You can indeed achieve financial independence

By PAUL J. ROCKEL
Herald Special

Wouldn't it be wonderful if every Canadian could achieve financial independence? But, economists and other financial "experts" tell us that only two per cent of Canadians will end up with sufficient assets of their own to retire and maintain their previous standard of living.

Many think that we don't need those assets because the government forces us to save by making us contribute to the Canada Pension Plan. It also taxes us extra so that we can receive the Old Age Security payment at age 65. Ask anyone who is receiving these payments if that is enough to live on and they will be quick to tell you "no way!".

Even with these benefits, they tell us that only five out of every 100 people will be able to maintain their standard of living until they die. Yet, I believe every Canadian can enjoy a measure of wealth, if only they would apply one simple rule.

"Save a part of what you earn, and let the earnings compound"

Providing that you apply this rule when you are relatively young, when you retire, if you have followed that advice, you will have all the assets that you need to retire in dignity.

Sounds simple, so why aren't more retirees financially independent?

People don't plan to fail - they fail to plan.

Time, the value of compounding, and rate of return, are the keys to achieving wealth. As an

IT'S YOUR MONEY
Paul J. Rockel

illustration, if you save $5.00 per day ($1,825 yearly) growing at 15 per cent through to age 65, a person starting at age 40 would have $388,347, but the person who started at age 35 would have $793,410 and the person who started at age 30 would have $1,608,135.

Sounds good! So, how do you do it? Follow another easy rule.

Pay yourself first

There is an easy, almost painless way to do it. The savers will save through a PAC. That stands for Pre-Authorized Cheque. Many of us use PAC's to make monthly payments on our homes. The bank or trust company, once authorized, sends the prescribed amount to the mortgage holder every month. We should do the same with our "pay yourself first" savings, and invest those regular payments.

My experience after 30 years in the investment business convinces me that mutual funds are the best way for the average person to invest their savings. Mutual funds are professionally managed investment enterprises in which people can pool their money and share in the growth and gain of a portfolio of stocks and other securities. Because of the diversification within the portfolio, participants in the fund will own a small portion of a wide variety of investments.

Buying shares in a mutual fund is like hiring your very own investment counsellor. Each fund employs a full-time manager or managers who constantly oversees the performance of each component of the portfolio. There's no need to worry what or when to buy or sell. It's all done by someone who's trained and well qualified to do the thinking and transactions for you.

Our government encourages all of us to save for our future through the RRSP program whereby we get a tax saving if we contribute to an RRSP. Surprisingly less than half of all working Canadians take advantage of this excellent program.

You can put mutual funds in your RRSP and have the professionals manage your money for you. And, you can invest as little as $30.00 per month in a mutual fund through a PAC.

Contact a financial planner to get started in the right direction.

For a free long term comparison between an equity mutual fund RRSP and an RRSP investment earning ten per cent 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 Limited, a 24 year old financial planning company with offices from coast to coast in Canada.

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New rules encourages retirement savings

New RRSP rules provide more tax benefits to encourage retirement savings.

Over the past few years, changes in federal law have virtually eliminated any opportunity for average Canadians to shelter their earnings from taxation.

In 1987, for example, the $1,000 Investment Income Deduction was consigned to the legislative scrap heap, along with a number of other traditional tax deductions. Last year, the Pension Income Deduction was downgraded to a tax credit.

All of which tends to suggest that Ottawa has a very keen appetite for potential sources of tax revenue. So why was it that, in the summer of 1990, our federal government passed a bill that deliberately encourages Canadians to reduce their taxes?

What I'm referring to, of course, is the new pension reform legislation - specifically, the new rules providing for much higher contributions to RRSPs (up to $11,500) starting in the 1991 tax year. The consequences of these rules, while certainly beneficial for RRSP investors will be millions of dollars lost or deferred tax revenue for Revenue Canada.

Clearly, the federal government believes it has an important responsibility to encourage more Canadians to put more of their money aside for retirement. The question is why?

Aging baby boomers

One answer can be found in the unprecedented number of Canadians who will be reaching retirement age over the next few decades. By 1996, almost a third of the population will be over the age of 50. And in only 20 years, seniors' centres across the country will be welcoming their first members from the baby boom generation.

Money and Banking
by
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Bank of Montreal

The result will be a major shift in the demographic profile of our society, with fewer people in the work force having to provide social benefits for considerably more retirees. And because average life expectancy continues to rise, these benefits will be required for a greater number of years.

While no one is predicting the day when the government stops mailing out its pension cheques, the fact remains that Ottawa may eventually have to cut back on its traditional level of social assistance to retirees. Given this prospect, it's not surprising that Canadians are being encouraged to assume a greater level of responsibility for their financial security in the future.

Significant tax incentives

Certainly, it appears that we need the encouragement. According to a recent Gallup survey of Canadians' financial preparedness for retirement, only 46 per cent of people interviewed were enrolled in a retirement savings plan or a company pension plan. More than 30 per cent had no savings or investment program of any kind set up to provide income for retirement.

Not surprisingly, the survey concluded that many Canadians are dangerously ill-prepared for retirement; some, it said, will simply be unable to retire.

The outlook is not entirely bleak, however. As more and more people get closer to retirement, it seems reasonable to assume that interest in RRSPs will continue to grow.

And besides, who can resist an opportunity to pay less taxes?

For further information contact Anne Kelly, Branch Manager, Bank of Montreal, Georgetown 877-5141; Edna Perkons, Branch Manager, Acton 853-1100. Edward VanderVelde is the Independent Business Manager, Bank of Montreal for the Town of Halton Hills, 873-1681.

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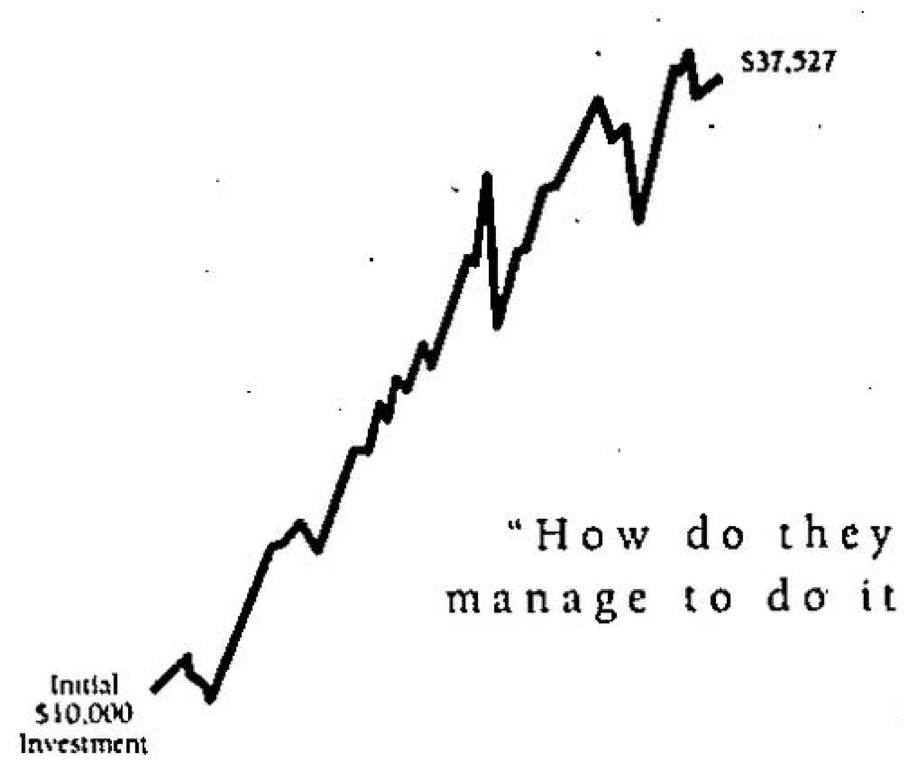

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