

# Planning for retirement should start now

Recently, I read an article by Peter Townley, a professor at Acadia University that contained some interesting observations about pension plans and RRSP's. What follows are some of his and some of my comments.

There are two kinds of employer pension plans. The first is the defined benefit plan and the second is the money purchase plan.

The benefits under both are a function of the contributions and the rate of return of the investments to which they are deployed.

The designer of a defined benefit plan must make an assumption about the rate of return that the pension funds will earn on the average. This is usually called the plan's valuation rate and is typically set at 6 to 8 per cent. Employees have thus rid themselves of uncertainty in exchange for accepting this low rate of return on contributions. Basically they are compensating their employer for assuming their share of risk of the fund.

There is no "free lunch" here. The fact is that employees could earn a higher rate of return without much risk in GIC's, a T-Bill or bond mutual fund.

The money purchase pension can be invested at possibly more favorable rates of return, but is subject to current rates which may be low at the time of retirement and thus affect the pension payments available.

Given a choice, many employees who think through the differences would prefer the higher returns of an employer sponsored Group RRSP or a money purchase pension plan. Another big advantage is that they are more portable than the years of service that must be toted from one employer to the next in a defined benefit plan.

Even though inflation is on a down trend now, it has averaged over 6 percent for the last 30 years. With that in mind, the fact is that most employees don't know that there are upper limits that the government imposes on employers regarding the amount of money that pension plans can pay out, and that inflation can really eat away the pensioner's spending power. At 5 percent inflation, a \$25,000 annual pension today is only worth a little over \$15,000 in today's prices 10 years from now. Pension plan rules are now under review but are typically 10 to 15 years behind the times.



## IT'S YOUR MONEY

Paul J. Rockel

Maybe an employee would be better off if the employer pension contribution amount were compensated by the employer directly to him or her so that the tax breaks offered by a personal RRSP could be realized, personal savings could be contributed in addition.

Each could select a portfolio best suited to his or her circumstances or attitude towards uncertainty. There are 50 RRSP eligible mutual funds that have earned from 12 to 15 percent over the last 10 years, and some that have earned over 15 percent for the last 20 years. Or those with little tolerance for risk could have something as bland as Canada Savings Bonds.

You have to balance rate of return with risk.

One year GIC's have averaged a little under 10 percent return for the last 23 years, one of the

best known mutual funds have averaged 15.5 percent over the same period. If you had invested \$300 per month or a total of \$36,000 for the 23 years as of June 1, 1991 you would have \$315,696 from the 10 percent investment and \$647,661 in the mutual fund.

Over twice as much!

Which would you rather have?

Finally, most importantly, upon retirement, funds help in an RRSP can be converted to your choice of an life annuity, a term-certain annuity, or a registered retirement income fund (RRIF). Or part of your funds can be put into all three, or you can have more than one RRIF. Anyone at death's door can tilt the payments in a RRIF towards the present and at death the capital balance can roll to the spouse tax free. (The continuing income is taxable). Payouts from a mutual fund RRIF can be changed as needed.

But and this is a big but! Funds of any kind in a pension plan can

only be drawn out as monthly pension payments which is the same as a life annuity. Sure some plans opt for continuing the payments to the surviving spouse at 60 percent but you can be sure that this has been carefully calculated by the actuaries who design the plan. The payments for this feature while both are alive are usually less.

Whatever else, one reward of not belonging to a pension plan is much more flexibility at an age when spending decisions are crucial.

For a comparison between an actual mutual fund and a 10 percent investment, contact Peter C. Masson, Regal Capital Group, 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 Limited, a 24 year old financial planning company with offices from coast to coast in Canada.

# Sears Canada reaches milestone

Sears Canada Inc., the nation's largest single retailer, today opened its 100th retail store in Canada at the Erin Mills Town Centre in Mississauga. This store is the first of seven newly acquired Simpsons/Bay stores to be opened in the Greater Toronto area this fall.

The 132,200 square foot, full-line department store offers the same friendly service, trusted brand names, quality products and superior values that shoppers across Canada have come to associate with the retailer for the past 38 years in Canada.

In addition, it reflects Sears new emphasis on fashion merchandise and presentation, featuring a larger area devoted to fashion and the introduction of an environment where fashions are presented in individual shops.

The store that dresses Canada - that sells more goods in more categories than any other Canadian retailer - is also supplementing their best selling fashion apparel with an expanded fashion selection. Sears private label programme is being increased and improved with updated styling and quality, and national brand names are being introduced.

Express Alfred Sung and Sensation by Roule for women are two of the new fashion collections to be introduced which have been exclusively designed for Sears.

Other highlights of the store are an expanded cosmetic and fragrance area with many new brand names. Men's Wear features a Wimbledon Shop for men, offering an exclusive line of casual clothes, as well as recognized labels such as GWG Rileys. Airstep, an exclusive line of women's shoes is being introduced, and hot looks such as Chip and Pepper fashion for kids have been added.

"We do not want to give anyone the idea that we are trading away from our existing customer"

states G. Joseph Reddington, President and CEO, "but we do want to try to expand our fashion assortment, to be a little more fashion-forward, and give our customers a broader selection."

Sears continues to offer its traditional, wide selection as a full-line department store including home furnishings and appliances, entertainment, hardware and sporting goods, as well as home improvements.

To provide customers with the convenience of catalogue shopping, the store features a Full Service Catalogue Desk with Inspection Desk and fitting room.

Special services offer a Portrait Studio and Travel Service.

Sears is extremely proud of this new store and in the words of Annette Procnier, Store Manager, "Our employees, most of whom are former Simpsons sales people, are very excited and looking forward to welcoming our customers to this newest Sears store."

## ARE YOU TIRED OF PAYING TOO MUCH INCOME TAX?

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If you are a business owner, executive, professional, or have a combined family income of \$70,000 or more, plan to attend our meeting and find out how you can save tax dollars and earn non-taxable income with a business investment.

If you are in a position where you can no longer contribute to an RRSP, plan to attend. If you have a large RRSP account and would like to know how to pay less income tax on the cash out of this account, plan to attend.

### "MEETING HIGHLIGHTS"

1. The effect of inflation and taxation on your savings dollars.
2. The value of a repositioned dollar.
3. How to have income tax dollars work as hard for you as you did for them.
4. The importance of financial planning.
5. Money is governed today by the same laws which controlled it when prosperous men thronged the streets of Babylon, 6000 years ago.

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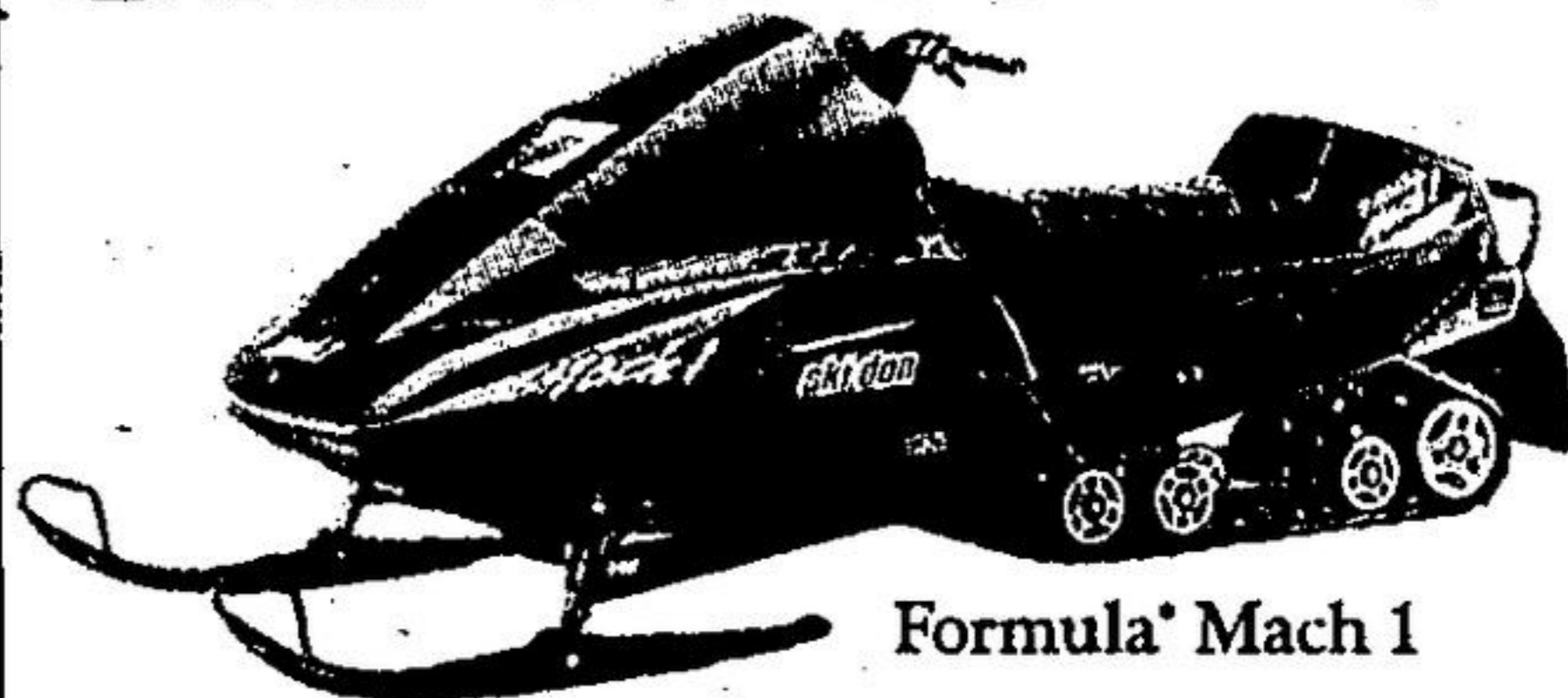
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