

Are Canada Savings Bonds your best investment?

By PAUL J. ROCKEL
Herald Special

CSBs are a unique investment instrument that are accepted unquestionably. There are perceived to be a guaranteed, no risk investment and are purchased unwittingly every fall by many Canadians.

The element of risk is not overcome by simply allowing investors to get their money at any time. If you consider three changes the government has implemented in recent years, you'll soon discover why Canada Savings Bonds have little appeal for discerning investors.

First, CSBs have no minimum rate guarantee after the first year.

Second, recent issues of CSBs have been set at lower rates than other similar alternatives. When short term rates change upwards in the middle of a year and Canadians start cashing in their bonds, the government is slow and stingy in making adjustments.

Third, the \$1,000 earned interest deduction on your tax return has been eliminated. CSBs and all other interest earning investments are now taxed from the first dollar.

Finally, there is the effect of inflation. Let's say for example you buy a \$1,000 bond and plan to hold it for five years. This year's rate will probably be around 8 per cent, with rates trending down this may be as good a rate as you will get for the five years. Maybe rates will go up, so let's say that you average 9 per cent for the

five years.

Inflation has averaged over 6 per cent for the last 30 years, the government says it is going down now. Maybe! Let's assume inflation will average 5 per cent. In real terms, it means your original \$1,000 will decrease in value by 5 per cent each year. True, it will still have a face value of \$1,000 but it will only buy \$773.78 worth of goods and groceries five years from now.

When you consider income tax, the \$80 in interest earned even at the lowest tax bracket of 27.5 per cent will give you \$58 to spend. The 5 per cent inflation eating away at your \$1,000 will rob you of another \$50 by the end of the first year.

Taxes and inflation turn the 8 per cent interest into only 0.9 per cent actual cash spending power!

At higher rates of tax your return is in negative territory!

Are Canada Savings Bonds really a risk-free place to put your money? I don't think so.

Many people buy CSBs on the payroll savings plan. Do you know that you must pay about \$22 per week for 48 weeks to buy a \$1,000 bond? That's \$1,056. You are paying for the bond interest as it accumulates after tax money. Then the government taxes you on that interest. Neat trick!

If you insist upon earning interest, there are other alternatives. Five year GICs that pay monthly or quarterly interest are available; there are cashable GICs, and many other products from various financial institu-

tions that offer the same safety and liquidity as CSBs.

A real estate mutual fund has tax advantages that can provide a significant after tax income advantage as well as protection of your capital when compared to a GIC or Canada Savings Bond. Not many people are familiar with them. You can even receive a

regular monthly income from the property rents and pay less tax too.

If you are saving for retirement or are retired and need the income, you owe it to yourself to check out the investment alternatives available that will best suit you.

If your objective is either of

these two, it could be in your best interest to talk to an independent financial planner who will consult with you at no charge. He or she will have knowledge of various tax-saving alternatives as well as the availability of financial products from a large number of financial institutions to tailor a custom plan for you.



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