Man at work, or money at work?

Venita Van Caspel, U.S.-based economist, certified financial planner, and author of The Power Of Money Dynamics, says in her book that there are three chief sources of income.

The first is you at work. However, there will come a time when, regardless of how badly you want to work, the world will not let you. It will retire you.

The second source is your money at work. If you make proper preparation and turn some of your income into growing investments, a time will come when you will no longer have to work for your money; you will be able to trade places with your money and let your money work for you. Income from capital is immensely more secure than income from labor.

The third source of income is charity.

Man at work, money at work, charity - which source do you want to depend on when you retire? Since "man at work" *may not be an option* open to you and "charity" has rarely brought happiness, apply your intelligence toward assuring yourself that there is sufficient "money at work" to retire in financial dignity.

This is where a registered retirement savings plan can help provide sufficient "money at work".

A registered retirement savings plan, more commonly called an RRSP, is simply a tax-deferred investment vehicle allowing investment of pre-tax funds with a view to using accumulated funds as retirement income. Not only are contributions deductible - within specified limits - but the income of the plan is not taxable until the funds are withdrawn from the plan.

Contribution limits for the 1986 taxation year are:

1) Individuals who save through RRSPs only: RRSP contributions not exceeding 20 per cent of earned income, up to a maximum of $7,500.

2) Members of employers' pension plan and/or deferred profit sharing plans: RRSP contributions not exceeding 20 per cent of earned income, up to a maximum of $3,500 reduced by contributions to registered pension plans.

Proposals to further increase contribution limits of these plans are under review.

Other points on RRSPs to remember are:

- Individuals may hold as many RRSP accounts as they wish, with any number of financial institutions.
- RRSP accounts are fully transferable, tax free to another RRSP account.
- If an RRSP is cashed in, it gets added to income for that year and is fully taxable at your current personal tax rate. This can be an advantage if the RRSP was taken in a year when you had a high taxable income, and then withdrawn in a year with low taxable income. Conversely, if your taxable income has increased over the years, then you will pay more tax on your original RRSP deposit plus on any growth. This will be more than the tax you saved when you made the original contribution.
- A spousal RRSP can help to equalize the amount of retirement income both husband and wife will receive and to take advantage of lower marginal tax rates. When the plan's funds are received by the spouse, they will be included in the spouse's income provided that no contributions to a spousal plan have been made in the year the funds are withdrawn or the immediately two preceding years.

For a net cost of less than $75.00 per week, an individual can put away $6,000 each year for retirement. Let's put this money to work and see what this really means over a long period of time.

Now that you have a $6,000 RRSP which only cost you $3,890.90, it is *time to decide* how hard your RRSP should work. The answer to that is: "as hard as you do".

A recent telephone survey of banks and trust companies showed current interest rates in effect ranging from 7.75 per cent up to 9.50 per cent for non-redeemable RRSP accounts. These rates are guaranteed! They also lock you in for periods of 1 to 5 years.

A survey of top RRSP qualified mutual funds shows average annual compound rates of returns over the past 10 years ranging from 17 per cent to 22 per cent. These rates are not guaranteed! They are not locked in and can be moved at any time.

For comparison purposes, let's be generous and take the highest guaranteed rate of 9.5 per cent and be conservative on the mutual fund and use a rate of 15 per cent less the maximum one time front end acquisition fee of 9 per cent and compound over a 25 year period.

RESULTS FOR GUARANTEED RETURN:

Amount invested	$6,000.00
Rate of return	9.5%
Future value in 25 years	$58,010.00

RESULTS FOR NON-GUARANTEED RETURN:

Amount invested	$6,000.00
Acquisition fee at 9%	540.00
Net amount invested	$5,460.00
Estimated rate of return	15%
Estimated value in 25 years	$179,737.00

Where do you think your money has the greater opportunity to work as hard as you do?

Even if you selected a very conservative mortgage and income fund with an average return of 12 per cent, the estimated value in 25 years on the net investment is $92,820. A 60 per cent better return for only a 2.5 per cent difference in interest rates.

Since there are hundreds of investment funds to choose from, your professional financial planner can help you decide which is the most suitable for you.

Finally, if you think that it is not necessary to maximize your returns, then consider this.

At an average inflation rate of 5 per cent per year, the purchasing power of $1 in 25 years will be 28 cents! Hard to believe isn't it?

My father bought a brand new Ford in 1959 for $2,700. That was 30 years ago and the same style car today sells for almost $20,000. That works out to an average annual inflation rate of almost 7 per cent per year.

Therefore, $58,010 in 25 years at 5 per cent per year inflation will have a purchasing power in today's dollar of $58,010 x .28 = $16,243.

The purchasing power of $179,737 in 25 years would be $179,737 x .28 = $50,326.

Remember, there is you at work, your money at work, or charity.

It's your life, your choice, and your retirement.

What's it worth to you?

How do you benefit from an RRSP contribution?

Here is an example of the effect of an RRSP on your taxes. Based on a gross income of $30,000 for a single person who does not belong to a registered pension plan. The maximum RRSP contribution is 20 per cent x 30,000 = $6,000.

Result with no RRSP contribution:

Total income		$30,000.00
Less:		
CCP contributions	419.40	
UIC contributions	604.76	
Basic personal exemption	4,180.00	5,204.16
TAXABLE INCOME		$24,795.84
Federal tax payable		$4,763.00
Ontario tax payable		2,381.40
TOTAL TAX PAYABLE		$7,144.40

Result with RRSP contribution:

Total income		$30,000.00
Less:		
CPP contributions	419.40	
UIC contributions	604.76	
RRSP contributions	6,000.00	
Basic personal exemption	4,180.00	11,204.16
TAXABLE INCOME		$18,795.84
Federal tax payable		$3,357.00
Ontario tax payable		1,678.30
TOTAL TAX PAYABLE		$5,035.30

HOW MUCH IS IT WORTH TO YOU?

Total cash deposit to RRSP	$6,000.00
Tax saving as a result of RRSP	2,109.10
NET OUT OF POCKET COST	$3,890.90
Net average monthly cost	$324.25
Net average weekly cost	$74.83