

RRIFs can make the most of your retirement savings

by Gary Rogers

Retirement planning does not stop when your RRSP matures at 71, especially now that the government is encouraging us to take more responsibility for our golden years.

One vehicle that has become especially attractive over the past two years is the RRIF, an extension of the RRSP, that allows you to further spread out your tax load to age 90.

When your RRSP matures, you simply roll it over into a RRIF - a registered retirement income fund - at your credit union, trust company or bank. The financial institution will continue to invest that money and pay you a rate of return that is as good as the rate on RRSPs.

From then on most of the choices are up to you. You can continue to choose how your funds are to be invested, for example either in a term deposit or a savings account, just as with an RRSP. You will also have access to money in your RRIF any time you choose, but you must pay income taxes on the amount you take out based on your tax bracket.

The sum you withdraw each year is up to you, but you must always draw a minimum amount. That sum is determined by a formula that is based on your age and the number of years in the life of the RRIF. The formula works the following way; subtract your age from 90 and convert to a fraction, then multiply the fraction times the total funds in the RRIF at the beginning of the year. For example a 70-year old with \$200,000 in the RRIF will have to withdraw a minimum of \$10,000 ($1/20 \times \$200,000$).

Beyond this you can take out as much as you like. For example, you can arrange to take out larger sums in the early years if you plan to do some extended travelling, then cut down the payments later if you think you will need less money. But if you are not careful, this could leave you short of funds later on.

Gary Rogers is Taxation Advisor for the Canadian Co-operative Credit Society. For more information about RRIFs, write to Credit Union Financial Counsellor, CCCS, 300 the East Mall, 5th fl. Islington, Ont. M9B 6B7.

What "Guarantee" in guarantee is terrible



IT'S YOUR MONEY

Paul J. Rockel

(NC)—When it comes to putting our savings to work, we Canadians are "guarantee" conscious.

"If it's 'guaranteed' by CDIC (Canadian Deposit Insurance Corporation) then I'll put my savings there" is something most of us say. Or: "I'll place my savings in a 'guaranteed' 5 year term deposit, or GIC (Guaranteed Income Certificate).

Is your principal amount "guaranteed"? It certainly is, although the rate of return is not guaranteed, as thousands upon thousands of "investors" have discovered in the collapse of several trust companies (Principal Group and Principal Trust being the latest) and a couple of banks. Those with CDIC insured deposits got their money back, but not the earnings they had expected.

Is there a "guarantee" in the "guarantee" that nobody tells you about? I believe there is.

Inflation has always been with us. We read in the "good book" that a person worked for a penny a day, which was an acceptable wage back then. When I started working (44 years ago) it was at 20¢ per hour, with very few people earning \$2,000 per year.

What does inflation do to our guarantees? It erodes the purchasing power of those dollars.

When this article was being written, we didn't have the final tally as to the cost-of-living increase for 1987, but it was presumed to be somewhere in the neighborhood of 5.5% to 6%. John Templeton, manager of the Templeton Growth Fund (a mutual fund), and today recognized as one of the most outstanding financial experts of our time, having been in the financial world for the past 44 years, says inflation over the next decade (10 years) will probably average 8% per year (some years being over 10%, others less). I certainly hope he's wrong.

What if inflation were only to average 6% per year, over the next 12 years? This means the cost of living will double in that 12 years. What if you had invested \$10,000 in a "guaranteed" investment during those years, spent the earnings (as many of us do), and now took out that \$10,000?

It would buy the equivalent of \$5,000 worth of goods at the time you invested it. And that's guaranteed.

Yes, a "guarantee" that preserves your principal, does NOT guarantee that your principal will buy as many goods or services at the end of the guarantee period. In fact, due to inflation, it virtually "guarantees" you will lose purchasing power (in the illustration above, you lost half your purchasing power value).

Second problem with "guarantees" is that the rate of return is usually paid out as "interest," which is fully taxable. So...if my total gain is 12%, and I lose 6% to inflation, and 6% to taxes (in the 50% category), I end up with no real gain.

What can you do about it? Well, I use equity mutual funds, where past performance has shown I should average (in good funds) at least 15% per year, made up of dividends and capital gains. True, if inflation averages 6% per year, and the fund only does 15%, I only have 9% gain left. But...thanks to the capital gains holiday of \$100,000, and the fact dividends are taxed very lightly, my total tax bill on that 15% would only be 3% or 4% (even in the 50% bracket). Take that away from the 9%, and I have 5% or 6% increase in purchasing power each year.

That's a lot better than a virtually "guaranteed" nothing!

PAUL J. ROCKEL is author of the book "Why I Invest in Mutual Funds" and is President of Regal Capital Planners Ltd.

For a comparison of what a mutual fund has done, in comparison with GIC's over the past 19 years, ask for "House Prices vs. funds" and write: Paul J. Rockel, Regal Financial Centre, 153 Union St., E., Wa-

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