

Outlook on Business

MONEY TALKS

Early start with RRSP pays off in retirement

The importance of providing adequate income for retirement is increasingly being recognized by individuals, government and business. Many employers accept the responsibility for helping their employees create retirement income through such vehicles as registered pension plans. In support of these plans, government has made employer and employee contributions to private sector pension plans tax-deductible.

But what about those people who can't or don't belong to a registered pension plan or who want to supplement their existing

plans? For these individuals, federal legislation was passed in 1957 creating the Registered Retirement Savings Plan (RRSP) program.

Why should you invest in RRSPs?

Making annual contributions to an RRSP is a disciplined way of saving for your retirement. At the same time, RRSPs are one of the best tax shelters available to the individual taxpayer.

Contributions to an RRSP can be sheltered until the "maturity date", the end of the year in which the taxpayer attains age 71.

At that time, funds must be removed by dissolving the entire fund but can be used tax-free to purchase an annuity or a Registered Retirement Income Fund (RRIF).

Where do you buy RRSPs?

The following institutions offer RRSPs: 1) life insurance companies 2) trust companies 3) banks and credit unions 4) various investment companies, including mutual funds that sell investment contracts.

What are the contribution limits?

Members of a Registered Pension Plan (R.P.P.) can contribute up to the lesser of 20% of earned income and \$3,500. From that amount they must subtract any current contribution to the pension plan. For example, an employee with earned income of \$25,000 who contributed \$1,250 to a pension fund could contribute \$2,250 to a private RRSP.

Members of a Deferred Profit-Sharing Plan (DPSP) are entitled to a RRSP contribution of the lesser of 20% of earned income and \$3,500. (Applicable only when the member or the member's employer actually contributes to the DPSP during the year).

Non-pension members or self-employed individuals can contribute the lesser of 20% of earned income and \$7,500. Contributions made to an RRSP within a calendar year must be claimed against income received in that year.

RRSP contributions made within 60 days after year's end can be claimed against either the preceding year's income or that of the current year.

The federal government recently passed legislation which increases the annual contribution of tax-shelter funds that can be saved in an RRSP.

Starting in 1988, the limits for individual contributions will be based on 18% of the preceding year's income, subject to a maximum of \$9,500 in 1988; \$11,500 in 1989; \$13,500 in 1990; and \$15,500 in 1991 and beyond.

Would you like this pension plan for your future?

(NC)—Ouch!!!!

Over 50% of retired people in Canada today need the Guaranteed Income Supplement, to keep them above the poverty level. They are discovering that the pension plans they had through their employers are simply not good enough.

Today, there is a new phenomenon hitting the pension (or retirement benefit) field. It's called a group RSP (Retirement Savings Plan), and that is exactly what it is.

It is a whole lot of people with one employer, opening individual RSP's (in their name), but having their employer deduct the monies (whatever they decide) each payday, and then sending in one cheque to pay for those RSP's every month. That's why it's called a Group RSP.

What are some of the advantages, both to the employee and the employer?

1) It costs the employer nothing (if he's a small employer and can't afford to contribute), other than the costs of payroll deduction, and the employee-time it takes to do the calculations, prepare the list, and submit the cheque.

2) It gives flexibility to the employee. He or she can choose ANY amount of contribution, right up to 18% of wages. Furthermore, it's not fixed. An employee may choose to contribute 5% this year, 10% next year, or cut back, or increase at ANY time. Employees are not locked into a



IT'S YOUR MONEY
Paul J. Rocket

fixed amount of contribution.

3) It is 100% vested in the employee (belongs fully to him or her). If the employee leaves, or the firm shuts down, the full value of the Group RSP in his or her name is the employee's, to take to a new employer to continue, or keep up on their own, cash in, or do whatever they wish.

4) Some firms (mutual fund dealers) have programs whereby the employee can choose GIC's, mutual funds, Canada Savings Bonds, etc. for their investments, and they can change investment vehicles any time they so wish.

5) There is little or no set-up cost, whereas a so-called regular pension plan has a great deal of set-up costs in getting it registered, etc.

6) An employer can contribute to the plan, also, if and when he feels the company can afford it. He can increase the amount in profitable years, or decrease the amount in difficult years. The amount (if any) is completely flexible.

Let's suppose an employer opted for such a plan, and a young employee, aged 25, earning \$20,000 per year, decided to contribute 10% to his Group RSP. This would amount to

\$2,000 per year, but... because it is tax deductible, it would probably cost \$1,300 from the employee, with \$700 being contributed by the Government in the form of a tax-deduction.

Supposing the young person chose a mutual fund investment that averaged 15% per year (Most have averages over the past 10 years in excess of 15%). Also, let's assume there was an acquisition fee of 6%, leaving \$1,880 to be invested each year.

His value at age 65 would be \$3,846,393. Yes, that's getting awfully close to \$4 million. If you were to compound it monthly (which would actually be the case) the value would be \$4,919,921, which is darn near \$5 million. Take into account dollar-cost-averaging, and the amount would be over \$5 million.

Do you know of any employees retiring with \$3, \$4, \$5 million in their pension plan? If \$4 million were available, it would give you a monthly pension of between \$30,000 and \$40,000 per month.

Mind you, if inflation were to average 6% per year over the next 40 years, you will need over \$200,000 per year to match what \$20,000 will buy now. We believe that Group RSP's will be the pension plan of the future, and they are here today.

Wow, what if all employees chose mutual funds!

Paul J. Rocket is author of the book "Why I Invest in Mutual Funds" and President of Regal Capital Planners Ltd. For a FREE brochure on Group RSP's ask for "GROUP RSP's" and write: Paul J. Rocket, Regal Financial Centre, 153 Union St. E., Waterloo, Ont. N2J 1C4.

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