the HERALD
MONEY MANAGEMENT '86

Don't forget the guaranteed RRSP

Overlooked by some investors and misunderstood by others, guaranteed plans do have an important place in every individual's RRSP portfolio.

Although guaranteed plans may not offer the upside potential of some other types of RRSP investments such as equity mutual funds, neither do they expose your retirement savings to the volatility and downside risk of these investments. In addition, guaranteed plans offer some unique advantages over some of the other highly publicized alternatives. to another registered investment or transfer the funds to an RRSP at another institution. If you draw cash out of your RRSP, you will trigger a tax liability that could take a significant bite out of your holdings.)

Term deposits or guaranteed investment certificate RRSPs require that you commit your funds for a specified period but the financial institution guarantees, in advance, the rate of interest to be paid for the term. Usually the terms run between one and five years having only one type of investment. To achieve a properly balanced, diversified portfolio, you need a solid base upon which you can depend as well as a mix of potentially high performing investments. A blend of guaranteed term investments with differing maturity dates should be employed bo build this base. This will provide a solid return that is not battered by market downturns or failure to perform up to expectations.

Another frequent use of savings account-type guaranteed RRSPs by the experienced investor is to "park" funds while awaiting investment opportunities. The funds that are "parked" remain tax sheltered yet the plan provides the ability to access them at any time for alternative investments. This is frequently used by those waiting for the market or interest rates to turn as well as by those waiting for a specific investment opportunity to open up. It is also widely used by those nearing retirement as an ideal place to hold funds while deciding the timing and tying down the details of annuity purchases.

When looking for an appropriate savings account RRSP to use as a holding account, it is important to check out interest rates paid, terms of withdrawal, and fees. Savings rates can vary significantly from institution to institution and some do not allow easy movement of funds while others charge withdrawal fees.

Also, as an individual approaches retirement, it becomes more and more important to have the majority of RRSP funds — and preferably the whole portfolio — invested in guaranteed plans. This is esential to ensure you will be able to gain access to all of your principal with a reasonable return and not be exposed to te wide fluctuation and potential losses of the more volatile alternatives. It could create a substantial reduction in your retirement income if your holdings are in stocks or mutual funds that are suffering from a down market at the time you want to use your RRSP funds to purchase an annuity.

When reviewing your RRSP strategy, take a good look at guaranteed plans. They are guaranteed to work for every investor.

MONEY MANAGEMENT TAB
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Preventive action needed

RRSP like a toothache

For many people who have not yet started to save for their retirement, the profusion of RRSP advertisements at this time of year is akin to having a nagging toothache. Such individuals berate themselves for not having taken preventive action earlier to avoid their current discomfort.

Yet, just as a trip to the dentist should deaden the pain of a throbbing tooth, so will a firm decision to commit money to an RRSP ease the worry of having no funds set aside for retirement.

"I'm amazed at the number of people, particularly in their mid to late 30s, who think they've missed the boat completely by not starting an RRSP at age 20," said Michael Sommers, vice-president of corporate planning and development for First City Trust Company.

"There are tremendous financial benefits in starting an RRSP early on, but it is by no means a necessity in attaining retirement security," he said.

For example, a person with 25 working years left who does not participate in a company pension plan could have an RRSP worth approximately $500,000 by retirement if he or she was able to invest the current annual maximum of $5,500 at an average interest rate of 10 per cent. Upon turning 65, that individual could then use those savings to purchase a post-RRSP product such as First City Trust Term to 90 Annuity and receive a monthly income in excess of $5,200 for the next 25 years — based again on an average interest rate of 10 per cent.

Of course, this is a simplified scenario which does not take into account such important investment considerations as annual cash flow needs, alternative sources of retirement income and a desire for carrying income throughout one's retirement years.

"There is no question that an annual commitment of $5,500 would cut heavily into many people's resources," said Sommers. "However, even if you were to make a yearly contribution of just $1,500 for the next 25 years, your RRSP would still be worth more than $160,000.

If that money was subsequently used to buy a Term to 90 Annuity offering a 10 per cent rate, it would produce a monthly payment of $1,425 and be a healthy supplement to other sources of retirement income.

"Obviously, the longer you put off starting an RRSP, the larger your annual contributions will have to be to achieve your retirment savings goals," said Sommers.

The individual who accumulated $500,000 over 25 years through annual payments of $5,500 could have achieved the same result with yearly contributions of just $2,000 if he or she had begun

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