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NAKAMUN ADVISOR

AN INFORMATION SERVICE OF THE NAKAMUN FINANCIAL GROUP

LEAVING — READY OR NOT

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WHEN THE TIME COMES to part company with your employer you may or may not have the luxury of planning in advance. If you make the decision to leave, you usually have time to plan your departure so you are well prepared. If your employer decides you're leaving, you may not have any time at all to make plans. Either way, there are issues that need your attention.

SHORT TERM CASH MANAGEMENT

"The foremost concern of an unemployed person is their ability to meet their financial needs," says Jim Wuest, Vancouver-based managing partner of A.W. Fraser & Associates, a Western Canadian firm of industrial psychologists and management consultants. "We recommend that released employees retain skilled financial advice and for many years we have recommended with confidence that they contact a Nakamun advisor. We recommend that individuals review their finances, prepare a net worth statement, and prepare a comprehensive budget through the re-employment period and beyond. The Nakamun advisor can make a valuable contribution during these highly emotional times."

Immediate cash needs are the priority if you leave your employment. Usually there are funds that are paid to you upon your leaving:

- Unpaid wages or salary — you are entitled to be paid for work you have done for your employer

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GOOD ADVICE | WELL GIVEN

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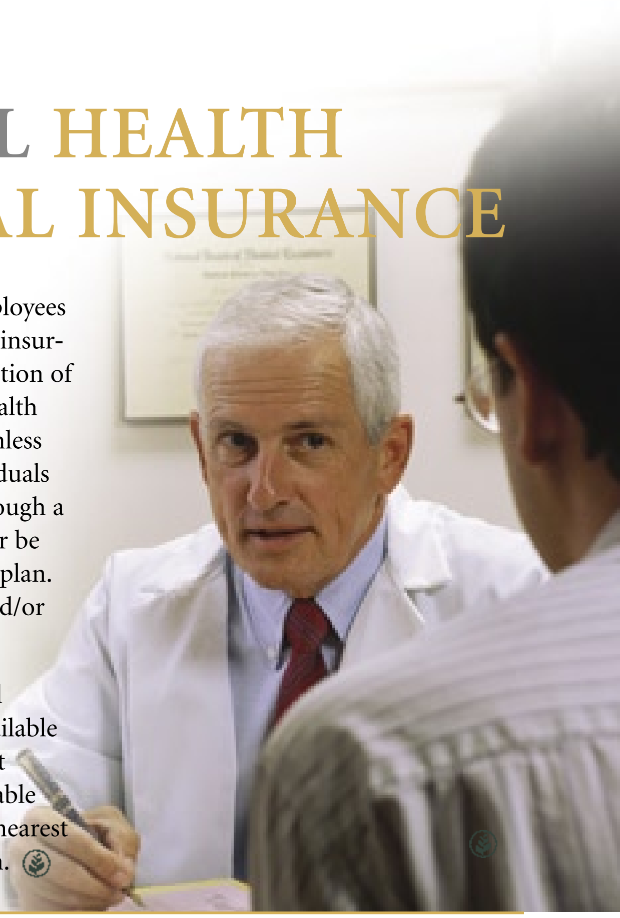
- Holiday pay — unless your holiday pay is factored into your regular pay cheques, you will receive payment for holidays for which you have not yet been paid
- Variable earnings — such as unpaid bonuses or commission
- Vested pension and/or company-sponsored retirement plan
- Previously agreed stock options
- Paid-up life insurance
- Opportunities to purchase a vehicle or equipment at significantly less than market value
- Lump sum or continuation of earnings equivalent to the number of months that could be reasonably required to find a comparable position
- Cash equivalent of benefits premiums for the number of months agreed upon in the previous item

Whether you negotiate a lump sum severance and/or compensation continuance for a period of time, some or all of the above funds may be available to you for your short-term and long-term financial needs when you leave an employer. Of course, if you are terminated from your job for "cause" or you choose to leave, your entitlement is significantly reduced.

"Skilled financial planning and budgeting result in relief and allow the released individual and their family to focus on opportunities and a productive job search," says Wuest. "A Nakamun advisor can also help the individual investigate options they may not have otherwise considered, such as early retirement, self employment, or purchasing a business."

Your Nakamun advisor will assist you in arranging the replacement of benefits you enjoyed as part of your employment compensation.

INDIVIDUAL HEALTH AND DENTAL INSURANCE



Most employers provide their employees with extended health and dental insurance that covers a significant portion of expenses not covered by a provincial health plan. When you leave your employer, unless you are among the few fortunate individuals who qualify for continued coverage through a retirees' benefits plan, you will no longer be covered by the group health and dental plan. You risk facing exorbitant healthcare and/or dental care expenses.

In the past, individual health and dental insurance was very expensive or not available at all. We're pleased to let you know that individual coverage is now indeed available and reasonably priced. Please call your nearest Nakamun office for further information.

CONTINUING LIFE INSURANCE COVERAGE

If one of your employee benefits has been group life insurance, you may be able to convert your coverage to a policy of your own. Some group plans that have been in effect and unchanged for more than five years may allow you to convert your group life insurance into an individual life insurance policy and do so without medical qualification for as long as you choose to pay the premiums. The premium costs, of course, will be significantly higher than they are in the group program and you will be paying the entire premium costs rather than sharing those costs with your employer.

More recent group life insurance programs are more restrictive. If your program allows you to convert to an individual life insurance policy, you will likely have two options. One is to continue the insurance for a year while you find another job that presumably would offer a similar life insurance program. The other option is to continue the life insurance to a maximum age 65. Again, you pay one hundred percent of your own premiums and they are significantly higher than they are in the group program.

If you don't have your own individual life insurance policy, and have been totally dependent upon your group life insurance, you are indeed more vulnerable. A word of advice for everyone is to carry your own life insurance in addition to your group plan so that you are covered, even if you leave your employer.

Keep in mind that as you get older, life insurance premiums become more and more expensive and even qualifying for life insurance becomes more and more difficult as health issues connected with aging become increasingly prevalent.

Check your employee benefits handbook to determine what happens to your group life insurance coverage when you no longer work for your employer. If the language is unclear to you, ask your employer for clarification or call your Nakamun advisor for assistance in interpreting the explanation in your handbook.

OPTIONS FOR EMPLOYER-SPONSORED PENSION PLANS

ONE OF THE MOST COMPLEX issues you will face if you leave your employer deals with the options available with your employer-sponsored pension plan. Delving into the rules and all the options available to you is beyond the scope of this article, but we will highlight a number of issues.

First of all, pension legislation is provincial and is therefore not uniform across Canada. Rules covering members of federal pension plans may also be different in terms of options available. Therefore, knowing where your pension plan is domiciled is important. If you are a member of a private-sector pension plan and are living in Alberta, you will be governed by Ontario rules if your pension plan is domiciled in Ontario.

Your age and length of employment when you leave may also be factors in determining the options available to you. For example, if you've been employed for only two years, your only option might be to transfer contributions plus interest to a personal registered plan or to another pension plan. Again, length of service and age will provide further options such as taking an immediate pension income or electing to leave a deferred pension that will start at a later date from the plan.

Some provinces allow you to "unlock" pension plan dollars so they can be transferred to a regular non-restricted Registered Retirement Savings Plan (RRSP). Each province treats this issue differently — some totally disallow this while others allow "unlocking" only if the value of the plan is below a certain amount.

If you belong to a **defined contribution** pension plan, you have the option of transferring your plan to a personal Locked In Retirement Account (LIRA). This is a restricted RRSP placing limitations on the amount of money that may be withdrawn as retirement income in a year. A **defined contribution** pension plan looks very much like a personal RRSP in that your contributions plus those of your employer go into a pool of investments (usually of your choice) and at retirement, the resulting lump sum is then used to provide an income. Therefore, you have no guaranteed level of pension income at retirement because your income is based on the performance of your investment assets and the dollar value.

If you belong to a **defined benefit** pension plan, you have a guaranteed level of pension income at retirement. Your income will be calculated on a formula based on years of service and average salary. In some circumstances, you may have the option of transferring the "commuted value" to another pension plan or to a LIRA. Once your funds are in a LIRA, you have full investment control. One important consideration deals with your entitlement to the employer's portion of contributions as well as your own when transferring.

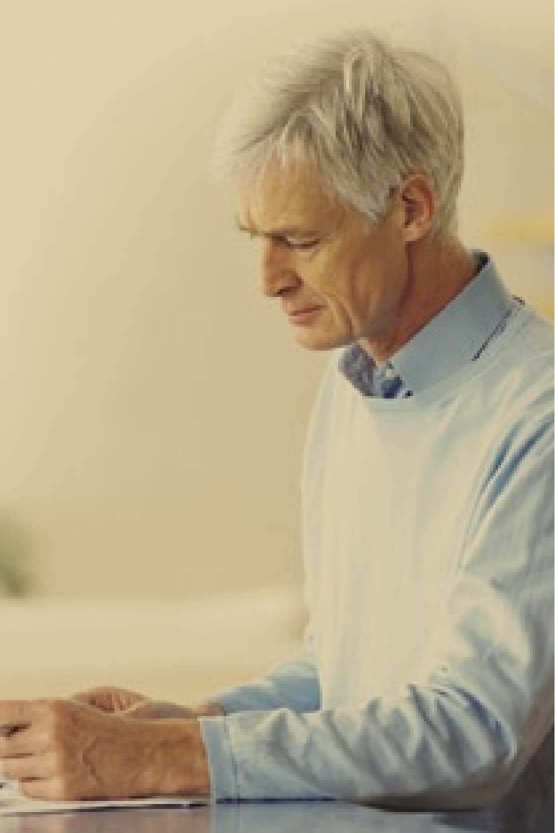
If you are able to transfer a commuted value to a LIRA, thereby controlling your funds, you are faced with a difficult decision. Is your best interest served by transferring or remaining with the pension plan in which there is a guaranteed level of pension income? There is an arithmetic consideration as well as issues of personal preference. Staying with the pension plan will guarantee you a level of pension income for life. Some pension plans have guaranteed indexing, providing raises each year in accordance with the increasing cost of living. Federal Government employees enjoy a 100 percent indexing feature, while some plans provide cost-of-living adjustments at only 60 percent of the inflation rate. Other pension plans provide no indexing at all. Indexing is an expensive feature and extrapolating a one-percent increase in pension income each year over the next 25 years represents a substantial amount of money.

Therefore, when looking at the arithmetic issue, factoring in an assumed rate of inflation is important to determine the potential value of indexing to you. You can also determine the rate of return you would have to earn year after year to match or exceed what the pension plan would provide. Please note that moving the commuted value to a LIRA will eliminate any guarantees, including guarantees on cost-of-living increases.

Other issues deal with your desire to manage your own money as opposed to leaving the money management with the pension plan. Other important issues deal with the treatment of your pension when you die. What is the benefit to your surviving spouse, and if you do not have a surviving spouse, is there any benefit to your estate? For example, the Federal Superannuation provides one option only to a married pensioner and that is a 50 percent survivorship benefit. Will this be sufficient? If the pensioner's spouse dies first, spousal protection cannot be extended to a new partner.

One other area that has garnered coverage in the press deals with the health of the pension funds themselves. Reports dealing with unfunded liabilities on pension plans understandably concern some of our clients.

If you are facing these pension plan decisions, we feel strongly that you sit down with your Nakamun advisor prior to making a decision. Once made, your decision is often irrevocable.



ALTERNATIVES TO GROUP DISABILITY INSURANCE

Unlike life insurance or extended health and dental insurance, group disability insurance is not easily replaced. When you leave your employer, you cannot convert your group disability coverage to an individual plan, you can't necessarily purchase your own disability insurance policy, nor can your spouse include you under his or her group plan at work. Yet, if you have not acquired sufficient assets to provide income for your day-to-day living expenses, and you suffer a disabling injury or illness while you are unemployed, you could face serious financial problems.

Statistics show that you are four to five times more likely to become disabled than you are to die before the age of 65. If you are between the ages of 40 and 50, you have about a 35 percent chance of becoming disabled for more than 90 days before you reach the age of 65.

If you have financial responsibilities that depend on your income, you would be wise to consider the options for replacing your group disability insurance. Employment Insurance (EI) has limited coverage for disability.

There are two options for replacing your group disability insurance:

- Traditional Income Replacement or Disability Insurance — if you are unemployed you are unlikely to be able to qualify for this type of insurance, therefore you should arrange for coverage before you leave your job. If you start your own company you can qualify only to the extent that you have signed contracts that assure your future income. In addition, you must meet the medical criteria. This type of insurance covers you in the event that you are injured or ill and cannot perform your specific type of work or "own occupation"
- Transitional Income Replacement Insurance — the big difference with this type of insurance is that if you are injured or ill, to qualify for benefits, you must be unable to perform any type of work for which you have sufficient skills and knowledge. This is commonly referred to as "any occupation"

In exploring the options for replacing group disability insurance, your Nakamun advisor will consider your specific needs and circumstances.

RE-EMPLOYMENT SERVICES

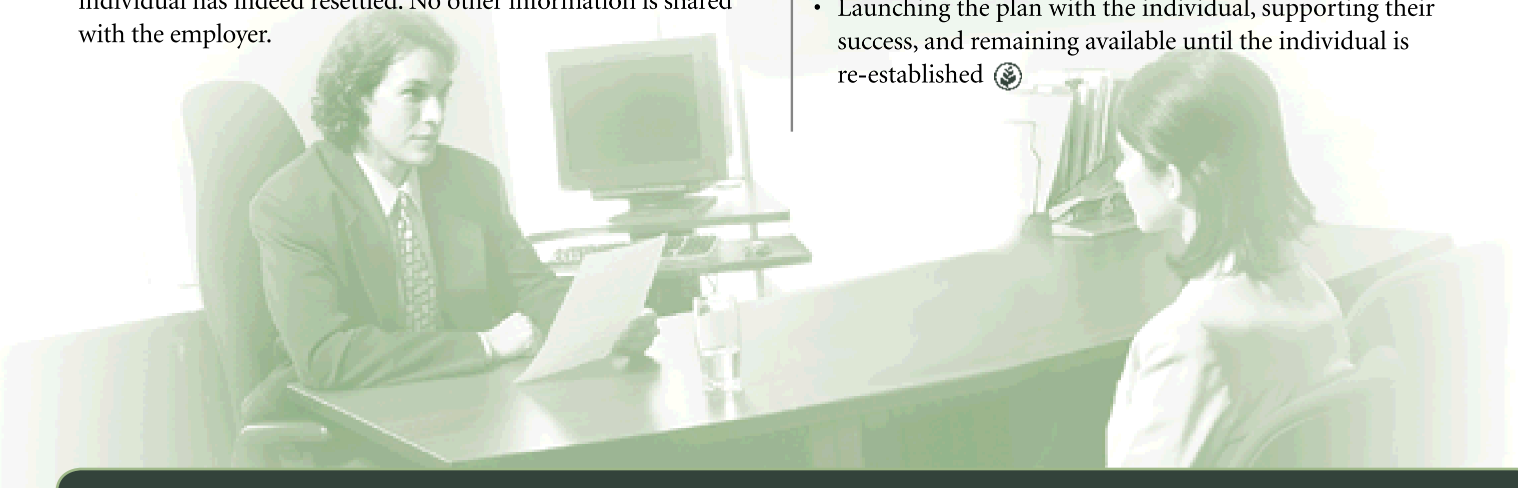
If you leave your employer, a re-employment consultant can provide valuable services in helping you to re-establish in a new job.

Depending on the circumstances, re-employment services might be part of a separation package and paid for by the employer. Sometimes the employer contracts the services of a re-employment firm and sometimes the departing employee is offered a specific amount of money for re-employment purposes and is given the freedom to select a firm.

To ensure confidentiality and independence, re-employment consultants are typically paid in advance by the employer and report back to the employer only when the released employee is resettled. Even then, the only information revealed is that the individual has indeed resettled. No other information is shared with the employer.

Re-employment services may include:

- Planning and implementing with the employer the release of the individual
- Addressing with the released individual and often his or her partner, the immediate situation, including their emotional reaction, family reaction, as well as referral to legal and financial advisors
- Career planning — including assessing the individual's aptitudes, interests, and skills to identify career directions that will provide for optimal success and satisfaction
- Designing with the individual a job search plan or retirement plan
- Launching the plan with the individual, supporting their success, and remaining available until the individual is re-established



SUPPORTING YOUR LEAVING

Through your working years, most of you will change jobs at least three or four times. If you are planning to leave your employer or you are notified that you are being terminated, arrange an early meeting with your Nakamun advisor, who will help you to successfully make the transition between jobs and maximize the benefits of the change. Please use the checklist on Page 6 to organize the information you bring to your meeting.

WHAT TO BRING
WHEN YOU MEET WITH YOUR
NAKAMUN ADVISOR

THE FOLLOWING IS A CHECKLIST of documents that you should bring when you meet with your Nakamun advisor to plan your short-term and long-term financial strategy, not only when you leave your employer, but also at any other time. This is a comprehensive list and some of these documents might not apply to you.

- ☐ List of your goals and objectives for the financial planning exercise that you are embarking upon with your Nakamun advisor
- ☐ Copies of your most recent personal and corporate tax returns, along with the assessment notices from Canada Revenue Agency, confirming the returns and showing any outstanding items and your RRSP contribution limits
- ☐ Copies of recent statements for your registered and non-registered investments (including RRSP, GIC, Canada Savings Bonds, brokerage firm statements), as well as the most recent statements for your bank accounts
- ☐ Copies of the latest assessment notice for any real estate you own
- ☐ Details of all outstanding loans
- ☐ Copies of existing wills, Power of Attorney appointments, and business agreements
- ☐ Copies of existing property and casualty insurance policies, including home, condo, and car
- ☐ Copies of existing personal life, disability, and critical illness policies
- ☐ If you are a member of an employee benefits plan, a copy of the group benefits booklet
- ☐ If you are a member of an employee pension plan, a copy of recent pension statements and your pension plan booklet
- ☐ Canada Pension Plan statement
- ☐ Name, address, and phone number of your accountant, lawyer, and other advisors
- ☐ Most recent pay stubs detailing typical monthly salary and deductions
- ☐ If incorporated, a recent financial statement
- ☐ Any other documentation that might have an impact on your financial situation