Careful planning crucial to RRSP

By PAT DONNELLY

You've just gotten over the holidays and now you'll be bombarded with RRSP news until the end of February. You don't want to wait till the last minute, though, so here's how you can cope this year.

First, take a quick look at this issue of Between Us. It will only take a few minutes, then you can spend most of your time with the family, hobbies or doing other things you enjoy more than reading about RRSPs. Then, let us custom design your RRSP. It's all part of the service.

Here are a few items to remind you why it's important to have RRSPs:

—Contributions to your RRSP are tax deductible, and you pay no taxes on the money that you contribute, or on the investment earnings in your plan until you start making withdrawals.

—You have until February 29, 1988 to make your 1987 RRSP contributions, and reduce your 1987 income taxes. Because income tax rates are higher in '87 than in '88, you'll save more in taxes by making the maximum contribution now for '87.

—You may contribute up to $7,500 to your RRSP, unless you are a member of a registered pension plan or deferred profit sharing plan. In that case, you may contribute up to $3,500 or 20 per cent of your income (whichever is less) minus any personal contribution you make to your employer-sponsored plan.

—You may have as many RRSPs as you wish, and you are allowed to transfer an RRSP into another RRSP or an eligible registered pension plan without paying tax.

—You may withdraw some or all of the funds in your RRSP at any time, but you will have to report withdrawals as income in that year and that income will be subject to lump-sum withholding taxes at the time of withdrawal.

The importance of establishing a cash-flow plan

by Filomena Tamburri

You probably know that the secret to achieving financial goals is by establishing and following a budget, not an easy task at the best of times. To some extent, whether we realize it or not, we all budget. When we decide to put off buying a new coat or a new car until next year, that is a form of budgeting. To make the budgeting task a little easier and more organized try to establish a cash-flow plan.

A cash-flow plan, a detailed record of your income and expenses over a certain period of time, will do two important things. It will tell you where your money is going and it will help you decide where you want it to go. Your credit union, trust company or bank should have information to help you set up your plan.

A cash-flow plan consists of a chart, compiled each month, on which you record all your income and itemize all your expenses under various headings. The columns may be as follows: total monthly income, regular payment expenses, annual expenses, regular monthly spending and contingencies - those purchases, like furniture, that don't occur regularly.

Under the monthly income column include the household take-home pay, any investment income from interest payments, rental income, gifts or any other income you expect.

Regular payments can include payments for utilities, loan payments - mortgages or other loans - charge accounts payments, credit card payments and any other payments you make regularly each month.

Annual expenses should include auto insurance, club fees, tuition, or any expense you only pay once a year. Be careful to put the payments in the column for the month in which they are made. If you pay any of these bills with monthly payments, then include them in the monthly expenses.

Regular monthly spending includes those items that you buy every month, but are difficult to put price accurately. These could be groceries, dining out, entertainment, transportation costs, personal care, travel, tickets to events or oil for the car.

Contingencies include clothes, medical expenses, furnishings, gifts and child care costs - items or services you don't buy regularly.

When you compare the total expenses against the total income, you will know, from month to month, if you are living within your income or not. But the process does not end with the cash-flow plan. When you have examined the information about your spending habits, then you must decide what changes need to be made so that your expenses don't outstrip your income.

Filomena Tamburri is Publications Coordinator for the Canadian Co-operative Credit Society. For more information regarding personal cash-flow planning, write to Credit Union Financial Counsellor, CCCS, 300 the East Mall, 5th fl., Islington, Ont., M9B 6B7.