

Money Matters

Group RRSPs pension plans of future

By PAUL J. ROCKEL



IT'S YOUR MONEY

Paul J. Rockel

Ouch!!!
Even with Canada Pension Plan, Old Age Security, and the Guaranteed Income Supplement a very large number of our senior citizens are living below the poverty line.

At best these programs replace only about one quarter of a person's earnings.

Today there's a relatively new phenomenon in the pension benefit (or retirement benefit) field. It is a Group RRSP, and that is exactly what it is.

It is a whole lot of people with one employer, opening individual RRSP's in their name, but having their employer deduct the monies every payday and sending one cheque to pay for everybody's RRSP each month. That's why it's called a Group RRSP.

What are the advantages both to the employee and the employer?

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

2) It gives flexibility to the employee. He or she can choose ANY amount of contribution up to the government mandated maximum. Furthermore it is not fixed. An employee may choose to contribute 10 per cent this year then cut back to 5 per cent next year and so on, or cut back, or increase at

any time. Also with the new RRSP rules, a taxpayer will be allowed to carry forward unused RRSP contributions for seven years. Financially strapped workers can put off contributions till later when they might have higher salaries or lower expenses. Employees are not locked into a fixed amount of contribution.

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

4) Some firms that offer Group RRSP's have programs whereby the employee can choose between various investments or combinations of investments such as GIC's, Canada Savings Bonds, and mutual funds. They also can change the investments any time they wish.

5) There is little or no set-up cost, whereas a regular pension has substantial set-up costs.

6) An employer can contribute to the plan, also, if and when he feels

the company can afford it. It can be increased in profitable years or decreased 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 \$25,000 per year, decided to contribute 8 per cent of his income to his Group RRSP. This would amount to \$2,000 per year. Because it is tax deductible it would probably only cost the employee \$1,450 with \$550 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 cent per year

(the good funds have averaged that over the long term).

Without increasing the contribution amount, his value at age 65 based on an annual return of 15 per cent would be \$3,558,166. If it were compounded monthly (which would actually be the case) the value would be \$5,169,321, slightly over \$5 million. This illustrates the result of dollar cost averaging in mutual fund investing.

We believe that group RRSP's will be the pension plan of the future, and they are here today.

Wow, what if all employees chose mutual funds!

For more information on Group RRSP's, contact Peter C. Masson, 10 Fagan Drive, Georgetown, Ont.

Or phone 877-7216.

Paul J. Rockel is the author of the best seller "Why I Invest In Mutual Funds" and President of Regal Capital Planners Ltd. and Regal Capital Insurance Agencies Ltd.

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NOTICE
of Board of Directors Meeting
An opening meeting of the Georgetown District Memorial Hospital Board of Directors will take place on:

THURSDAY, OCTOBER 25, 1990
AT 4:15 P.M.
IN THE HOSPITAL BOARD ROOM

The agenda will be posted by 9 a.m. the day of the meeting in the administrative offices.

Those wishing to address the board must forward a request in writing to the Chairman of the Board of Directors by October 19th, 1990.

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