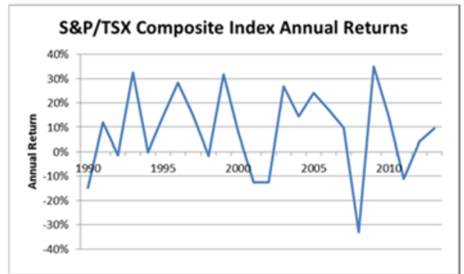
8 Reasons Why an RRSP Does Not Measure Up to the Labourers' Pension Fund

(Part 3 of 8)

Are you prepared for market volatility?

There's no doubt about it - market volatility is a challenge for any type of pension plan that invests in equities. In simple terms, volatility reflects the ups and downs of the market. Given an obvious key objective of any pension plan is to provide a stable, secure pension throughout retirement, it comes as no surprise that market volatility has the ability to wreak havoc on pensions!



Market volatility needs to be managed. If the market performs poorly, you may see your RRSP decline in value, and you may not have the ability to make additional contributions to bring the value back up (either because of limited RRSP room or limited cash availability). This is particularly troublesome if the market drops either right before you plan to retire, or during retirement, as there is no time to wait for a market recovery!

The Labourers Pension Fund (LPF) has a number of built-in mechanisms to help fight against turbulent markets:

- **Alternative Investments:** Having access to investments such as private equity and infrastructure can reduce the volatility in the plan while still achieving higher return returns.
- **Smoothed Value of Assets:** The LPF uses a smoothing technique that spreads investment gains and losses over 5 years to help contribution and benefit levels remain steady when the market otherwise may not.
- **Contingency Reserve:** This reserve is like a rainy day fund - it can be used when times are bad and built up again when times are good. This cushion helps weather the ups and downs and is mostly used for ironing out the volatility in the investment markets.
- **Deficit Funding:** When a market downturn creates a plan deficit, the LPF has the ability to put more money into the plan so that benefits are not reduced. This can be a large advantage over an RRSP where the only options available may be to either reduce your level of pension or work longer (or possibly go back to work if you are already retired).

In summary, **REASON 3**: The LPF has the ability to weather market volatility through a number of mechanisms that are typically not available under an individual RRSP. This is good news for all members, as it means pensions can remain stable as evidenced through the plan's strong history of pensioners never having had a reduction in their pension entitlement.

Stay tuned for the next installment of our 8-part series of the key advantages of the LPF over an RRSP.