

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

(Part 4 of 8)

How much risk can you handle?

Are you a risk-taker, or do you prefer to play it safe? When it comes to pensions, most people would probably say they would prefer to play it safe. But did you know that each additional 1% earned on your investments over the long term equates to over a 25% increase in the amount of your pension at retirement? But to get that additional investment return, it typically means taking on a little more investment risk, so it can be a real challenge balancing benefit security with benefit adequacy.



Consider this – if a market meltdown happens to occur a month before you are planning to retire, your personal savings, including any pension funds saved in RRSPs, will take an immediate hit if you are invested in a higher risk portfolio that includes stocks. The bad news is that you may now not be able to afford to still retire at the date you had planned, and may be forced to wait for some type of market recovery. Because of this risk, most individuals close to retirement tend to move more towards fixed income investments with less risk, and that means typically less investment return and a lower pension at the end of the day.

However, the benefit of being part of a large pension plan like the Labourers' Pension Fund (LPF) is that the investment risk, as well as other risks, is collectively shared among all members. This means that the overall plan can assume more risk because the risk tolerance is based on the group as a whole, and not on an individual basis. This allows the plan to obtain higher returns and provide larger pensions than the individual investor. Any market meltdown will still need to be weathered by the plan as whole, but will not affect the pensions of individuals close to retirement like under an RRSP.

In summary, **REASON 4:** Collectively, the plan can assume more investment and other risk, leading to higher returns and higher pensions. By pooling the retirement risks with your fellow LiUNA members, you are helping each other to higher and more secure pensions now and into the future!

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