# Why Canadians Contributed to RSPs

## Description

With a very busy RSP (retirement savings plan) season behind us, retail investors are now asking, "Why did I put money into this?"

The answer is never easy, nor is it the same for every investor. For a number of Canadians, the RSP option is the primary savings tool which, over the long haul, will compound tax free until the money is withdrawn at retirement. For many others, however, there is a good argument to be made about being a member in a defined-benefit pension plan and having the majority of retirement savings taken care of. Many of these people do not think they have anything to worry about.

For these Canadians, there is no doubt the conversation becomes a little easier (in most cases), but not in all cases. Every publicly traded company must disclose the funding of the defined-benefit plans offered to employees. As the companies are required to make future payments based on income during working years, life expectancy, and, in certain cases, the life expectancy of the spouse, the calculations to arrive at a present value for the pension obligations vs. the pension assets is not necessarily easy, nor is it very interesting to read about.



Going back a generation, however, there are cases of retired employees losing pension benefits due to the lack of funding in the plan. To make matters worse, some companies went bankrupt.

Obviously, an underfunded pension of a company going into bankruptcy is not an ideal or a very common situation, but this conundrum does present itself regularly enough. To avoid being an 80-year-old who wonders when his/her pension cheque will arrive, it may be a good idea to begin contributing to an RSP account.

Currently, one of the worst culprits of an underfunded pension is **Bombardier, Inc.** (TSX:BBD.B). According to the most recent annual report, the pension obligation is close to $10.8 billion, while the assets in the plan are a little short of $8.1 billion. The shortfall is currently estimated to be in excess to $2.5 billion. In the past four fiscal years, the company has lost money in three of those years while making a profit in fiscal 2013.

What seems like a giant number to many retail investors needs to be put into perspective. A small deficit is nothing to worry about if the deficit is (as an example) 10% of net income. The expense for the company can be covered easily enough should the plan require funding. The challenge comes to the forefront in the event that a company's long-term prospects appear bleak.

In the case of Bombardier, Inc., the overhanging expense in excess of $2.5 billion owed to employees is a reason to stay clear of this security and hope the employees are listening: stop depending on your pension plan!

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