



Pension Watch

A CUMISLife Insurance Company Publication

February 2001

The last edition... of Pension Watch we looked at market indecision investment management. This edition takes a look at year-end distributions.

YEAR END DISTRIBUTIONS

In early January, we receive a number of telephone calls from clients inquiring about the decline in unit values for most of the funds that we offer as reported for the first business day of the new year. This decline, which varies in magnitude from fund to fund and from year to year, is due to the year end distribution. A distribution when automatically reinvested in additional units, does not affect the market value of your portfolio.

All of the investment funds that we offer, like most Canadian funds, are mutual fund trusts under the Income Tax Act. As such, if a fund "pays" the net income and net realized capital gains earned by the fund to the unit holders at the end of each year, the fund incurs no tax liability.

In order to facilitate the allocation of taxable gains to the unit holders, the funds declare a final distribution each year end. This distribution is comprised of net income and net realized gains earned by each fund for that year. This distribution is then automatically reinvested in additional units of the fund at the fund's ex-distribution unit value.

For example, on December 31, an investor owns 1,000 units of a fund that has a net asset value of \$10.00 per unit (portfolio market value = \$10,000). The fund declared a \$2.00 per unit distribution.

This distribution is reinvested at the ex-distribution value (\$8.00 per unit), resulting in an additional 250 units for a total of 1,250 units, at \$8.00 per unit (portfolio market value = \$10,000). There is no change to the market value of the investor's portfolio.

Although the unit value of the fund drops by the size of the year end distribution, the market value of the investment remains the same. The investor now owns more units at a lower unit value. As stated above, the magnitude of the year end distribution varies from fund to fund and from year to year and has no bearing on the performance of the underlying fund.

The distribution applies only to realized capital gains, which arise when securities are sold for an amount greater than their adjusted cost base. Not all gains realized in 2000 result from 2000 investments. Some securities purchased prior to 2000 appreciated in value before being sold in 2000. The appreciation in value of securities we continue to hold is reflected in an increased unit value. This appreciation remains unrealized until the security is sold, at which time it becomes a "realized gain".



PERFORMANCE COMPARISON

For The Period: Ending Dec. 31, 2000	3 Months %	1 Year %	3 Year %	5 Year %	10 Year %
Balanced Fund	-0.7	11.4	10.1	12.7	12.9
Canadian Equity Fund	-2.7	15.9	13.0	17.4	14.4
Euro-Pacific Equity Fund*	-1.8	-12.1	8.5	8.3	N/A
U.S. Equity Fund*	-5.8	-5.8	6.8	15.2	18.0
TSE 300 Index	-13.6	7.4	11.7	15.5	13.1
S&P 500 Index	-8.1	-5.6	14.0	20.6	20.5
EAFEIndex	-2.9	-10.8	11.1	9.2	11.1
Short-Term Bond & Mortgage Fund	2.5	8.6	6.0	6.8	N/A
Dividend Income Fund**	11.6	53.4	18.9	27.1	19.5
Bond Fund	3.0	11.3	6.6	8.2	10.7
Scotia McLeod Universe Index	2.9	10.2	6.0	7.9	10.4
Canadian Money Market Fund	1.5	5.7	5.2	4.8	5.8
Retirement Security Fund (Guaranteed Fund)	6.7***	6.9	7.3	7.5	8.2

*Subject to Revenue Canada Foreign Content Limit

** Only available under group RSP and DPSP Contracts

*** Annualized

NEWS FROM THE GOVERNMENT

Government Retirement Programs - 2001

Old Age Security (First Quarter of 2001)					
Basic Benefits	GIS max. single	GIS max. married	Spouse's Allowance	Widow/Widower	
\$431.36	\$512.65	\$333.92	\$765.28	\$844.88	
		Canadian Pension Plan		Quebec Pension Plan	
		2001	2000	2001	2000
YMPE		38,300.00	37,600.00	38,300.00	37,600.00
Basic Exemption		3,500.00	3,500.00	3,500.00	3,500.00
Contribution Rate					
- employer		4.3%	3.9%	4.3%	3.9%
- employee		4.3%	3.9%	4.3%	3.9%
- self-employed		8.6%	7.8%	8.6%	7.8%
Annual contribution (maximum)					
- employer		1,496.40	1,329.90	1,496.40	1,329.90
- employee		1,496.40	1,329.90	1,496.40	1,329.90
- self-employed		2,992.80	2,659.80	2,992.80	2,659.80
Retirement benefit (maximum)		775.00/mo	762.92/mo	775.00/mo	762.92/mo
Death benefits					
- lump sum (maximum)		2,500.00	2,500.00	2,500.00	2,500.00
- spouse maximum under					
55		428.70	420.80/mo	644.47	631.31/mo
65		428.70	420.80/mo	690.22	685.69/mo
- spouse maximum 65 or older		465.00	457.75/mo	465.00	457.75/mo
- orphan (per child)		178.42	174.07/mo	56.65	55.27/mo
Disability benefits					
- contributor (maximum)		935.12	917.43/mo	935.09	917.40/mo
- child (per child)		178.42	174.06/mo	56.65	55.27/mo

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RETIREMENT SERVICES

In the last edition of PensionWatch we took a closer look at the latest retirement option to be introduced, the locked-in retirement income fund (LRIF). In this edition of PensionWatch we are taking a closer look at the first retirement option introduced as an alternative to the purchase of a life annuity, the life income fund (LIF). Unlike the LRIF which is only available in four provinces, the LIF is available in all provinces except Prince Edward Island.

The LIF is a special type of retirement income account that allows you some of the flexibility of the LRIF up to age 80, and then requires you to purchase a life annuity. To set up a LIF, money is transferred from your locked-in retirement income account (LIRA), locked-in registered retirement savings plan (Locked-in RRSP) or your registered pension plan (RPP) to a LIF account with a financial institution. Like the LRIF, there are minimum and maximum amounts that may be withdrawn up to age 80. These amounts are designed to make sure that:

- a) you draw income from the fund from the date you purchase the LIF to age 80,
- b) a reasonable amount of income is provided annually throughout your entire retirement, and
- c) there is enough money in the fund at age 80 to continue monthly payments of about the same amount as you received before age

80, through the purchase of a life annuity.

The features of the LIF are as follows:

1. The fund cannot be cashed out in one lump sum. It must be used to provide retirement income for your lifetime.
2. If you have a spouse when you transfer funds to purchase your LIF, then before the transfer can be made your spouse must sign a Spouse's Waiver Form giving up entitlement to the joint and last survivor annuity required by pension legislation. The waiver must be signed within a specified period before you purchase the LIF. The financial institution that you are buying the LIF from will provide you with a copy of the form.
3. You may at any time decide to purchase a life annuity with some or all of the funds in your LIF. You must purchase a life annuity before the end of the calendar year in which you turn 80. If you have a spouse when you purchase your life annuity you must purchase the joint and last survivor annuity required by pension legislation unless your spouse signs a Spouse's Waiver Form. The waiver must be signed within a specified period before you purchase the life annuity.

4. At any time up until age 69, you may decide to stop income payments and transfer the funds in your LIF to a LIRA or Locked-in RRSP. All funds in a LIRA or Locked-in RRSP must, however, be transferred to either a LIF, an LRIF or a life annuity by the end of the calendar year in which you turn 69. Please note, you may not transfer funds directly from a LIF to an LRIF.
5. The financial institution that you are buying your LIF from must be on the Superintendent's LIF list except in Ontario which currently does not require LIF contracts to be filed with the province. A copy of this list is available from your pension plan sponsor, your financial institution or the provincial pension authorities.
6. At the beginning of each year you must tell the financial institution holding your LIF how much you will be withdrawing in that year.

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7. The minimum amount that you must take out each year is set by Canada Customs and Revenue Agency (CCRA). The formula for determining the minimum amount is

- a) from the time you purchase your LIF to age 70 the value of your LIF account at January 1 each year divided by 90 minus your age at January 1 each year, and
- b) from age 71 on, the percentage set by CCRA

8. The maximum amount that you can take out each year is based on a factor that takes into account the number of years and months between your current age and age 90, and the expected investment return on the money in your LIF. The maximum withdrawal amount is similar to what you would have received with your pension funds had you purchased a term certain annuity to age 90 instead of a LIF.

A term certain annuity is a contract purchased from a financial institution, which guarantees to pay you a set amount for a set period of time, for example, \$5,400 per year for 10 years. It is not guaranteed for your lifetime.

9. If you die before you purchase a life annuity, your spouse or, if you do not have a spouse, your beneficiary will receive the balance of the funds in your LIF account.



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

IF YOU WOULD LIKE EXTRA COPIES FOR EMPLOYEE DISTRIBUTION,

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