Retirement Allowance Payout

A new tentative agreement regarding retirement or resignation severance has been put into effect for 2011. Effected employees will have to make the choice of immediately cashing out their retirement/resignation severance that has been accumulated to date, keep the severance until you resign/retire, or cash a portion of the severance and save the rest until you retire/resign, as there will no longer be an accumulation of severance for employees. Here are some options for you to consider when making this important decision.

Two Choices:

Take payout now
Leave money

If you choose to keep your accumulated severance and have it paid out when you actually resign or retire the actual amount received will depend on your salary increases obtained. To the extent your wage increases exceed inflation rates or depending how far they fall below the rate of return available by investing the payout now will determine the relative value of this option.

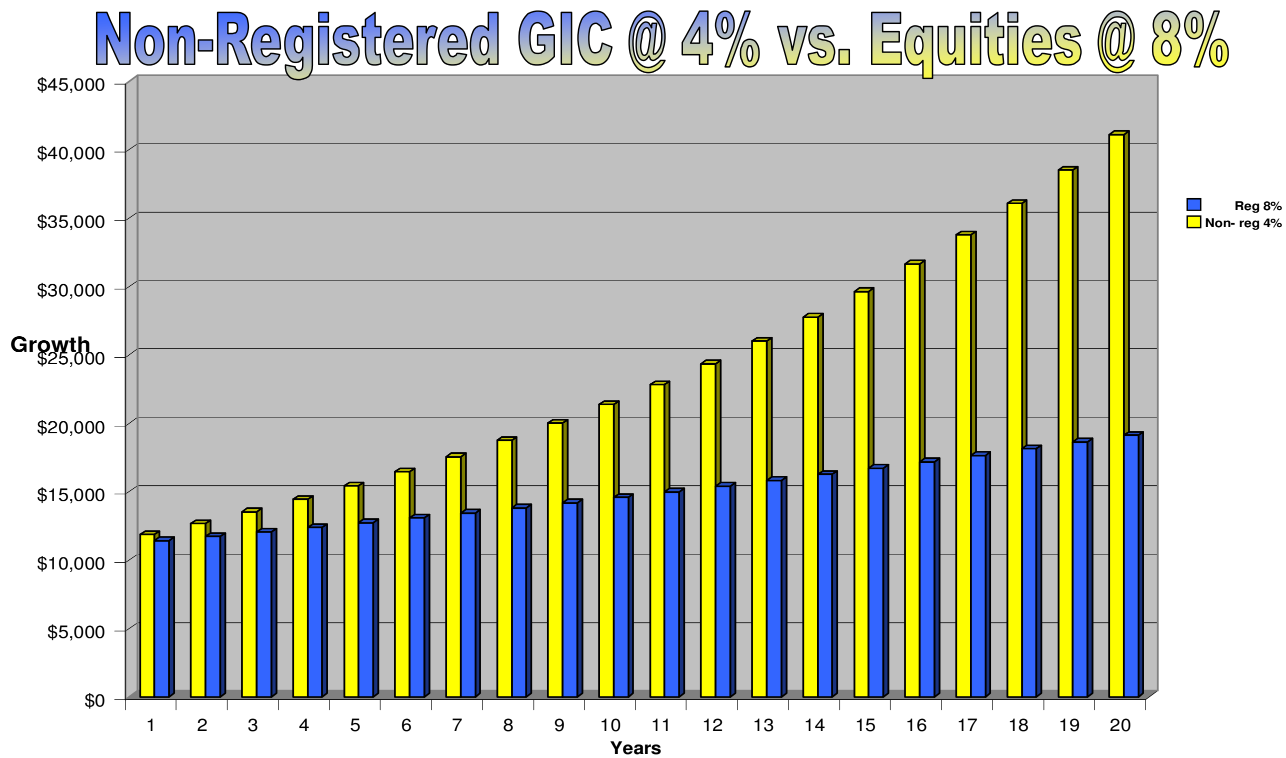
Theoretical Situation: You are making a $42,000 salary and are 40 years old you have been working in the Government for 20 years (since 1990) and you are planning to retire at 60, here are the various scenarios:

If you decide to take the cash payout there will be an immediate tax deduction of $5,032 in Ontario and $6,198 in Quebec.

If *you decide to take the cash payout here are some of your options:*

1. Invest in a Non-Registered Account

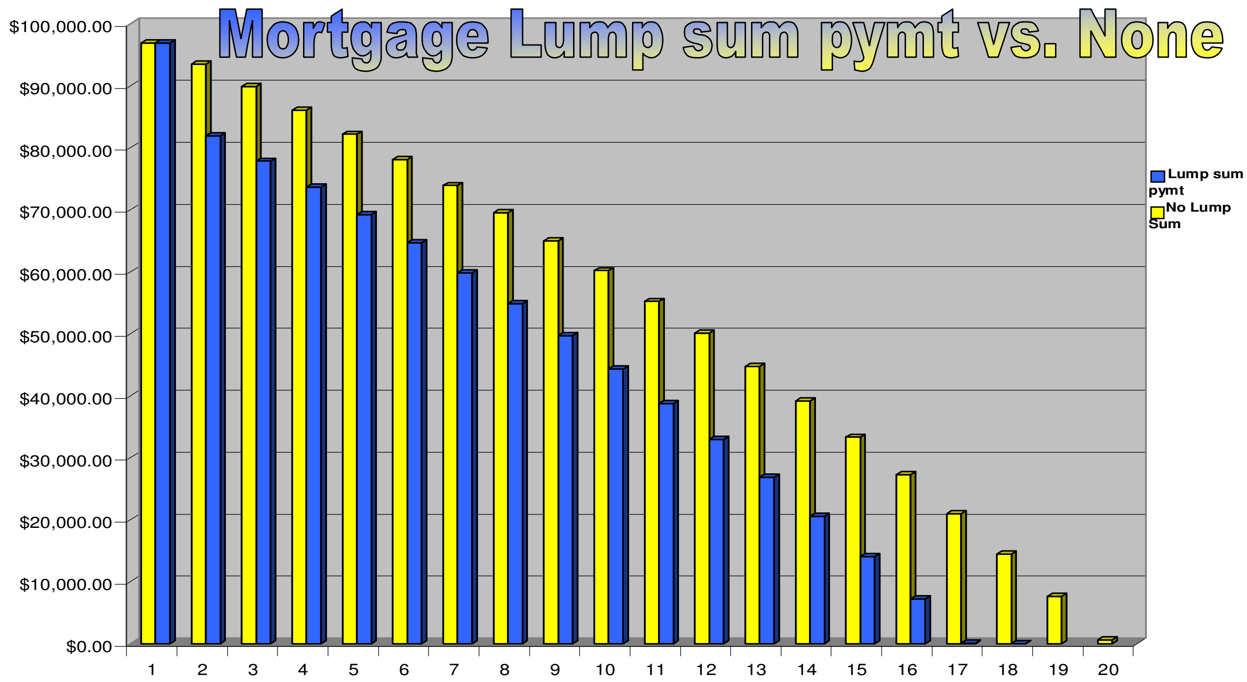
If you were to decide to take the money with the deduction and then invest in a non registered account here is an idea of the growth your investment would receive.



As per **Figure 1** if you invest in a GIC at 4% you will have $19,148 after 20 years (Ontario) when you retire at 60, $17,094 (Quebec). If you invest in Mutual Funds or other equity investments assuming an 8% return annually you will have $41,096 (Ontario) by 60, $36,787 (Quebec)

2. Pay Lump Sum toward your Mortgage

If you were to take the amount with the deduction and pay a lump sum down on your mortgage here is an idea of the savings you would incur by doing so if you had a $100,000 mortgage at 5% amortized for 20 years.

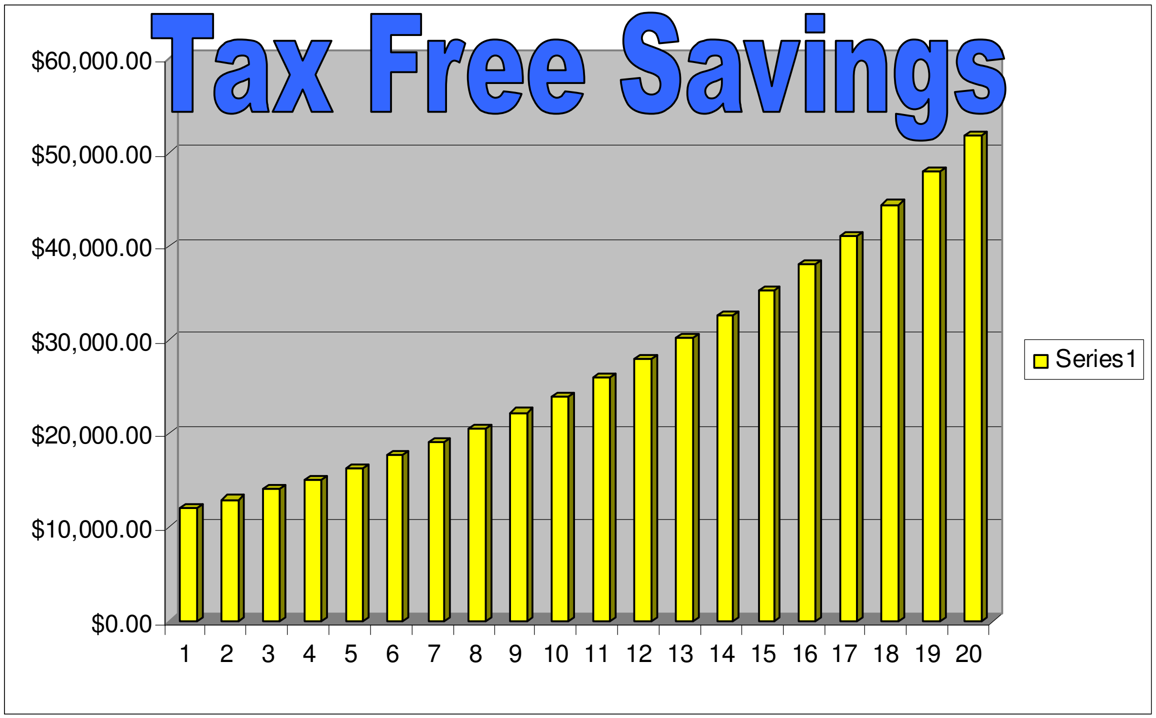


You will see here as per the **Figure 2** If you live in **Ontario** this will mean that over the life of your mortgage you will pay $11,113 less in interest as well as cut 3 years off your mortgage. If you live in **Quebec** you will pay $10,071 less in interest over the life of your mortgage and cut 3 years off.

Paying off higher rate credit card or other debt would be a priority over mortgage.

3. Put money into a Tax Free Savings Account (TFSA)

If you invested your $11,121, after tax monies, into a TFSA in equities you will end up with $10,739 more (a total of $51,835) than if you invested in a non-registered mutual fund.



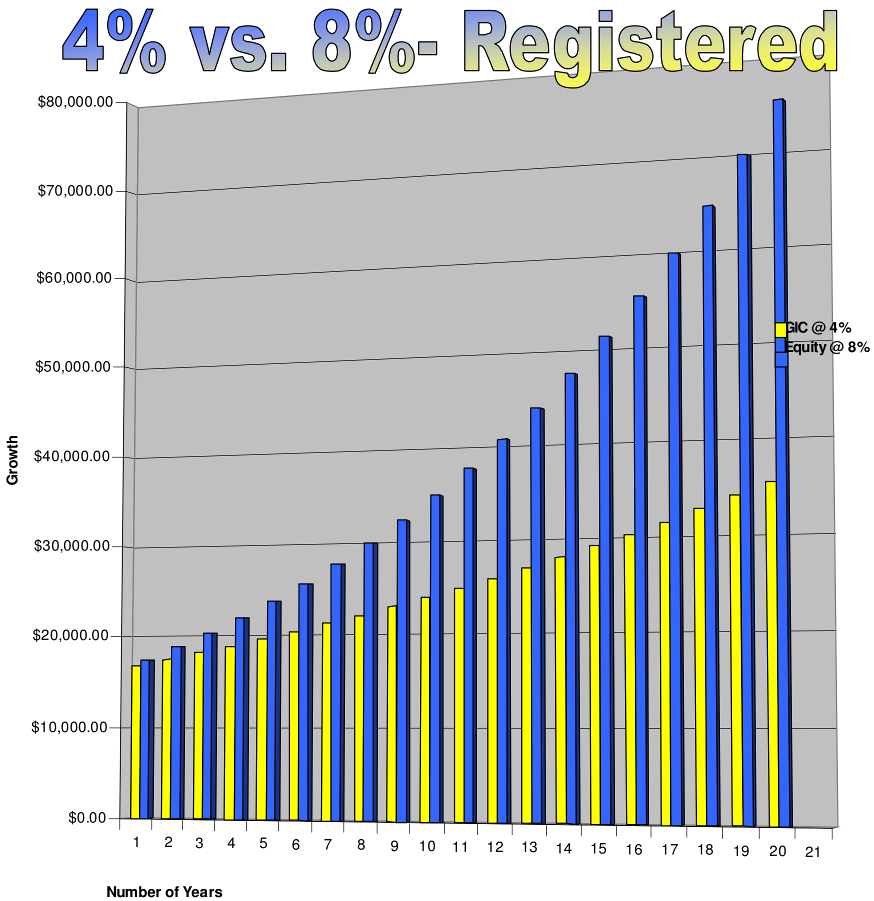
4. Transfer the severance directly into a RRSP

If you decide to put the money in a RRSP:

You will be paid $16,153 (20weeks/52*42(salary))

You can put it in a GIC at 4% until retirement and it will grow to become $35,393

You can invest in equity Mutual Funds which assuming an 8% return will grow your investment to $75,288 by 60.



5.Registered vs. Non-Registered

Finally, projected here in **Figure 5** is the difference between taking the cash payout and investing in a non-registered account vs. not losing the tax deduction by transferring directly to a RRSP. As you can see, the growth on the registered account is about $19,000 higher than the non-registered account, from adding the extra $5,032 to begin with