Time to make a RRSP choice

You have until Monday, March 2, to put part of your 1986 earnings into the tax shelter most widely used by Canadians — a Registered Retirement Savings Plan (RRSP).

The basic RRSP idea in this: You forego the use of part of your earnings for the time being, letting a trustee handle it in an RRSP, and you take it back when you reach retirement age.

For its part, the government foregoes the income tax on that portion of your earnings — also for the time being — as an incentive to you to make

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On Business

provision for a comfortable retirement.

When you "deregister" your RRSP — usually at retirement, and necessarily before the end of the year in which you turn 71 — it becomes subject to income tax.

By then, if your annual RRSP contributions have been invested successfully, your nest-egg is much higher, and your tax rate is likely to be lower than it is now, during your income-earnings years.

Currently, changes in the rules pertaining to RRSP are being phased in. Some take effect with the 1986 taxation year, while others won't kick in until later.

Generally speaking, the changes are to the benefit of the taxpayer — expanding the limits on annual contributions and the range of possibilities for post-retirement pay-out.

For 1986, and for the current year as well, the self-employed and people who aren't members of any company pension plan are allowed a higher contribution than previously: The lesser of 20 per cent of earned income, or $7,500 (up from $5,500).

Otherwise, your contribution limits won't start increasing until the 1988 taxation year. The same limits as before still apply for 1986 and 1987:

If you belong to a Registered Pension Plan or a Deferred Profit Sharing Plan, you may contribute 20 per cent of the year's earned income to a maximum of $3,500, less your contribution to the pension plan.

That part is fairly simple: Calculate the amount you are eligible to contribute, and prepare to contribute it no later than March 2, to trim this spring's tax bill.

Not so simple is the decision as to the trustee and the choice of investment vehicle.

The financial institutions who are authorized to accept your contribution, and to issue the official receipt that you will need in order to make the deduction from your taxable income, and trust companies (and their cousins, the mortgage and loan firms), banks, insurance companies, brokerage houses and credit unions.

YOU AND YOUR BANK: ONE IN A SERIES.

Personal credit – how to make it work for you

What do you know about credit? Before taking out a loan, check your knowledge of credit — and your own financial circumstances — to ensure that credit works for you, and not against you.

Are you aware of the different kinds of credit such as a charge account, credit card or consumer loan? Do you know the sources from which you get it: a department store, credit card company or financial institution? The difference can mean savings for you.

Credit costs money in the form of interest charges. The true cost of a credit purchase is the price you pay plus the interest charges. Ask yourself each time you make a credit decision how much the product or service is actually costing and whether it is really worth that much to you.

Are you prepared if your financial circumstances change? Think about your income, expenses and savings. Is your job situation reasonably stable? What if the economic climate changes? Is your lease or mortgage due for renewal and if so what will this mean in terms of dollars? Can you estimate your other expenses during the period you will be paying off your loan? Do you have savings to tide you over an emergency?

Can you afford it? Do you have other debts? Many people know how much they bring home but underestimate their expenses. Can you handle the additional expense of a new loan? The rule of thumb is that no more than 10% to 15% of take-home pay should be used to pay back debt other than a mortgage.

Before making a credit decision, you should take a close look at your economic circumstances and at your knowledge of credit. The only way to ensure that credit works for you and not against you is to make an honest evaluation of your financial circumstances in relation to your needs and wants.

(For more information about credit, write for the free booklet "Credit Wise", The Canadian Bankers' Association, Box 1500, Station A, Toronto, Ontario. M5W 2N8)

Watching your money

It is sometimes easy to forget that what you buy, you have to pay for. Here are some guidelines for keeping control of your financial affairs, especially your debts.

- Make a budget for yourself and stick to it. Make sure you know what is coming in and what is going out.
- Avoid impulse buying. Ask yourself: If I had to pay in cold, hard cash, would I make this purchase?
- Make a habit of comparison shopping. Never buy anything and that includes credit without comparing costs and values.
- Always read and make sure you understand application forms *before* you sign them.
- Be careful of co-signing a loan or guaranteeing a loan on behalf of others. Remember that you could end up paying off the loan if the borrower cannot handle it. Ask the same questions of the borrower that the lender would ask.
- Be knowledgeable about the cost of credit. Are you using the right type for your purpose? Are you using a more expensive form of credit than necessary?
- Be sensible about the number of credit cards you use. How many do you really need? Are you using *them simply because you have* them?
- Keep track of all credit purchases. Save the receipts for checking against the monthly statements and for keeping a running total of your obligations. A suggestion: Get an extra cheque register (the part of the cheque book where you keep track of deposits and withdrawals). Use the "cheques" column for noting credit purchases and the "deposits" column for noting credit payments. The "Balance" could record how much you owe in total.
- Remember, whether you use cash, a cheque, a card or loan to pay for your purchases, check out the reputation of the merchant, the store's return policies and the product warranty. Using credit does not absolve you of your consumer responsibilities.

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Tips on getting a loan

There is nothing mysterious about applying for a loan. It's up to you to shop around for the best value but keep in mind you have the right to ask questions, receive reasonable answers and take time to make up your mind.

Here are some guidelines:

1. Shop around for the best interest rate. Find out how the interest rate is calculated and the dollar cost to you.
2. Make sure you read the entire loan agreement and that you understand everything. Ask questions and consult a lawyer if necessary.
3. Add up the dollars and cents of the choices available and then ask if this is the right type of credit for the purpose you have in mind. Should you use your charge account, a bank card or a consumer loan?
4. Remember that the lender is also assessing you. So keep these points in mind:
   - Any financial history you have will be considered.
   - Be realistic about the money and conditions you want.
   - Be willing to discuss reasonable alternatives.
   - Be prepared to provide documentation such as a budget plan or a statement of earnings.
5. If you are asked personal questions keep in mind that with respect to credit, the Canadian Human Rights Act forbids discrimination on the grounds of racial, national and ethnic origin, colour, religion, age, sex, marital status or conviction for an offence for which a pardon has been granted.
   - You should not be penalized for refusing to answer questions about family planning, but if your plans will have a significant effect on your income, this is something you and your lender should consider when reviewing the credit decision.
   - You should not be penalized for refusing to answer questions about your spouse's income or employment status or about family assets, unless your spouse's income will be necessary to help repay the debt.
6. You are obliged to disclose the facts truthfully and fully. If you are tempted to hold something back or to make things sound better than they are, don't. This could work against you when the facts are checked. The unvarnished truth may also reveal that it is unwise for you to take on a debt. If your financial position is precarious, you may be better off without more debt.

The Canadian Bankers' Association, Box 1500, Station A, Toronto, Ontario. M5W 2N8)

Buying your first home – what can you afford?

Before you begin to look for the home of your dreams, take a realistic look at the price you can afford.

One way is to use the annual income rule of thumb. To establish the price you can afford, multiply your gross (before tax) annual income by 2.5. Include assured income only, such as your wage, salary or secure investment income. If your spouse (or other co-applicant) is working, add his or her assured income as well.

For example, together you bring in a gross annual income of $38,000. The price you can reasonably consider — as a general guide only — is up to $95,000 ($38,000 X 2.5).

Another general rule of thumb is the monthly mortgage payment. The mortgage(s) you assume must cover the difference between your down payment and the purchase price. A general rule for the monthly mortgage payment is in the range of 25% to 30% of your gross monthly income. Using the $38,000 gross income example, this indicates a maximum monthly payment of $800 to $950.

Now take a close look at your current budget. Are you putting aside savings? Do you have other major debts such as a car loan or alimony? How about food, clothing, transportation, entertainment and so forth? Deduct what you are now spending from your take-home pay.

Expenses in your new home will include heating, electricity, water, minor repairs and special supplies. For older homes, major repairs are more likely. Condominiums have monthly maintenance fees. Here's another rule of thumb: Calculate 3% of the value of the home and divide by 12. This will give you an idea of your monthly expenses.

So you add up what it will cost to live in your new home and deduct that from what you have left of your take home pay after allowing for continuing expenses. What you are left with is what you can reasonably expect to have available to carry as a monthly mortgage payment. Compare that with the monthly mortgage you got by using a rule of thumb. Depending on your financial circumstances, you may be able to afford more or less than the income multiplier suggests.

There are many other factors to consider when buying your first home. Getting as much information as possible will make you better able to make the best choice to suit your own circumstances.