Report on RRSPs tells you about planning for future

If, like me, you've never really understood all the ins and outs of RRSPs, retirement income funds and the like, the 1988 edition of The Delaney Report on RRSPs will tell you all you need to know and more about planning for your future.

Whether you have an RRSP or are thinking about setting one up, this book, prepared by retirement planning expert Tom Delaney, will serve as a valuable guide.

One of the many interesting tidbits found in the book is the fact that the government is planning a change to RRSP rules in 1989 that would allow you to carry forward for seven years contributions you could not afford to make in past years.

If you have not used $2,000 of your allowable limit this year, it may not be lost to you forever. You may be able to add it to your contribution some time in the future.

To make this work, presumably you would have to have an RRSP in place. So if you haven't got one, get one, whether you can afford to or not. Even a small deposit may allow you to take advantage in future years - when you may have more money than you do now - of this expected change.

PLANS POPULAR

In 1985, the latest year for which numbers are available, 2.8 million Canadians had $6.5 billion stashed away in registered retirement savings plans. The biggest contributors, by income group, were people earning from $30,000 to $40,000. Next came those earning $40,000 to $50,000, followed by people earning $25,000 to $30,000.

The idea behind retirement savings plans is to have private income to augment the payments you will receive from the Canada Pension Plan. Retired people who depend on the government for their income suffer a tremendous drop in their living standard.

Your Business

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Even in the short term, though, RRSPs make a lot of sense for people earning more than $25,000; their usefulness rises in proportion to your tax bracket.

Mr. Delaney gives an example of two people, age 35 and in a 40 per cent tax bracket, with and without an RRSP. Both invest $1,000 at 10 per cent each year for 30 years.

The person without the RRSP would pay $34,000 in taxes on his investment over 30 years; the other would pay none. The person with no RRSP would have a net return on his investment of $47,000 after 30 years; the other $151,000.

At the end of 30 years, the person with no RRSP is left with a retirement fund of $77,000, compared with $181,000 for the person who put the same amount of money into an RRSP. Persuasive, isn't it?

OTHER BENEFITS

RRSPs bring other benefits as well. For example, if you find yourself without work one year, you can withdraw money from your plan to help meet your expenses. The same would apply if you plan to go back to school at some point in the future.

Mr. Delaney identifies four fundamentals in evaluating an RRSP: how safe your money is; how flexible the plan is; what return you can hope to earn; and what fees, commissions and other charges you will have to pay.

To help you assess the various plans, he winds the book up with a buyer's guide to RRSPs. He also includes compound interest tables, which show how your money will grow, and a list of financial institutions protected by deposit insurance.

Mr. Delaney points out the dangers of holding more than $60,000 in a deposit-type plan, since the Canada Deposit Insurance Corp. only insures deposits up to that amount.

As well, he raises the question of how secure your money is with an insurance company, which is not covered by the government's deposit insurance.

All in all, the Delaney Report on RRSPs (McGraw-Hill Ryerson, $12.95) is an important guide for people interested in really taking charge of their financial planning.

Annuities deliver steady guaranteed annual income

Because of recent government legislation, you have more retirement planning flexibility than ever before.

If you are saving for your retirement through an RRSP or another tax-sheltered retirement plan, then an important decision must be made prior to the end of the year in which you turn 71 years old. Unless you decide to cash in your plan, which means having to pay taxes on the lump sum, you must select one of two retirement income vehicles which will allow you to continue the tax-sheltering that helped your money grow under your RRSP.

This column deals with option A — Annuities. The next column will deal with option B — Registered Retirement Income Funds (RRIFs).

What is an annuity and how does it work for you?

An annuity is a contract — often purchased with funds accumulated through an RRSP — which provides regular payments for a specified period of time, such as to age 90, or as long as an individual or spouse is alive.

Annuities work in much the same way as life insurance, but they protect you against different risks. The basic objective of life insurance is to provide your dependents with a continuing source of income should you die, while the key reason for an annuity is to provide you with a continuing source of income for as long as you live during your retirement. Like life insurance, annuities work through the principles of shared risks and the law of averages relating to the longevity of individuals of a certain age group and health status.

What's the difference between immediate and deferred annuities?

An immediate annuity is bought with a single lump sum payment, often at the time of retirement or following the transfer of funds from an RRSP. The payment of income usually begins in the following month if it is to be paid monthly, or the following year if that is the terms of the contract.

The deferred annuity is structured so that income payments are made at some future date, usually at the time of your planned retirement. This type of annuity can be purchased by either a single premium or by regular installments payable during the whole or part of the period of deferment.

How are annuities sold?

Life annuities are purchased from life insurance agents. Fixed period annuities are sold by life insurers as well as trust companies. Such plans can provide peace of mind to those seeking a steady, guaranteed income for as long as they live.

For further information contact Life Underwriters Association of Canada, 41 Lesmill Rd., Don Mills, Ontario, M3B 2T3, (416) 444-5251, or speak to your local life underwriters association.