

Offered A Pension Package?

Many Canadians fail to take the time to explore their options when offered a pension package by their employer. This lack of action can be catastrophic to their future financial security, especially if there is no cost-of-living/ indexing tied to the offered pension payments.

Inflation can erode what seems to be a reasonable income currently into an inadequate income in your later years. For example, using the Bank of Canada online calculator which applies the real rate of inflation which has occurred*, a basket of goods which cost \$1000 back in February 2009 would cost \$1,181.90 in February 2019. That is at an experienced average annual inflation rate of just 1.69%. What if we experience higher inflation going forward? Over the previous 10-year period (Feb. 1999 – Feb. 2009) inflation was slightly higher (an average of 2.19% or just 0.5% more) – at this rate of inflation that same \$1000 amount of spending in 1999 would have cost \$1,242.36 in 2009. Higher inflation rates and longer periods of time erode your purchasing power even further. For example, if you had turned 65 back in February 1999 and been given \$1000/ month to spend, by February 2019 that very same amount of goods bought 25 years earlier would cost \$1,574.94 25 years later. Clearly, \$1000 does not go nearly as far as it did historically.

The need for inflation-protected income is clear. There are many options available and an accredited Investment Advisor can offer you professional advice which suits your unique circumstances. If you do not want to put up with the volatility of the stock markets (which have historically provided an excellent hedge against inflation), your Advisor may be able to shop around and obtain annuity quotes from various insurance companies to match the guarantee of your pension plan (current legislation does not permit them to do more than match your quoted cash flow; however, if another insurance company can generate that cash flow cheaper you would be offered an additional lump-sum payout). This additional amount could be invested to help offset the safety of the annuity/ pension payments with investments which provide better opportunities to help offset at least a portion of the inflation you may witness over the balance of your life.

It obviously pays to invest an hour or 2 of your time, before signing any pension agreement, examining your options. I recommend seeking the advice of a professional insurance “broker”. Brokers can shop many insurance companies to find you competitive rates and options at the time. Many Investment Advisors act as insurance brokers as well. These Advisors can both help secure an insurance annuity and help to invest any further payout. Investment Advisors with professional level credentials, such as the CFP; CPA; CIM; or, CFA designations have studied many additional hours, over and above standard industry requirements, to help Canadians invest their monies wisely.

Best wishes for financial freedom in your retirement.

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*as measured by the Consumer price Index

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