

The McCartney Report

April 2007

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The Last Word

"The tax on capital gains directly affects investment decisions, the mobility and flow of risk capital... the ease or difficulty experienced by new ventures in obtaining capital, and thereby the strength and potential for growth in the economy."

John F. Kennedy

Market Update

Markets across the globe recovered in March, after a poor February. Of particular note are the markets in the United States. The Dow, S&P500 & the NASDAQ all show positive returns even with all the doom and gloom in the sub-prime loan area.

March Month End & Year to Date World Indices Performance

<u>World Index</u>	<u>MTD</u>	<u>YTD</u>	<u>YOY</u>
S&P/TSX Comp.	0.92%	1.99%	8.71%
Dow Jones	0.70%	-0.87%	11.21%
S&P 500	1.00%	0.18%	9.73%
NASDAQ	0.23%	0.26%	3.50%
FTSE-100 (London)	2.21%	1.40%	5.76%
CAC 40 (Paris)	2.14%	1.67%	7.92%
DAX (Frankfurt)	3.00%	4.85%	15.86%
Nikkei (Tokyo)	-1.80%	0.36%	1.34%
Hang Seng (H.K.)	0.76%	-0.82%	25.28%

On April 2, 2007, the Subprime lender New Century Financial Corp., once the United State's second-largest provider of mortgages to high-risk borrowers, filed for Bankruptcy protection.

It is still unclear, what the impact will be on the remainder of the mortgage industry. Whether this has an impact on the housing market or the economy as a whole gives people lots of things to speculate about.

Scotia Capital's financial services analyst believes that Canadian bank exposure to the U.S. subprime market is negligible. Canadian financial institutions have much more conservative lending practices than their U.S. counterparts and there is greater regulatory oversight of the industry (source: ScotiaMcLeod's Portfolio Advisory Group's Special Report on Subprime lending: March 14, 2007 – for a copy of the report, give me a shout).

This month, the increase in the S&P/TSX Composite came from Financials, Materials, Consumer Discretionary, Industrials & Telecom, the biggest news being the rumours of a BCE takeout. Utilities & healthcare were the poorest performers for the month, while the always-interesting energy market remained roughly flat.

As usual, I stick to my mantra of diversification across different asset classes, styles, sectors & market capitalization (size) to help to insulate your portfolio from significant downturns in one market or the other.

Regarding the recent budget update, please drop by my website and download a copy of ScotiaMcLeod's

 **ScotiaMcLeod™**
Building Relationships for Life

analysis, written by our Financial and Estate Planning Group. Please note, there is no Capital Gains Tax Deferral – Did I really believe that this might happen?).

As an FYI, here are the 3 & 5 year index numbers:

March Three & Five Year Returns Year		
World Indices Performance		
<u>World Index</u>	<u>3 Yr</u>	<u>5 Yr</u>
S&P/TSX Comp.	15.31%	10.89%
Dow Jones	6.05%	3.50%
S&P 500	8.05%	4.37%
NASDAQ	6.69%	5.59%
FTSE-100 (London)	12.88%	3.65%
CAC 40 (Paris)	15.83%	3.75%
DAX (Frankfurt)	21.50%	5.09%
Nikkei (Tokyo)	13.85%	9.41%
Hang Seng (H.K.)	16.01%	12.41%

Pension Plans: Retiring? Retiring Early? Leaving the Company? What are your Options?

I decided to write this article after a discussion I had with a Toronto Police Officer who is approaching early retirement age. In a couple more years, he will be entitled to a full pension from OMERS. He also has some other options that he could take instead of the pension. The goal of this article is to discuss some of those options for the benefit of people who may be entitled to Defined Benefit Pensions (i.e. Teachers, Police Officers, Fire Fighters, Municipal workers, Health Care Workers, etc. to name a few).

So you're part of a big pension plan like Ontario Teachers Pension Plan, OMERS, Hospitals of Ontario Pension Plan (HOOPP), or some other large pension plan in Ontario. What exactly is this pension you're entitled to?

Bruce Cohen & Brian Fitzgerald, in their excellent book, "The Pension Puzzle", describe it this way:

"Each member is promised a certain level of lifetime retirement income based on a pre-set formula. There is one pool of money, not individual investment accounts. The sponsor—usually the employer but sometimes a union and/or a group of employers—is responsible for ensuring this pool will fund the promised benefits—currently the cause of much concern among employers, unions, employees and retirees."

Defined benefit pension plans are quite complex with many regulations and tax rules. Actuaries review the plans every three years or more to assess the plan's assets versus its liabilities.

Some more typical Defined Benefit structures are Final Average Earnings Plans, Career Average Earnings Plans, Flat Benefit Plans—Multi-Employer Pension Plans, & Flexible Pensions.

What options do you have as a member of a Defined Benefit plan when you retire or leave the company?

What options are best for you?

That all depends. The four options that most commonly exist are:

Option # 1 – Take the Pension

Option # 2 – Move the Value of the Pension Benefit to a New Pension Plan

Option # 3 – Take the Value of your Pension Benefit and buy an Annuity

Option #4 – Move the value of your Pension Benefit to a Locked-In Retirement Account.

What Option you choose will depend on a number of factors:

How do you feel about the Pension's ability to fulfill their promise?

Seems like an obvious answer right? Having said that, you may live a long time. Your pension plan may have to pay you for 20, 30, even 40 years in some cases. That's a long time to try to predict the future.

Is your Pension plan in a surplus or deficit? If it is in a deficit, what are their plans to get out of the red? How does that impact you now or down the road?

Being in a deficit may not be a problem as long as there is a plan to put it into a surplus at some point in the future. You will want to understand how the organization plans to do that and whether that will have an impact on their promise to you.

Who will be funding the pension plan once you're gone?

Will it be the employer, the employees, or some combination of the two? I looked at one large pension plan recently, and noticed that 70% of the members are over 40 years of age. That means within 10 years, that group will be approaching retirement and early retirement age. Can the younger employees be expected to fund the older ones or will something need to be changed in the plan?

Is the Pension Plan indexed to Inflation?

This is a very important question. If your plan is not indexed to inflation, then the amount you will receive is losing its value as the cost of living goes up.

If you've changed companies and the new company has a pension plan, is there a reciprocal agreement that will let you transfer your current or old credits to the new plan

This could be very beneficial to you if the new plan provides you with a pension based on a final average or best average earnings.

Other Important Questions

How much of the Pension (Commutated Value) can be transferred to an Annuity or Locked in Plan? Is any of that money taxable immediately? How much? What will the impact be on your future retirement?

Do you prefer to manage your own investments or have someone do it for you?

Do you require retirement income now? How much?

Do you wish to leave an Estate?

What happens if you pass away?

What happens if you spouse passes away?

Pension rules and options are complex. The goal of this article is not to convince you that any one of these options is superior to the others.

The goal is to demonstrate that each of these options has merit and that the

best option is the one that works the best with you and your family's financial and personal goals.

Having a financial plan done prior to considering these options will go a long way in helping you make a decision that you will be happy with.

Don't Delay!! If you address this early, you will likely get what you want.

Explore your options prior to your early retirement date. Options often disappear after this point so that you're left with Option #1 only.

If you are a member of a Defined Benefit Pension Plan and are approaching retirement or early retirement, I'd be interested in speaking to you.

The Super Cities WALK for MS (Update)

We've raised over \$9,000 to date!!!

Please help us raise more. Every little bit counts, and please remember:

While Multiple Sclerosis is most often diagnosed in young adults, aged 15 to 40, we know that it affects children, some as young as two years old. The impact is felt by family, friends and by the community. MS is unpredictable, affecting vision, hearing, memory, balance and mobility. Its effects are physical, emotional, financial, and last a lifetime. There is no cure.

Go to www.supercitieswalk.com

Once there, click on the orange box "Get online". The next step is to "Pledge a Walker". Type in my name and follow the instructions.

Please join me in my efforts to end this disease by making a donation today. Secure online donations can be made by VISA, Master Card, American Express or Diners Club. A non-alterable electronic tax receipt for your donation will be sent to you by e-mail.

Bring MS to an end. Donate today.

Sincerely, Jeff McCartney

Team Addition

Last month, I spoke about being in the process of hiring an assistant.

If you've heard my voicemail recently you would have noticed that I refer you to Sandra Martins should I be away from my desk.

I'm thrilled to have Sandra on board as an Administrative Assistant. She's been with the Scotiabank group since 2002, joining ScotiaMcLeod in July 2006. She's here to help me with all things "administrative" and she truly is a welcome addition to the team.

She can be reached at (416) 863-7778

That's it for April. Speak to you in May.

-Jeff

