



# Pension Watch

A CUMIS Life Insurance Company Publication

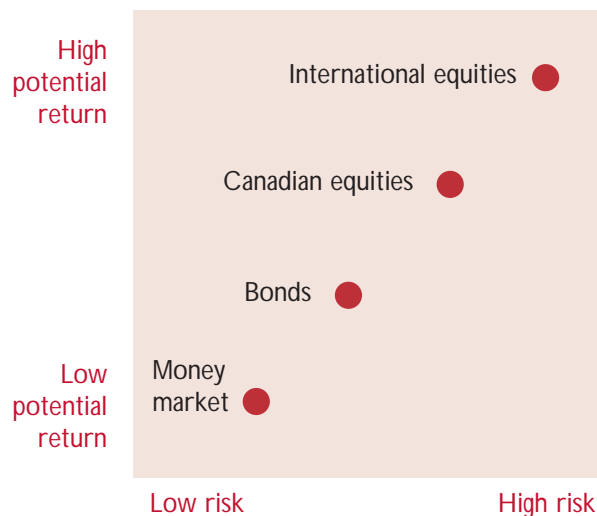
November 2002

The last edition... of Pension Watch we looked at the changes to the TSE 300 Composite Index. This edition looks at Understanding Risk and Return.

## Understanding Risk and Return

Risk is an important concept in financial planning. Your tolerance for risk, or fluctuations in the value of your investments, will influence your decisions as to what guidelines to set when constructing your portfolio. Factors that will influence your risk tolerance include your investment time horizon, age and stage of life, financial responsibilities, accumulated savings and other assets, income earning capacity, and a factor that cannot be quantified — your personal comfort level.

When investors hear the term “risk” they often think only of downside risk (potential for loss). However, risk should not be viewed without the recognition of potential reward. It may be more helpful to think about risk as fluctuation in the short-term value of investments. By this definition, both gains and losses are part of the risk equation



### The Risk/Return trade-off

Virtually every type of investment offers some degree of risk (or volatility) as well as an opportunity for a reward (appreciation in value of the investment, or the accumulation of dividends or interest).

The balance between volatility and opportunity is referred to as the risk/return trade-off. This concept illustrates that accepting some degree of risk is a necessary element in achieving returns. A truly risk-free investment would be one with an unchanging value - which is not a suitable investment goal for most investors.

Different asset classes (stocks, bonds, and cash) involve different degrees of risk and return. In general, fixed income investments such as bonds and money market securities offer lower risk and reward than equities. Over the long term, therefore, equities can be expected to produce the highest returns - but will also fluctuate in value more than other types of investments.

Ultimately, the amount of risk you are comfortable with is a personal decision. Regardless of other considerations, you have to be comfortable with the level of risk in your portfolio. If security and stability are more important to you than opportunities for higher growth, your risk tolerance is low and you are probably better suited to lower-risk investments. If higher long-term growth is your objective and you are not worried by short-term fluctuations in the value of your investments, your risk tolerance is high.

# PERFORMANCE COMPARISON

| For The Period: Ending Sept. 30, 2002           | 3 Months %         | 1 Year % | 3 Year % | 5 Year % | 10 Year % |
|---|--------------------|----------|----------|----------|-----------|
| <b>ACTIVELY MANAGED FUNDS</b>                   |                    |          |          |          |           |
| Balanced Fund                                   | -6.5               | -5.2     | 0.8      | 2.3      | 8.7       |
| Canadian Equity Fund                            | -11.7              | -10.4    | 0.6      | 1.0      | 10.0      |
| Overseas Equity Fund <sup>(1) (2)</sup>         | -16.2              | -15.6    | N/A      | N/A      | N/A       |
| U.S. Equity Fund <sup>(2)</sup>                 | -13.4              | -19.9    | -11.4    | -3.0     | 9.0       |
| Dividend Income Fund <sup>(3)</sup>             | -8.4               | -4.6     | 15.6     | 11.7     | 17.1      |
| Short-Term Bond & Mortgage Fund                 | 2.8                | 6.2      | 7.5      | 6.4      | N/A       |
| Bond Fund                                       | 4.4                | 9.1      | 8.4      | 7.2      | 9.2       |
| Canadian Money Market Fund                      | 0.7                | 2.6      | 4.4      | 4.6      | 4.9       |
| <b>CUMIS FUND</b>                               |                    |          |          |          |           |
| Retirement Security Fund                        | 5.9 <sup>(4)</sup> | 6.2      | 6.6      | 7.0      | 7.6       |
| <b>PASSIVELY MANAGED FUNDS</b>                  |                    |          |          |          |           |
| S&P/TSE Composite Index Fund <sup>(5)</sup>     | -13.0              | -8.0     | -2.5     | -1.0     | N/A       |
| U.S. Equity Index Fund <sup>(2) (6)</sup>       | -13.4              | -20.1    | -10.8    | 1.0      | N/A       |
| EAFE Equity Index Fund <sup>(2) (7)</sup>       | -16.6              | -15.6    | -12.4    | -3.0     | N/A       |
| Universe Bond Index Fund <sup>(8)</sup>         | 4.2                | 8.6      | 9.0      | 7.5      | N/A       |
| Conservative Balanced Index Fund <sup>(9)</sup> | -3.5               | -1.5     | 1.4      | 3.6      | N/A       |
| Moderate Balanced Index Fund <sup>(10)</sup>    | -6.8               | -4.3     | 0.7      | 2.9      | N/A       |
| Aggressive Balanced Index Fund <sup>(11)</sup>  | -10.2              | -7.6     | -1.5     | 1.1      | N/A       |
| <b>INDICES</b>                                  |                    |          |          |          |           |
| S&P/TSX Composite Index                         | -13.1              | -8.1     | -2.5     | -1.1     | 8.6       |
| S&P 500   | -13.6              | -20.1    | -10.6    | 1.1      | 11.7      |
| MSCI EAFE                                       | -16.2              | -15.2    | -12.4    | -3.0     | 5.5       |
| ScotiaMcLeod Universe                           | 4.2                | 8.5      | 7.9      | 6.8      | 8.9       |
| 30 Day T-bills                                  | 0.7                | 2.4      | 4.1      | 4.2      | 4.7       |

(1) Overseas Equity Fund merged with Euro-Pacific Equity Fund March 9, 2001

(2) Subject to Canada Customs and Revenue Agency Foreign Content Limit of 30%

(3) Only available under group RSP and DPSP contracts

(4) Annualized

(5) Fund Inception: October 1999. Performance prior to November 1999 is for TSE 300 Equity Index Fund

(6) Fund Inception: January 2000. Performance prior to February 2000 is for Barclays U.S. Equity Index Fund - Canada

(7) Fund Inception: June 1999. Performance prior to July 1999 is for EAFE Equity Index Fund B

(8) Fund Inception: October 1999. Performance prior to November 1999 is for Universe Bond Index Fund

(9) Fund Inception: August 1999. Performance prior to September 1999 is modeled using the benchmark asset mix and index returns

(10) Fund Inception: June 1999. Performance prior to July 1999 is modeled using the benchmark asset weights and index returns

(11) Fund Inception: August 1999. Performance prior to September 1999 is modeled using the benchmark asset weights and index returns

## NEWS FROM THE GOVERNMENT

### Old Age Security

*Old Age Security (OAS) benefit rates are increased for the October to December 2002 quarter.*

Basic OAS benefits, paid to people age 65 and over, are \$449.32 per month. The Guaranteed Income Supplement is \$533.99. The Spouse's Allowance and the Widowed Spouse's Allowance are increased to \$797.14 and \$880.06 respectively for the October to December 2002 quarter.

## SASKATCHEWAN

The Pension Benefits Regulations, 1993 (Regulations) were amended by The Pension Benefits Amendment Regulations, 2002 effective April 1, 2002. The amendments give retirees greater control over managing their retirement savings by allowing the transfer of locked-in pension assets to a Registered Retirement Income Fund (RRIF) that complies with Section 29.1 of the Regulations.

The option is available to former pension plan members who have money in a Locked-in Retirement Account (LIRA) contract and are eligible to retire, and to individuals with existing Life Income Fund (LIF) and Locked-in Retirement Income Fund (LRIF) contracts. Pension plans are permitted, but not required, to offer a RRIF as an option at retirement.

### HIGHLIGHTS OF THE CHANGES ARE:

- Sections 30 and 31 of the regulations are repealed and replaced by Section 29.1. Existing LIRA contracts must be amended in order to allow for a transfer of assets to the new prescribed RRIF. Consequently, a new RRIF contract that complies with Section 29.1 of The Pension Benefits Amendment Regulations, 2002 must be established prior to the transfer of assets from a LIRA, an existing LIF or LRIF or from a pension plan.
- There is no maximum withdrawal limit under a RRIF.
- A consent form must be signed by the spouse before money may be transferred to a RRIF. Because there is no limit to the amount that may be withdrawn from the RRIF, a consent form must be signed by the spouse of a pension plan member or LIRA, LIF or LRIF contract owner prior to the transfer of the money to a RRIF.
- A spouse may waive his or her designated status under a RRIF. The waiver form may be signed before or after the death of the RRIF contract owner and must be filed with the financial institution that issued the RRIF contract. A spouse may revoke a signed waiver at any time by providing written notice to the financial institution that issued the RRIF contract. If the money in a RRIF contract is transferred to a RRIF contract issued by another financial institution, the contract owner must ensure that the signed waiver, if applicable, accompanies the transfer of assets.
- Financial institutions are no longer required to file specimen documents with the Pension Benefits Branch when they wish to market a LIRA or RRIF that will accept locked-in money subject to the Pension Benefits Act, 1992.

## NOVA SCOTIA - Pension Benefits Act Revisions

Bill No. 9, which amends the Pension Benefits Act (PBA), received royal assent on May 30, 2002. Some of the noteworthy changes are as follows:

### ELIGIBILITY

Eligibility for membership in a pension plan will be extended to part-time employees who have at least 700 hours of employment with the employer in each of two consecutive calendar years. Currently the eligibility requirement is earnings-related for part-time employees.

### FLEXIBLE PENSION BENEFITS

A pension plan is now able to allow members to make optional ancillary contributions that will be used to purchase optional ancillary benefits (flexible pension benefits).

### ANCILLARY BENEFITS

Where the consent of the employer is an eligibility requirement for entitlement to receive an ancillary benefit and a member of the

pension plan has met all other eligibility requirements, the employer will be deemed to have given consent.

### UNLOCKING OF SMALL BENEFITS

It will be possible to pay out the commuted value of a former member's pension benefit as a non locked-in lump sum payment if either:

1. the annual benefit payable at normal retirement is not more than 4% of the Year's Maximum Pensionable Earnings (YMPE) under the Canada Pension Plan for the year that the former member terminated employment; or
2. the commuted value of the pension benefit is less than 10% of the YMPE for the year that the former member terminated employment.

### SURPLUS

If there is a surplus on plan wind-up, a negotiated settlement regarding the distribution of the surplus will be required if there is a claim to all or part of the surplus from the employer.

## NOVA SCOTIA - Draft Regulations

On July 25, 2002, a Consultation Paper containing proposed revisions to the Regulations under the PBA was released for public comment. While many of the proposed changes to the Regulations are housekeeping in nature, a few, as outlined below, are significant:

### COST CERTIFICATES

Cost certificates would no longer be required for defined contribution pension plans.

### EMPLOYER CONTRIBUTIONS

Employer normal cost contributions and special payments for periods on or after January 1, 1988 would have to be remitted in monthly instalments no later than 30 days following the month for which the contribution is payable. The current permissible time lag is 90 days.

### LOCKED-IN RETIREMENT ACCOUNT (LIRA)

The owner of a LIRA who is at least 65 would be permitted to withdraw funds from the LIRA provided the value of all of the owner's life income funds (LIFs) and LIRAs is less than 40% of the YMPE for the current year.

### LIFE INCOME FUND

Several modifications are proposed regarding LIFs specifically:

- A LIF would no longer have to be converted to an annuity at age 80.
- A LIF would be allowed to provide for a bridging benefit for individuals between age 54 and 65.
- The factors that are required to determine maximum withdrawals from LIFs would be included in tables contained in the Regulations.

### UNLOCKING RULES FOR LIRAS AND LIFS

The owner of a LIRA, a locked-in registered retirement savings plan or LIF who has a mental or physical disability that is likely to shorten considerably his or her life expectancy would be entitled to make withdrawals. Such withdrawals would be allowed even if the pension plan from which the funds originated did not provide for commutation in the event of shortened life expectancy.

### EFFECTIVE DATE

The revisions to the PBA included on Bill No. 9 and the final version of the Regulations are expected to come into effect on January 1, 2003.

Pension Watch is intended to provide general information only.  
It is not intended to provide specific advice or recommendations for any individual.

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