Transfer your RRSP to get a better return

By PAUL J. ROCKEL
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IT'S YOUR MONEY
Paul J. Rockel

When the government set up the RRSP program, they made it possible to transfer your RRSP to another financial institution to possibly get a better return without having to deregister and pay tax. There is a simple form you will fill out and sign called a T2033, and that's all there is to it!

Have you got a term deposit coming due for renewal in your RRSP? It's pretty sad when you are faced with renewing it at rates from 6.5 per cent for one year to eight per cent for five years, when the one coming due was earning anywhere from nine per cent to 12 per cent. Then comes the puzzle of trying to guess whether rates will stay the same, go up, or go down. To get the best rate, you have to lock your money up for one to five years, which to chose is another big guess. As Winston Churchill once said, "you can only predict things after they've happened!".

The banks, and trust companies get you another way that many don't stop to thin about. Your GIC or term deposit may be in a savings type deposit with no compounding, so that your earnings yield about half what the principle is earning, you'd be surprised how many RRSPs that I have seen where folks have fallen into that trap. Most are of the type where the return is compounded annually and paid to the deposit at the end, although some semi-annual compounding term deposits are available. Also available at a few institutions are term deposits that are redeemable, however they always yield a smaller return.

The banks and trust companies lend your money out to business, and for mortgages and personal loans, after they have taken a two per cent and five per cent markup. They calculate the interest monthly or semi-annually (mortgages) and naturally get the benefit of more frequent compounding that way than you do.

Another reason some people are afraid of any other form of investing is they have a GUARANTEE. If I lent my money to a bank or trust company who in turn could lend it to anybody that they pleased and who I might ·ot know, boy would I want a GUARANTEE too!

The CDIC GUARANTEE says in effect that you will get your money and what it has earned back, but the CDIC GUARANTEE has a limit of $60,000 at each institution. At eight per cent for five years, $10,000 will grow to $14,693.28. Today your $10,000 will by $10,000 worth of goods and services, in five years at four per cent annual inflation the value of your five year GIC will only buy $12,076.81 worth of goods and services in today's dollars, that's a return of only 3.85 per cent! I don't need that kind of a GUARANTEE! So, I do not lend my money to earn interest in a GIC, or RRSP term deposit. What's the alternative? Why not take a look at independently managed mutual funds?

In 1981 the mutual fund industry had total assets of about $5 billion, today, there are over $55 billion, by the year 2000 the management consulting firm of Ernst and Young estimate that there will be over $500 billion in mutual fund assets in Canada. The banks trust and life insurance companies have seen their traditional deposits shrink, so they are jumping into mutual funds in a big way. True, there are a few of these institutions that have had mutual funds for many years and even fewer of them that have records of performance equal to the independtly managed funds.

Why? One of the reasons could be that the managers of many of these funds are mere employees and have no ownership interest, or incentive to achieve superior performance.

For fans of term deposits and GUARANTEES there are mutual funds that invest in GUARANTEED investments, but earn more than most people can on their own because of the way they invest. Also, your money is not tied up for one, three or five years. One income type fund that comes to mind pays $1.00 per year dividend, and the price has ranged from $9 to $10 in the last six years. That's ten per cent or better return. The ten year average annual rate of return is 14.47 per cent. In the big market sell off of 1987 this fund lost less than ten per cent, and quickly recovered. The fund has paid $1.00 per year dividend since 1985 and at a recent meeting the fund manager siad that the $1.00 per year dividend will continue. The fund is 70 per cent in Canada and Ontario GUARANTEED bonds and N.H.A. *GUARANTEED* mortgage backed securities and 30 per cent in equities. It is the return of capital feature which will make continuation of the divident possible. The recent price of about 9.30 gives yield of 10.75 per cent, and there is no $60,000 limit.

There are also equity, balanced and international funds that can be mixed in a RRSP. There are equity mutual funds that have earned as much as 15 per cent over the long term. With an annual RRSP contribution of $4000 at eight per cent for 20 years your value would be $183,048, if a mutual fund returned 15 per cent your value would be $409,774. Which would you prefer?

Talk to an independent financial planner about completing a T2033 and transferring your RRSP to get a better return.

For a FREE booklet on RRSP investing and a chart comparing the performance of an actual mutual fund with a ten per cent investment over the last 24 years, contact Peter C. Masson, M.B.A., Regal Capital Planners Ltd., 10 Fagan Drive, Georgetown, Ontario or phone 877-7216.

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RRSP's a worthwhile supplement

Money and Banking
by Edward VanderVelde

Bank of Montreal

RRSPs a worthwhile supplement to government and employee pensions.

What kind of income will you have when you retire?

Like most people, you'll be getting something from the government. And if you belong to an employee pension plan, you know that you'll also be getting regular retirement benefits from your employer. Then there's the income from your savings or investments, as well as the money you've accumulated inside your RRSP.

Given all these different sources, you might assume that your retirement income will be adequate - even if you're not sure of exactly how much it will be. And you might be right. But if you're not, now is the time to find out.

Government Pensions

Chances are you've always thought that if worse came to worse, you could at least survive retirement on a government-pension. After all, the government wouldn't let you starve, would it?

Well, maybe not. But you'd come pretty close.

To see why, let's say that you've worked for more than 20 years, during which you contributed the maximum amount towards the Canada Pension Plan, or CPP. (Quebec Pension Plan, or QPP, if you lived in that province.)

What would you get on retirement? In 1991, you're entitled to the maximum benefit of $604.86 a month from CPP/QPP, as well as Old Age Security (OAS) payments of $354.92, for a monthly total of $959.78, or $11,517.36 a year.

Under normal circumstances, that's as much as any Canadian can expect to get. But if you're really destitute, you're also entitled to receive the Guaranteed Income Supplement (GIS) which, for a single person, is currently $417.61 a month.

All in all, it doesn't add up to much of a retirement lifestyle.

Employee pensions plans, or RPPS (the "R" is for Registered), are an important source of retirement income for about 40 per cent of Canadians.

Most RPPs are defined-benefit plans, to which you and/or your employer contribute during your years of service, and from which you receive regular monthly benefits upon retirement. The amount of the benefit is usually based on a formula that includes your average salary and years of service with the company.

Still, there is no fixed rule as to how retirement benefits are calculated. So two people with the same salary and years of service can end up with very different levels of retirement income - simply because they worked for different employers.

What about you? If you belong to an RPP, and if you haven't done so already, you should make a point of asking your personnel office about the kind of retirement benefits you can expect from your plan. And when you do keep in mind that benefit amounts are often quoted with the value of CPP/WPP payments included.

Unless your plan is particularly generous, you'll probably need an RRSP to generate additional retirement income. And certainly if you don't belong to an RPP, your RRSP will be nothing less than essential.

But even if you are confident that your current pension plan and investment assets will be sufficient to provide you with the income you need, it still makes sense to contribute as much as you can to your RRSP.

Ultimately, however, the value of an RRSP is that, unlike government and company pension plans, it allows you to determine the amount of income you'll have at retirement.

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.