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Getting to know 'no loads' mutual funds

By BRIAN THRIPPLETON
Herald Special

"No loads" are mutual funds with no front-end loads. Front end loads vary from 1 to 9 per cent. They therefore can cut into your investment, in or out of an RRSP. If you were to pay 9 per cent for example, you would only be investing $910 of your $1,000. That figure is rare now, as most charges fall within lower limits, and 5 per cent is closer to the average. Almost all the load goes back to the dealer, and the representative receives 50 to 80 per cent of the amount, the rest going to defray office expenses etc.

The money is well spent if the advice is accurate and timely as it could be and results in the net worth of the client being increased beyond what he could have done for himself. However, there are people who decide on their own funds, and do not need much in the way of service. For them, some of the major investment companies have introduced no front end load funds with an eye on the RSP market which runs into the billions of dollars.

AGF is one such company, one of the largest in Canada, with over $5 billion invested. It operates some top performing funds suitable within or without an RSP: Canadian Security Growth Fund, which invests in Canadian blue-chip corporations; Canadian Trusteed Income Fund, which invests in all-government bonds; and AGF Money Market Fund, which offers a T-Bill rate in interest, higher than you would normally get on your bank deposits.

What AGF has done is to introduce three funds under the name "Excel" which invest in those three funds, but without a load. Thus, the Excel Equity Fund invests in proven Canadian Security Growth Fund, while Excel Bond Fund and Excel Money Fund invest in the other two funds. If you leave the funds for seven years, you pay no exit fees. If you cash them out, then you pay a pro rata fee on the invested amount, not the actual amount.

Mackenzie, another of our biggest and most successful fund operator, with the "Industrial Group of Funds" has introduced the Horizon Fund a year ago. Before October 19, 1987 it was *primarily a cash fund* - over 70 per cent - but is now as fully invested as it should be - funds need a cash component to handle purchases and redemptions. The Horizon Fund has no fees if you retain them for 9½ years. If you cash them out before that, there is a half per cent per year, up to four and a half per cent.

You can switch between funds at no cost according to market conditions and interest rates. Your dealer should advise you when that is appropriate. What rate of return might you expect. Over ten years the top AGF funds have averaged over 20 per cent per year average annual compound growth. This allows your money to double in four years. The Industrial Growth Fund has averaged 17 per cent over the past ten years, allowing holders to triple their investment in seven years.

Compare this with what you are doing with your RRSP now. You might consider putting half your money in *equity funds, half in fixed income*, as Excel allows you to do, provided you have ten or more years before you need to turn your RSP into a Registered Retirement Income Fund at the age of 60 and over.

If you want to know more, contact a mutual fund specialist, and read the information he or she will supply in the prospectus and the literature. This printed material is heavily regulated by the Ontario Securities Commission, so you need not fear misleading advertising.

If you want to stay with the bank or trust company, then go ahead. But just make sure you do not buy a guarantee to lose after inflation and eventual taxation eat into your capital. With equity funds, you also gain capital gains, dividends and interest reinvested, and over the long haul, it is one of the chief reason for the high rates of growth.

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The RRSP spousal trap

A married taxpayer may pay a premium to a Registered Retirement Savings Plan (RRSP), of which his (or her) spouse is the owner and annuitant, and deduct the amount in calculating his taxable income. This provision doesn't increase the amount of eligible contribution available to the individual. It does allow a taxpayer to make payments to a combination of plans for himself and his spouse, to a personal RRSP only, or to a spousal RRSP only, within the limits specified by the legislation. Properly used, a spousal RRSP can provide an excellent vehicle for current tax planning as well as for income splitting in retirement years. There are, however, two areas which merit particular attention: withdrawals and contributions by the annuitant (owner).

If the spouse who owns the plan withdraws funds from a spousal RRSP, either before or after the retirement income begins, the withdrawal could be attributed back to the spouse who made the contribution if a specified waiting period isn't observed. The attributed amounts will be the contributions deductible by the contributing spouse for the year of withdrawal and for the preceding two taxation years. This means three full taxation years must elapse without a contribution to a spousal plan before a withdrawal from a spousal RRSP would not be attributed to the contributor. This rule does not apply if the withdrawal is made as a result of a marriage breakdown and certain conditions are met.

As an example of the operation of the legislation, consider the case of Mr. and Mrs. A. Assume that Mr. A has made deductible contributions to a spousal RRSP of $1,000 for each of 1982, 1983, 1984 and 1985.

If Mrs. A withdrew $3,000 from the contract in 1985, then Mr. A would be required to include $3,000 in income, the amount of deductible contributions made in 1985, the year of withdrawal, and the previous two taxation years. Any amount withdrawn in excess of $3,000 would be taxable to Mrs. A.

The second major issue involving spousal RRSPs involves contributions by the annuitant. Assume that Mr. A's contributions are identical to those in the previous example except that in 1985 Mrs. A made a $1,000 contribution in addition to Mr. A's contribution.

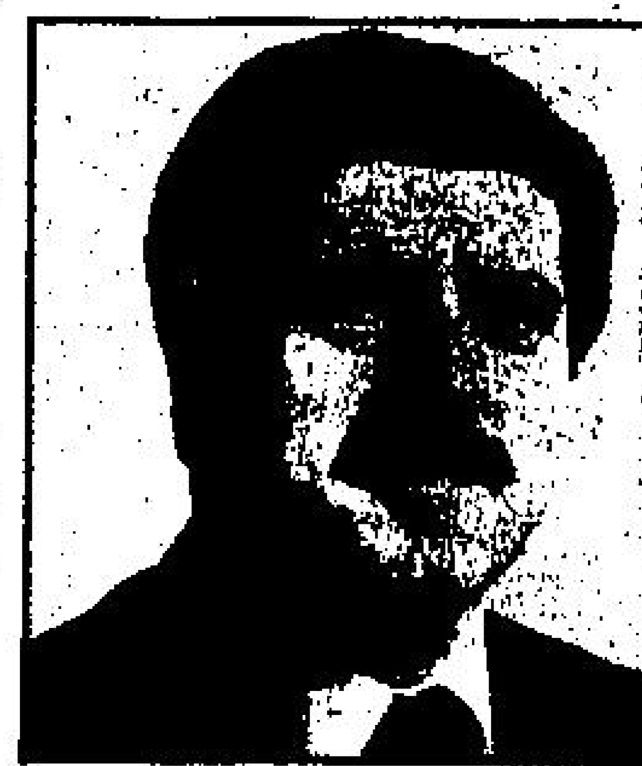
Assume that $3,000 was withdrawn in 1985. The ordering of the attribution of the amount withdrawn to Mr. A is of fundamental importance. Form T2205-Deregistered Spousal RRSPs must be completed by Mrs. A. The form is to be used in calculating the amounts to be included in the incomes of the annuitant and the contributor. The form requires the information be listed as in the following schematic:

Amount reported to Mrs. A on T4RSP $3,000
Subtract:
Amounts contributed to Mr. A to all RRSPs under which Mrs. A is or was the annuitant that:
1) Are deductible by Mr. A in 1985 - $1,000
2) Were Deductible by Mr. A in 1984 and 1983 - $2,000
Amount taxable to Mrs. A - Nil
Amount taxable to Mr. A - $3,000

The legislation provides that even though Mrs. A contributed to the RRSP in 1985, the $3,000 would be attributed to Mr. A. If $3,000 were withdrawn, no amount could be taxable to Mrs. A until the full $3,000 of contributions for 1983, 1984 and 1985 made by Mr. A have been included in his income.

Since a number of circumstances could lead to the necessity of withdrawing a lump sum from an RRSP, it appears important that annuitants under a spousal RRSP do not contribute to the spousal but to plans in their names which are not spousal RRSPs.

—Courtesy Mutual Life of Canada, "The RRSP Advisor"



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