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

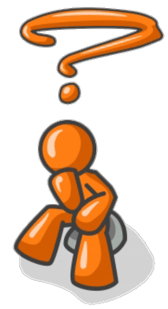
(Part 6 of 8)

Do you know what your savings will provide in terms of a monthly pension at retirement?

The market value of your RRSP may seem like a lot of money now, but do you know how much monthly pension it will provide for your lifetime upon retirement? You may be surprised.

An RRSP is known as a capital accumulation plan – what that means is that the money contributed to the plan accumulates with interest until you need it at your date of retirement. It can be a real challenge, however, to predict what level of monthly pension the RRSP account will actually provide when it comes to that big day. You may need a financial expert to help you figure that out, and that should be done long before you plan to retire.

The following are key factors related to your RRSP that will impact the actual pension that you receive at retirement:



- Future investment returns
- Level of contributions
- Date of retirement
- Life span

An example: Let's say you are currently 30 years old and decide to start diligently saving $100 a month in your RRSP because you want to retire when you are 60. If the fund earns a net return of 6% a year, then your RRSP account will accumulate to almost $100,000 by the time you reach age 60. Seems like a lot of money, right? Let's also say that you expect that you will live until age 85 and want to use your RRSP savings to provide a pension for the next 25 years of retirement. Again, assuming a 6% net return, your savings will provide for a pension of approximately $600 a month, or $7,000 a year, which may not be as much as you thought.

There are some additional considerations as well. While you may have some control over the contributions you make and the date you want to retire, the net investment returns of the RRSP and how long you are going to live introduce some uncertainty to the best laid pension projections. In other words, what happens when actual experience doesn't match what you are expecting? These uncertainties make it difficult to predict the actual pension that you will receive from your RRSP and/or the timeframe on which you can expect to collect that pension, both of which create risk for you.

The Labourers' Pension Fund (LPF) differs from an RRSP in that your pension is determined by a well-defined formula. To help with retirement planning, your accrued and projected pension amounts are provided every year on your annual benefit statement. In addition, the LPF pension staff is always available to answer any questions you may have related to your pension.

In summary, **REASON 6:** The LPF clearly defines your monthly pension, as no one likes surprises.

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