DOLLAR SENSE

Make sure savings suit your vacation planning

By Diana Chant, CA

If your body and mind are screaming vacation and your bank balance is crying for mercy, you have just discovered the first rule of vacation planning -- budget for it.

Budgeting puts many people off, but without it, they find they never seem to have the necessary money when vacation time arrives. Yet even with a simple budget, you can plan to put a little away over the weeks and months so you will have the money you will need when all you can think about is getting away.

Dollar Sense offers general financial advice by members of The Institute of Chartered Accountants of Ontario. Diana Chant is with Price Waterhouse, Chartered Accountants, Toronto.

A budget is primarily a financial planning tool that will identify essential expenditures and those which may be postponed. A little bit of budgeting now makes paying for your vacation a lot easier.

Once you are assured the money will be there when you want to escape, it is time to plan your trip.

Start with the obvious -- destination. Many people choose their next escape on the basis of which country has a favorable exchange rate or devalued currency -- the typical "cheap country" vacation.

Important considerations. What is the accommodation like? Are the middle of the road hotels up to Canadian standards? Will you be content to stay in the hotel you can rent for the equivalent of $20 a night Canadian or do you prefer one of the luxury, North American style hotels costing $100 U.S. a night? Instead of the bargain country, perhaps a more expensive country with higher hotel standards -- where you can find suitable middle of the road, $60-U.S.-a-night accommodation would be better.

For many Canadians, the first thing they do after deciding on where to go, is plan on buying American travellers' cheques. But stop for a minute before you do. Should you be buying American and paying the commission and a hefty exchange penalty, or would Canadian or local currency travellers' cheques be just as good?

Next, consider whether travellers' cheques or a credit card is the best way to pay for your vacation. Travellers' cheques do offer safety, they will be replaced if lost or stolen, and they tend to keep you from overspending, but you do have to lock in your exchange rate at the time of purchase (which may or may not be in your favor).

With a credit card on the other hand, the exchange rate isn't set until you use it or the time the charge reaches the credit card company -- this could work in your favor or against you. But remember to be wary -- it's just as easy to get caught up in the vacation spirit and run up an horrendous bill using credit cards.

And if all this figuring seems to be too much ... you could simply choose to vacation in Canada.

Advice from chartered accountants is also available on television: Watch for Your Wealth, on broadcast channels, and Money in the Bank, on most cable channels.

Early RRSP action pays

The old adage about not putting off until tomorrow what you can do today is particularly true when it comes to RRSP contributions. Yet, though most Canadians have long been sold on the merits of saving for their retirement while sheltering income from tax at the same time, many delay taking action until it becomes a haphazard, last-minute scramble.

There are definite advantages to making your 1986 RRSP contribution well in advance of the deadline. Firstly, not only will you avoid getting caught up in the fury of eleventh-hour purchasing; you will also allow yourself more time to make quality investment decisions.

The range of RRSP options available in the marketplace is so extensive that it simply doesn't make sense not to shop around. And, with some RRSP products offering more competitive rates and features than others, you could be doing yourself a disservice by simply leaving the decision to chance.

"Ensure you devote the time and attention to your RRSP planning that it deserves," says Terry McIntyre, Manager of the First City Trust branch in Brampton. "Too many people think only of the tax deferral aspect of RRSPs. They don't put any real thought into their decision and just snap up whatever is easily available. They ignore the fact that an RRSP is first and foremost an investment which must be suited to their needs."

To achieve the maximum benefit from your RRSP investment, Mr. McIntyre advises establishing a personal RRSP action plan. To begin with, review your existing RRSP investments so that you are aware of the terms, conditions and the maturity dates that are attached to them. At this time of year, financial institutions provide their customers with an annual RRSP statement that contains this information.

Next, calculate the maximum amount you are eligible to contribute to your RRSP for 1986. It will be the lesser of 20 per cent of your earned income for the year or $7,500 if you are not a member of a registered pension plan. If you are, the limit is $3,500 less any personal contributions you have made to the pension plan during the year.

FINANCIAL FREEDOM

To be rich would be great

To be rich would be great, but highly unlikely for most of us. To be financially free, would be great also. But, unless we plan for it, again, it is highly unlikely. Surprised? Read on.

In Canada today, 50 per cent of all Canadians retiring qualify for Guaranteed Income Supplement. G.I.S. is a program which was implemented by the Trudeau government in the mid 60's and is designed *to raise the income of retired Canadians* from the starvation level to the poverty level!

In Ontario, 48 per cent of all those retiring today qualify for G.I.S. That means that almost half the people who read this will someday receive Guaranteed Income Supplement. Which half will you be in?

These statistics are shocking coming from the second richest country in the world. The problem is that most of us simply keep putting it off until tomorrow, and by the time tomorrow arrives, it is too late.

The solution to this problem is very simple and can be summed up in these three rules:

1 — Pay yourself first.
2 — Let the magic of compounding work for you.
3 — Get advice from a professional financial planner.

The first rule, pay yourself first, simply means that out of every dollar you earn, you must keep a little for yourself. When you pot your family budget together each month, put yourself on top of the list, then pay your other payments next.

The second rule, let the magic of compounding work for you, is simply letting the amount you pay yourself grow and compound to provide the financial freedom pot that will let you retire in dignity.

To illustrate the magic of compounding, assume Investor A begins an RRSP or open investment program at age 19. For eight successive years he invests $2,000. The investment grows at the rate of 10 per cent per year. After eight years, no more investments are made.

A second investor, Investor B, makes no contributions until age 27 (the age at which the first person stopped investing) and then invests $2,000 each year until age 65. Assume the same 10 per cent growth per year.

As you can see by the chart, the incredible result is that the person who contributed earlier with only eight contributions, totalling $16,000 ends up with more money than the person who made 39 contributions totalling $78,000 starting at a later date.

This demonstrates the power of compounding through time. The difference in the two investors' results is that the first had eight years more of compounding. Those early years were worth 27 per cent or $213,975 more than the entire $78,000 later contributed by the second investor.

The third rule, get advice from a professional financial planner, is important in order to develop a financial plan that will satisfy you and your family's financial goals.

Your work and family lives are so *busy, there is little time to develop,* analyze, and implement a financial plan that will maximize your results and minimize your risk. A professional financial planner will provide you with ongoing advice and alternatives that you can select from and can be comfortable with. You make the final decision and you stay in control of your financial plan. Your financial planner works with you, he does not sell you.

The complexities of the financial world and the changing tax laws are such that it is impossible for any individual to be aware of all the opportunities, pitfalls, and tax regulations that exist. A professional financial planner is knowledgeable in these matters and has sources from which detailed information can be obtained.

A planner has been educated and trained to assist individuals and families to achieve the maximum results from their present financial position.

Select a professional as you would a doctor, lawyer, or any other professional. Find someone who you feel comfortable with, has proper credentials relating to financial planning, and ask for references. When you find the person you want to work with, be prepared for a relationship that will last for many years. Your individual and family goals will change and your financial planner will help you keep your plan in tune with your goals.

No matter what you earn, how old you are, or how much money you have, financial planning is available for all who want it. A little can go a long way. The main point is to get started and give your plan the time to grow. But, it's never too late to start!

EDITOR'S NOTE: Mr. Boulet is a certified general accountant and financial planner with Sutherland Investment Corporation. Comments about this article are appreciated and can be made by calling 877-0949 or 1-444-8416.

Big obstacle easy to solve

The biggest obstacle that most of us face when it comes time to make our annual RRSP contribution is a lack of ready cash. In fact, many people miss out altogether on the benefits of investing in retirement savings products because they have no funds set aside to make a contribution before the deadline. Yet, there are several ways you can invest in an RRSP without having to put any money out front.