

Pension Q&A

Q *The pension booklet says if I leave the plan before I'm 55 years old, I can transfer the commuted value of my pension to a locked in financial vehicle.*

What is a commuted value and how is it calculated?

A In simple terms, the commuted value is the value today of your pension at age 65. For example, if you are age 40 and have earned a monthly pension of \$500 commencing at age 65, the commuted value is the amount of money that you would need to invest today for 25 years (between age 40 and age 65) to be able to provide you with a lifetime pension at age 65 of \$500 per month.

The method of determining the commuted value of a pension benefit takes into account factors such as interest and mortality (i.e. your life expectancy). The commuted value is highly sensitive to your age and interest rates. The older you are, the larger the amount of money you would need to invest, and the higher the interest rate, the lower the amount of money you would need to invest. The interest rates that are used to calculate the commuted value are set by the Canadian Institute of Actuaries and may change each month.

Q *Locked-in?*

The pension booklet says that if I leave the plan before I'm 55, I can transfer the commuted value to an approved locked-in financial vehicle such as another employer's pension plan or a locked-in RRSP. Otherwise, I can use the commuted value to purchase a life annuity (that starts no sooner than age 55) from a Canadian life insurance company.

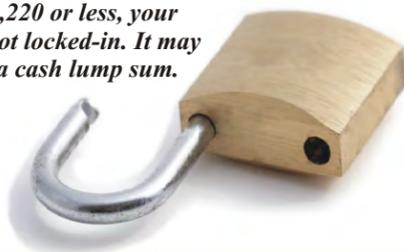
What does locked-in mean and can the commuted value be unlocked at a later time? Can't I just take my pension out of the plan like I can take cash out of my RRSP and pay tax on it?

A The whole idea of having a registered pension plan is to provide you with lifetime income after you stop working. It is meant to supplement your Canada Pension Plan (CPP) and Old Age Security (OAS) so that you have a more secure financial future. To make sure that happens, pension law says that, if your pension benefit is greater than a

certain amount, it must be used to provide lifetime income during your retirement and it cannot be unlocked (taken as cash) at any time.

For example, a locked-in RRSP does not allow you to make withdrawals as you can with a regular RRSP. No later than the end of the year in which you turn age 69, you must transfer your money out of the locked-in RRSP to another type of financial vehicle such as a Life Income Fund that provides regular income payments within a minimum and maximum amount set by law.

When your pension is not locked-in
If the value of your monthly pension when you leave the plan or retire in 2005 is \$342.50 or less, or if the commuted value of your pension benefit is \$8,220 or less, your pension is not locked-in. It may be taken as a cash lump sum.



If you use the commuted value to purchase a life annuity from a life insurance company, your money, in effect, is still locked-in since you can't take it out as cash. An annuity pays you a regular income stream for life.

Your pension news is produced by the UFCW Union Pension Plan Trustees. If you have questions regarding your pension:

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please keep this newsletter as reference material

your pension news

The "B" Word - You can do it! *Creating a budget may be the most important financial step you take*

When you think of the word budget, does it bring to mind the word diet? Do you think of having to cut down on, or cut out, all your favourite things and of feeling denied as a result? Does having a budget equate to being handcuffed?

While the word has a negative connotation for some people, financial advisors are quick to point out that budgeting is the first step to achieving financial stability and success - putting your money to work for you rather than being controlled by it.

Regardless of your income level, budgeting and tracking your expenses lets you see where your money goes, and can help you reach your financial goals. Your goal may be to pay off your credit cards or get out of debt. Or, it may be to save for a down payment on a house, to start an education fund for your children, to buy a car, save for a vacation or save for retirement. Whatever your goal, you will get there much faster if you have a plan, and a budget is just that - a spending plan.

Organize the closet

Rather than thinking of budgeting as a hardship, try thinking of it as something good you are doing for yourself.

Some financial advisors compare budgeting to clearing out a cluttered hall closet - one that you are afraid to open in case the junk falls out on your head! Take everything out of the closet and arrange it on the floor so you can see exactly what's there. Give the closet a thorough cleaning, put up some shelves and put all the items back. Just by organizing your closet, you end up with more storage space than you had before. If, in the process, you decide you don't need that old pair of boots with the holes in them, or the broken fishing rod or the rocking horse that the kids have long outgrown, then you will have even more room in the closet.

For many people, personal finances are like that messy closet. Debit cards and credit cards make it easy to spend impulsively. Direct deposits and bill payment withdrawals make it easy not to pay attention to day to day finances. It is easy to keep the messy financial closet door closed and simply hope you won't get hit on the head with a financial surprise when you have to open the door for a specific reason. When you organize your financial closet by budgeting, you'll very likely find extra money - more room in the closet!

Write it down

If you need some help setting up your budget, there are lots of online resources and software programs to help. But you may find paper and pencil is all you need.

- *Start with a budget worksheet that shows your income and expenses. It should be detailed but not so detailed that it becomes cumbersome to maintain. Make sure the categories are customized to your situation.*
- *Beside the income and expense categories, have three columns: monthly budgeted amount, actual amount spent and the difference between the two.*
- *If you have expenses that occur infrequently divide the expense into monthly amounts. For example, if you pay your auto insurance every six months, divide the payment into six and budget for it monthly.*



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The "B" Word - You can do it! *(continued)*

Keep track of everything you spend throughout the month. At the end of the month:

- Add up your total income and total expenses
- Subtract your total expenses from your total income to see your net income for the month.
- If your net income is negative, in other words, your expenses are greater than your income, you probably need to look at your spending habits
- If your net income is positive, consider transferring the difference to a savings or investment account at the end of each month. Extra cash left in a regular checking account always seems to get spent!
- When you've tracked your spending for a month or two, see if there are any areas where you can make cuts.

"B" Benefits

Budgeting puts you in control! It helps you stay organized so you can see exactly how much money you have and how you are spending it. A budget helps relieve the anxiety of not knowing if or when you can afford something. And, it can even help family communications by providing an opportunity for you and your spouse to discuss the sometimes difficult subject of finances and spending priorities.

Get Some Help

If you feel intimidated about starting a budget, there are a lot of resources to help. You may find what you need at your local library or bookstore (see Recommended Reading). Or you may need to talk to someone.

The Credit Counseling Society of British Columbia is a non-profit organization that can provide expert advice to get you on the right track. Your first credit counselling or budgeting session is always free. If you choose to start a debt management program, a small fee will be built into your monthly payment based on your individual financial situation.

For more information about the Society, call them toll free at 1-888-527-8999, or visit their web site at: <http://www.nomoredebts.org>.

Sage Advice

"Some couples go over their budgets very carefully every month, other just go over them." Sally Poplin, author

"Proportion your expenses to what you have, not what you expect." English Proverb

"The world is divided into two kinds of people, those who spend a great deal of time saving money, and those who spend a great deal of money saving time." Peter Cochrane, Head of BT Labs, UK

Budget Worksheet Sample

Category	Monthly Budget Amount	Monthly Actual Amount	Difference Between Actual and Budget
Income			
Wages Paid			
Other Income			
Income Subtotal			
Expenses			
Mortgage or Rent			
Property Taxes			
Groceries			
Toiletries, Household Products			
Clothing			
Cable			
Telephone			
Utilities			
Child Care			
Car Payments			
Gas			
Auto Repairs/Maintenance/Fees			
Auto Insurance			
Other Transportation (tolls, bus, subway, etc.)			
Home Owners/Renters Insurance			
Home Repairs/Maintenance			
Entertainment/Recreation			
Gifts/Donations			
Hobbies			
Interest Expense (mortgage, credit cards, fees)			
Magazines/Newspapers			
Pets			
Miscellaneous Expense			
Expenses Subtotal			
Net Income (Income Less Expenses)			



Recommended Reading

There are lots of books that can help you with your personal finances. Here are a couple of titles to consider:

Pocket Guide to Living on a Budget

Author: Peter Sander

What the Chapters Bookstore Says:

Most of us try to live on a budget -- and give up. The reason we fail is that the budgets we create are usually too rigid and unrealistic for anyone to follow. Jennifer Bayse Sander and Peter J. Sander provide money-conscious readers with techniques for planning a budget suited to their individual spending and saving needs. Using straightforward language, The Pocket Idiot's Guide to Living on a Budget offers a practical step-by-step program for determining where you can cut back and where you can't. It also advises you where to put your money to maximize savings and how to have funds left over for special indulgences.

Family Budgets That Work

Author: Larry Burkett

What the Chapters Bookstore Says:

Plan for unexpected expenses, set financial goals, avoid debt, and build a stable financial future with the help of this practical resource.

Money for Life: Budgeting Success and Financial Fitness in Just 12 Weeks

Author: Steven B Smith

What the Publisher Says:

After reading "Money for Life, you will be equipped and empowered to:

- Stop spending more than you make.
- Plan for unexpected expenses, including emergencies.
- Set money aside in advance of spending requirements.
- Implement a household budgeting system that makes communicating easy and fun.
- Put in place a plan for debt elimination.
- Use credit cards without increasing debt.
- Successfully manage your money in today's "cashless" electronic society.

Thinking of Your Child's Education? *Budget to make RESP Contributions*

If saving for your child's education is one of your goals consider budgeting for regular payments to an RESP and receive a grant from the government! Starting now will help build the foundation for your child's future.

An RESP is a savings plan registered under the Federal Income Tax Act. Income such as interest earned within an RESP is not taxed until it is withdrawn, and then it is taxed at the rate of the student who is using the funds.

A great incentive to starting an RESP is the Canada Education Savings Grant (CESG). The federal government contributes 20 per cent of all contributions you make, to a maximum of \$400 per year per child with a lifetime maximum of \$7,200. The grant money earns income within the RESP just as your contributions do.

If your child decides not to go on to college or university, the RESP can be transferred to another child who is planning to attend or you can transfer the RESP income into your own RRSP tax-free, if you have the RRSP contribution room, to a maximum of \$50,000.

Your bank, financial institution or financial advisor can provide more information on starting an RESP for your child's education.

