Money Matters

Seniors realizing pension plans fall short of their dreams

By PAUL J. ROCKEL

IT'S YOUR MONEY
Paul J. Rockel

Many people that I talk with have come to realize that their employer's pension plan just won't provide the retirement they have dreamed about.

Do you know that government pension plans, OAS (Old Age Security) and CPP (Canada Pension Plan) are only designed to provide around 25% of the average workers pay or about $11,000 per year, IF you have contributed the maximum amount to CPP during the last years of your working life.

Do you know what inflation will do to your retirement needs? Do you know that inflation has averaged more than 5% over the last 30 years?

If your present annual income is $35,000, this is what you will need just to "stay even".

INFLATION RATES

	4%	8%
In 10 Years	$51,809	$75,562
In 15 Years	$63,033	$111,026
In 20 Years	$76,689	$163,134
In 25 Years	$93,304	$239,697
In 30 Years	$113,519	$352,193

If your employer has a pension plan and you are a member, do you know that the pension available to you at retirement is capped at a *maximum level*? That level is $60,025 and it has been at that amount since 1976 and it not indexed. It can be indexed up to that amount but not over if your plan provides indexing. If the maximum has been indexed it would be over $143,000 now! The maximum of $60,025 is only available if you have been at your employer for 35 years, $43,000 if you have been there 25 years, and $26,000 for 15 years.

For the average person investing your allowable maximum in RRSP's is a good way to go. It gives you an immediate tax saving and allows your money to grow free of tax until you take it out.

Unless your investments beat inflation, there is no "real" growth. High growth enables the magic of compounding to work best - to generate large sums of money over time. Every additional per cent makes a difference.

If your annual investment is $3,500, this is what it will grow to:

% RETURN	10 YEARS	20 YEARS	30 YEARS
8	$54,759	$172,980	$428,211
10	$61,359	$220,509	$633,302
12	$68,791	$282,446	$946,024
14	$77,156	$363,189	$1,423,580
16	$97,143	$468,442	$2,153,056

Ultimately, you have two choices when it comes to investing. You can go it alone, or you can call on professional management. It's a choice that has nothing to do with the types of investments you make ... your financial resources (you can invest as little as $30 per month) ... or your station in life. You should ask yourself, "Year in year out, over the long haul can I hope to do as well as the professionals? They spend as many hours or more per week doing their job as you can spend at yours. All of the evidence suggests that you can't.

So, what to do?

Instead of blindly following the crowd, why not take advantage of an "independent" financial advisor who is not married to any one financial institution, and can give you the facts on all of the many ways to make your savings grow.

Try to find an independent advisor who will work "free". They will do your planning for you in the hope of selling some of their products. They can explain some of the changing tax regulations.

Maybe professional management or your RRSP savings makes good sense.

For a free chart on how a mutual fund has performed compared to a fixed 10% intefest investment over the last 20 years, contact: Peter C. Masson, 10 Fagan Drive, Georgetown ... 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.

Canada Savings Bonds a favorite investment

Canada Savings Bonds have not only been a favorite investment for Canadians over the years but in the 1980s they were also one of the top income earners.

A 10-year $1,000 Compound Interest Bond issued on Nov. 1, 1980 and earning the first-year yield for each new series would be worth $2,922.14 on Nov. 1, 1990 and would have earned an average return of 11.31 per cent a year over the decade.

In the case of a CSB issued in 1985, the rate of return will have averaged 9.35 per cent a year over the five-year period.

These figures also reflect the recent increase in the CSB interest rate, which was raised from 10.5 to 11.5 per cent, effective June 1 to Oct. 31, 1990.

"These rates compare very favorably with other forms of fixed-income securities and are often surprising to many investors who tend to see CSBs in terms of security and liquidity," says Brian Cunliffe, who represents the Canada Savings Bond Payroll Savings Plan.

He referred to a recent study released by the Toronto Stock Exchange on Canadian Shareowners, which showed that after their home, Canada Savings Bonds were the favorite investment for most Canadians.

The TSE study showed that in 1983, 46 per cent of adult Canadians owned their own home. The number rose to 52 per cent in 1986 and 54 per cent in 1989.

This compares with 36 per cent of adult Canadians who held CSBs in 1983; 30 per cent in 1986; and 32 per cent in 1989.

Other investments:

About 20 per cent of adult Canadians held GICs and term deposits in 1983; 26 per cent in 1986; and 31 per cent in 1989.

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Stocks, held either directly or indirectly through RRSPs, and mutual funds, were owned by 13 per cent of adult Canadians in 1983; 18 per cent and 23 per cent for 1986 and 1989 respectively.

"One of the reasons for the continuing popularity of Canada Savings Bonds over the years, aside from earning an attractive rate of return, is their absolute security", said Cunliffe.

"Investors know that regardless of what happens with interest rates or the stock market their CSB investment will always be safe ... and that they can cash in their bonds - any time - and get all their money out with accrued interest," he explained.

Interestingly, said Mr. Cunliffe, safety and stability ranked high with investors in the TSE study.

"Since 1986," the study noted, "the emphasis placed on safety and security has increased among all groups. Not surprisingly, the importance of safety and stability rises with ages and declines with income."

Neal and Diane Lithwick pose for a family picture with their daughter Hayley, 16 months, at their Georgetown home Sunday. The Lithwicks moved here in September from Etobicoke and are enjoying the slower pace outside of metropolitan Toronto. (Herald photo)