



# The Three-Legged Stool

If you're discussing retirement planning and someone starts talking about a three-legged stool, don't start searching for a place to put your feet up. The concept of the "three-legged stool" is about making sure your retirement plans are on steady ground.

Retirement income generally comes from three sources: government programs, your employer pension plan, and your personal savings. If one "leg" comes up short, it leaves your stool unstable.

## Government Programs

In Canada, there are two main sources of retirement income—Old Age Security and Canada Pension Plan.

### Old Age Security

Old Age Security (OAS) was Canada's original government pension, and is available starting at age 65. OAS is residency-based, which means how much you receive will depend on how long you lived in Canada after the age of 18. Low-income OAS recipients may also be eligible for the Guaranteed Income Supplement.

### Canada Pension Plan

The Canada Pension Plan (CPP) retirement benefit provides you with a pension as early as age 60—but you must have stopped working to collect the pension. Your CPP payment depends on how long you contributed to CPP and how much you earned during that time.

CPP is designed to replace about 25 per cent of your income. You can also contact Service Canada for an estimate. That leaves the other two legs to make up the rest of your retirement income.

### Employer Pension Plans

How much you get from your employer pension plan depends on a lot of things:

- what type of pension plan you belong to (defined benefit or defined contribution);
- your salary while you worked there;



- how long you worked there;
- contribution rates and rates of return for defined contribution plans; and
- benefit formulas for defined benefit plans.

To plan for retirement, you will need to be familiar with roughly how much your pension (or pensions, if you worked for several employers with separate plans) will pay out. This may mean looking up your benefit formula, calling your plan for an estimate, checking your pension statement or using your plan's online retirement tool.

### Personal Savings

The last leg of the three-legged stool is personal savings. This is the leg that you have the most control over. It is through your personal savings that you shore up your retirement plan. Once you understand how government programs and employer pension plans add up, you can see how much retirement income you will need to set aside yourself.

With personal savings you can sock the money away in all kinds of places, from RRSPs and Tax-

Free Savings Accounts (TFSA) to non-registered investments or even cash stuffed underneath the mattress (though we wouldn't recommend it!). Aside from stashing cash under the mattress or in the cookie jar, all of these options allow your money to grow over time. All registered investments allow your money to grow tax-deferred, while contributions to an RRSP are also tax-deductible, giving you a chance to save money now while you also save for the future.

### Working in Retirement

Although it sounds like an oxymoron, working in retirement is becoming more popular. Some retirees work because they want to, and others work because they think their stool needs a fourth leg. When planning your retirement, you may consider another job as a potential source of income.

No matter how you construct your stool, it is a good idea to periodically review all the numbers to see where you stand—or sit—in your retirement.

