



# MY FINANCIAL STRENGTH



## The Credit Union Rates vs Store Credit Card Rates\*

Home Depot .....	28.80%
Future Shop .....	29.90%
Sears .....	28.80%
<b>The Credit Union .....</b>	<b>as low as 6.15%</b>

\* Rates subject to change.

*“Recently a young member came to us unsure on how to build savings. We suggested that he open an RRSP with the Credit Union and set up an automatic payroll deduction to go into his account to increase savings and lower taxes. We also encouraged him to take his tax refund and reinvest it back into his RRSP. He is very happy because it is taken from his account every two weeks and for the first time he has been able to see his money grow. This will enable him to purchase his first home by the age of 25 and he will be able to utilize the RRSP home-buyers plan to maximize his RRSP benefits. Saving for it was simple.”*

— As told by a Branch Manager

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Certain conditions apply. Auto insurance is not available in Manitoba, Saskatchewan or British Columbia due to government-run plans.

*“I want to feel comfortable about retirement, but ... is my pension safe?”*

With the financial turmoil of the past 18 months and media coverage of pension plans which have gone or are going bust, many Canadians are wondering about their own safety net.

### The Canada Pension Plan – Good News

Every three years the Canadian Pension Board completes a review of the Canada Pension Plan (CPP) and the retirement income system. In May of this year the federal, provincial and territorial Ministers of Finance announced while the plan's assets were affected by the economic downturn the CPP remains strong. Any assets that were affected are not needed to pay benefits for at least another decade, by that time, it is fully expected that the investment income will be replaced.

There were lessons to be learned from the downturn and recommendations to modernize the CPP are being made. Four key areas are to be modernized and the proposed changes will be gradually phased in, starting in 2011.

- Employees can now continue to work while collecting their CPP.
- If collecting CPP prior to age 65 workers and their employers, will be *required* to contribute to CPP, which will thereby increase their CPP benefit. Pensioners who continue to work past 65 may *elect* to make CPP contributions. If they do so, their employer will be required to make contributions.
- Monthly pension adjustment rates for early and late retirement will be adjusted to fair market values. The reduction percentage for early retirement will increase from 0.5% per month up to 0.6%, while the increase percentage for late retirement will change from 0.5% to 0.7%. These changes will be phased in starting 2011 (early retirement) and 2012 (late retirement).
- Increase in general low earning drop-out from 15% to 16% in 2012 and 17% in 2014.

Since the changes will not start being phased in until 2011, anyone currently receiving benefits, or who plan to start receiving benefits prior to 2011, will be under the current set of rules.

### Employee Pension Plans

Like the CPP, the OPS Pension Plan suffered losses in 2008. That being said, 2008 started with a funding surplus which was allocated to a rate stabilization fund. This fund will be used to lessen the impact of the 2008 losses, which in turn will reduce the impact on future contribution rates. For more information on your pension plan check out the 2008 Annual Report available at [www.optrust.com](http://www.optrust.com) or [www.opb.ca](http://www.opb.ca). For a review of how to read your pension statement check out the back page of our February 2008 newsletter at [mycreditunion.ca](http://mycreditunion.ca) and click on BELONG, then Member Newsletters. If you have a pension plan from another employer talk to your Human Resources professional to find out how the economic downturn has affected their plan and what it means to you.

Understanding your pension benefits is key to improving and maintaining your Financial Strength. On the reverse is the Financial Strength test. If you have never taken it or it has been a while it's time. Getting a handle on your Financial Strength now will put you in an excellent position to maximize any RRSP contributions for the 2009 tax year. Come in and see us – we want to C.U. so we can help you build on your financial strength.

### Useful Links

- Employee pension plan: [www.optrust.com](http://www.optrust.com)
- General info on government plans, Old Age Security, and the Canada Pension Plan (CPP): [www.hrsdc.gc.ca](http://www.hrsdc.gc.ca)
- Proposed changes to the CPP (May 25, 2009 release): [www.fin.gc.ca](http://www.fin.gc.ca)

# Financial Fitness Test: Strength

Your physical strength is more about your core and less about how big your muscles are. Your core strength improves your flexibility and balance, at the same time as it keeps your bones strong. In financial health it is the same; savings are core to maintaining financial security at every stage of your life, including

## Fitness Test: Strength

What you will need to take the Financial Strength test:

- Net pay amount
- Savings account statements
- Retirement account statements including your pension statement
- Other investment statements
- Calculator, pencil/pen and some paper
- Internet access (not required but helpful)

### Step 1: Calculate your monthly take home pay

- Take your net pay and multiply it as follows:
    - If you get paid once a month that is your net monthly take home pay
    - If you get paid every 2 weeks multiply your net pay by 2.167  
 $\$1,153.67 \times 2.167 = \$2,500.00$
    - If you get paid every week multiply the amount by 4.333  
 $\$576.97 \times 4.333 = \$2,500.00$
  - Add any other monthly income:
    - Investment income  $\$37.56$
- Total net income  $\$2,537.56$**

### Step 2: Calculate your total monthly planned savings contributions

- Take each of your savings statements and add up the monthly contributions:
  - RRSP savings  $\$50.00$
  - All savings accounts  $\$0.00$
  - Mutual Funds  $\$100.00$

**Total planned monthly contributions  $\$150.00$**
- Take the total planned contributions and subtract 10% of your total net income to determine if you are meeting your savings goal  
 $\$150.00 - \$253.76 = -\$103.76$

### Step 3: Finding your place on the Strength scale

Part 1: Monthly savings – find the category where your monthly planned savings falls:

- **Surviving:** current non-retirement savings  $\$0 - \$49$
- **Stable:** current non-retirement savings  $\$50$  or more, but less than 10% of net monthly income
- **Secure:** 10% or more of net monthly income

In our example we are in the stable category – we save more than \$50 a month, but we are not meeting the minimum 10% of net monthly income requirement.

### Step 4: Calculate your total savings to fund your Retirement Plan

- Take each of your savings statements and add up the amounts:
  - All term deposits  $\$23,816.27$
  - All savings accounts  $\$1,214.25$
  - All Mutual Funds  $\$38,499.98$

**Total savings  $\$63,530.50$**
- Take 70% of your highest annual income and multiply that by the number of years you expect to be retired  
 $\$80,000 \times .70 \times 20 \text{ years} = \$1,120,000$
- Subtract what you currently have saved  
 $\$1,120,000 - \$63,530.50 = \$1,056,469.50$
- Divide by the number of years you have before retirement  
 $\$1,056,469.50 \div 22 \text{ years} = \$48,021.34$
- Calculate roughly what you need to save annually (including interest/investment income) to fund your retirement:
  - Subtract your total expected annual pension payments from all sources from your last calculation (i.e., CPP and your May'09 pension plan statement)  
 $\$48,021.34 - \$36,140 = \$11,881.34$

### Step 5: Finding your place on the Strength scale:

Part 2: Retirement planning – find the category that your retirement saving falls:

- **Surviving:** No retirement plan
- **Stable:** Minimal retirement plan, but planned retirement savings does not meet the annual target retirement savings requirements
- **Secure:** Retirement planning meets the annual target savings requirements

Go to [mycreditunion.ca](http://mycreditunion.ca) for:

- Bulk Up Your Savings by Cutting Expenses
- The Personal – Are your tires the right ones for winter driving?

## NEW CAR LOAN RATE 3.99%\*



\* Rate subject to change without notice.

While we are on our way to saving for retirement we do not save enough annually to meet the calculated annual requirements. Overall, then we are considered stable.

### Strength Improvement Plan

Now that you know where the gaps in your savings are it is time to come up with your new savings strategy. Paying yourself first is the simplest way to make an immediate difference. The minimum amount that you should be saving every month is 10% of your net monthly income – in our example that equals \$253.76 ( $\$2,537.56 \times .10$ ). This means each month before you pay anyone else – you immediately move a specific amount into a savings vehicle. Whether it is to a variable RRSP account, mutual fund, TFSA or a daily interest savings account – it happens first.

But first you need to know where you are in terms of your expenses. If you have not already done so now is the time to do your **Financial Cardio** test as you need to know if your savings goals can be met. Once you have your budget worked out determine if there are some extra expenditures you can cut back to get your savings ramped up over the coming months. It will not be too long before your strength improves along with your flexibility and cardio.

Not sure where to start – come in, drop us a line or give us a call.

### Increase in Deposit Insurance Coverage

The Deposit Insurance Corporation of Ontario (DICO) has changed the insurance coverage for eligible registered contracts held at member institutions. The change went into effect October 1<sup>st</sup>. Coverage is now **unlimited** for eligible deposits held in registered savings plans such as RRSP, RRIF, RESP and TFSA. For any unregistered eligible deposits, the maximum coverage continues to be \$100,000 per depositor at a single member institution. For more information go to [www.dico.com](http://www.dico.com)