Painless ways to save money

For some people, putting aside money for a rainy day comes easily.

But for those who find saving difficult, it's a good idea to get into the habit of "paying yourself" a certain amount to earn interest or dividends.

These payments should be just as automatic as income tax deductions. It's up to you how much you deduct, but savings should be looked upon as being untouchable, as if they were owed to somebody else (until you have a special use for it).

SAVE FOR EMERGENCIES

It's important to build a certain percentage into your savings account for emergencies, or to allow you to take advantage of a new or challenging opportunity should it present itself. It wouldn't be unreasonable to aim for the equivalent of three or four months income in your emergency fund.

There are a number of relatively painless ways for those of us with slippery fingers to hold onto some of our money.

One way to save for the short-term is to automatically transfer a set amont from your chequing account to your savings account each month or pay day. Figure out how much you can afford to put aside, and transfer it as soon as your regular paycheque goes into your account.

If you're not a member of a pension plan, you should consider starting a retirement savings plan. Although government pensions are available, they may not be sufficient to maintain your lifestyle.

One of the easiest and smartest methods for long-term saving is to make monthly contributions to a Retirement Savings Plan (RRSP). All you have to do is set up preauthorized payment withdrawals with your bank. At the Royal Bank, you can start putting away as little as $15 a month. Of course, the more you contribute, the faster your savings will grow.

Monthly RSP contributions are not only a good way to accumulate savings, they give you a tax break at the same time. And they ensure your standard of living will remain the same for your later years.

AUTOMATIC MUTUALS

Another way of saving for the longer term is to make regular contributions to a mutual fund. As with RSP contributions, you advise your bank to deduct a certain amount each month to go towards buying mutual fund units or shares. Royal Bank's minimum contribution is $15.

And there's an added benefit to this method (particularly if you put your contributions into an RSP), called dollar cost averaging, here's how it works. By purchasing the same dollar value of mutual fund units or shares, you usually end up with a different number of units purchased each month (because of the fluctuating price of the share.) If share values go up, which they will generally do over the long term, you'll end up paying less than the average share price.

PAYROLL DEDUCTIONS

Another popular way to save is to buy Canada Savings Bonds through your company's payroll deduction. Or, if your employer offers an employee savings share ownership plan, take advantage of it. By instructing your employer to deduct a small percentage of your salary each pay, you can watch your investment grow with your company.

It's never easy to save money, especially during a recession. But if it is not in your chequing account, you're not as tempted to spend it.

This column ws prepared by the **Royal Bank.**

Mistakes to avoid during RRSP season

Beware, RRSP hunting season is open!

And if you are like the majority of people, you are presently shopping around for a registered retirement savings plan at the last minute.

There are many common mistakes made regarding purchasing a RRSP. Avoiding these mistakes can put hundreds of thousands more dollars in your pocket.

Firstly, why bother purchasing RRSP? There are two reasons to contribute to a yearly RRSP:

1) You are reducing the amount of taxes you owe the government. For someone who is earning between $28,000 - $58,000 annually, he or she can save $411 per $1,000 contributed to their RRSP. Remember, by not contributing to their RRSP this person would be giving this $411 to the government.

2) Also each and every individual should plan to finance his own retirement because there just won't be enough money in government and/or most companies' pension plans to be able to live off comfortably. That is the reason why the government offers such a good tax treatment regarding RRSPs.

These monies saved on your taxes could really add up; $411 (taxes saved on a $1,000 RRSP contribution) if invested at 12% would amount to $99,187 in 30 years.

Secondly, another major mistake made is that while all RRSPs reduce taxes, a small difference in the rate of return in the RRSP can mean having a much larger retirement nest egg. Consider $2,000 contributed annually for 30 years at a 9% rate of return will grow to $272,615 while at a 12% rate of return this same amount would grow to $482,665. This translates to having 77% more cash in your nest egg through improving your rate of return by only 3%. This rate of return can easily be obtained using professional money managers.

These and other concepts to improve your tax savings will be covered at our workshop at Hugh Foster Hall Friday, February 7th at 7:15 p.m. Please call Annick Symons at 854-2780 if you would like to reserve a seat.

Learn the basics

Financial planning tools

Planning your financial affairs is the surest way to get where you want to be. Building wealth and managing risk go hand in hand. As you gain wealth by earning money, you want to minimize the things that eat away at your funds — interest payments, taxes, unnecessary expenses. You also want to manage your risk of major losses. Use the four basic tools: debt elimination, RRSP's, investments, and insurance.

Your first concern should be establishing a financial safety net - enough secure cashable investments to survive three months without income. Getting into the habit of saving also means that you will have less need to borrow for major purchases like cars and appliances. The biggest debt you are ever likely to incur is your mortgage. Get the terms that suit your current situation and allow some flexibility if your situation changes. It may seem confusing at first but thousands of dollars are at stake. Reconsider your terms each time your mortgage comes up for renewal. Plan to pay off this and all debts as quickly as possible without sacrificing other areas of your program.

BUILD A SHELTER

RRSP's are an excellent way to save for retirement, help achieve income splitting, and provide for times of lost income. The priority you place on using RRSP's depends on the taxes you stand to save. Investments inside an RRSP grow quickly while sheltered from tax, but taxes are due when the funds are withdrawn. People in low tax brackets (i.e. making less than $36,000 per year) should be careful not to get into a situation where they need to make a large withdrawal and get pushed into a higher bracket. Several smaller withdrawals spread over a few years may get around the problem. A spousal plan may also help. People in high tax brackets should make sure they are making the best use of all aspects of this planning tool.

Besides the money you work for, you can build more wealth by making your money work for you. When choosing investments consider risk, taxation, and liquidity. High risk should be offset by the chance of high returns. But the amount of risk you take is not just a matter of personal preference.

BALANCE THE RISKY BUSINESS

Risky investments should be balanced by a base of secure ones. Age is also a factor. As you approach retirement you have less time to make up for poor returns and losses. In this situation you need to shift more of your assets into secure investments like GIC's, money market funds, and low risk mutual funds. Right now interest rates on guaranteed deposits are dropping steadily and you may have to look into some of the other good choices available.

The role of insurance in your plan is primarily for risk management. Home, auto, life, health and disability are the major areas to cover. Employer-sponsored and government programs provide a good base for most people. But do not assume that group insurance is always cheaper than a personal plan. Group plans do not give special rates for being in excellent health and a non-smoker.

Get the help of a professional to determine your insurance needs. Whether you are most concerned about providing for dependents, covering capital gains taxes, providing a large gift for a favorite charity, or keeping a business intact, insurance may help you achieve an important goal.

Now is the time to take a good look at your finances and take the action that will help you both enjoy life today and ensure a secure tomorrow.

This article was submitted by Susan Miller of **Miller Financial**, Campbellville.