considerations into finding the answer that is right for you – and you can do the work now, in preparation for your retirement.

Considerations

Lifestyle – Only you know what kind of lifestyle you want to have in retirement and how much it costs. Prepare a budget and list your expenses now and in anticipation of retirement. Separate them into three categories: Must Have; Nice to Have; and Luxury to Have. The first category includes expenses that are necessary to meet your and your family's basic needs. The second category includes expenses that are not necessary but enhance your basic needs and provide comfort. The expenses under the third category fulfill your dreams.

Preparing a budget will give you a clearer picture of your family's overall expenses and how these expenses may change in retirement. It also allows you to identify where the trade-offs, if any, may need to be.

Investment strategy and risk tolerance – Your tolerance for risk sets the stage for how you invest your money or what type of payout vehicle you use. This in turn drives the decision of how much money you can withdraw each year. For example, if you've played it safe and have used your retirement funds to purchase a life annuity, then you are guaranteed a fixed stream of income for the rest of your life. If you have your retirement funds in an RRIF and/or LIF type of vehicle, your income is not guaranteed and you need to factor in the investment returns you earn on your funds. If the return you earn each year is not sufficient to meet your needs, then you have to decide whether you dip into your capital, reduce your spending or change your investment strategy.

How long you live – You will not have the answer to this one, but a recent study by the Society of Actuaries has shown that more people underestimate their longevity

than get it right, and that many plan for too short a period. Living a long life can be a good thing, but you do not want to run out of money, and you do not want to sacrifice your enjoyment today in fear of tomorrow. Here's a simple way of looking at things using a formula. Let's say you have $500,000 in your retirement savings.

a. If you put the money in a simple bank account (earning no interest) and withdraw $20,000 each year, it will last you 25 years.

b. If you invest it in a sensible, diversified portfolio that might be expected to have a long-term average return of, say, 4% per year and you spend only the investment earnings of $20,000 per year, your money lasts you forever.

c. More likely, you'll find that your investment return bounces around, and perhaps you end up somewhere in between (a) and (b) – i.e., you make somewhere between 0% and 4% return on average. Then your money lasts somewhere between 25 years and forever.

But remember, it is not so much the formula as the thinking behind the formula.

Now that you understand these considerations, put them into action right away by starting to plan for your retirement. And if you decide to retain a financial advisor to help you with your retirement planning process, you can now have a much more engaging conversation with your advisor.

After all, you want to enjoy that beautiful first day in retirement and the rest of your life with peace of mind!

Trustees

The Board of Trustees met twice in 2017 on January 9 and March 29.

Starting in 2017, two alternate trustees have been appointed. An alternate trustee attends trustee meetings to familiarize themselves with the Plan and the Board in expectation that the alternate trustee will, when required, be appointed as a replacement trustee.

2018 Trustees

Ken Burgoyne
John Hautaluoma
Shane Skirrow
Robert Taylor
Gordon White

Alternate Trustees

Brody Smith
Kyle White

We've Moved!

4250 Canada Way, Burnaby BC V5G 4W6

pensions2@datownley.com

T (604) 299.7482 or 1 (800) 663.1356

F (604) 299.8136

This material has been compiled by the Trustees from information provided to them and is accurate to the best of their knowledge at the date of printing.