

## Business and Finance

# Looking at retirement in the next century

Until recently, Canadians have more or less taken for granted that a combination of government programs and employer pension plans would guarantee their retirement income.

But now planning for retirement has become more complicated because of a number of new, unknown variables.

## Government Programs

The Canadian Pension Plan will survive. The federal government and the provinces are currently locked in debate over the future of the CPP. But it's clear there is political will on all sides to retain the CPP.

There may be changes such as raising the retirement age, reducing some benefits and an increase in premiums.

We expect premiums will eventually level off at around 10 per cent of earnings (the 1996 figure was 5.6 per cent divided equally between employer and employee).

Whatever changes are made to the plan, it is clear that CPP payments will not be adequate to support the average person in retirement. CPP payments should be regarded only as an income supplement.

One piece of good news is that the government is unlikely to impose a special tax on these payments.

## Universal programs will disappear

The proposed Seniors Benefit represents a major shift. It moves us from a universal old-age support program to one tied more directly to need. The message is clear: Higher-income, older Canadians cannot expect any government support in future, either directly or in the form of tax concessions.

## Private pension plans

Because of the high cost of defined-benefit programs, employers are looking at other options.

Most of the new plans are either group Registered Retirement Savings Plans or defined contribution money purchase pension plans, with no income guarantees.

The effect is to shift responsibility for retirement planning and investment decision-making onto the employee. Employees will have to decide where their retirement savings should go and ensure that the eventual income will be adequate for their needs.

The climate has changed. The minimal inflation and low, stable interest rates we know today should continue into the early part of the 21st century.

These patterns are not just a Canadian trend—it's a worldwide pattern, as governments and central banks learn how to manage economies more efficiently.

For retirement planning, it means returns on RRSPs and pension plans will be lower in the next decade than they were in the '70s and '80s.

## The unknown factor

As the federal and provincial governments eliminate their deficits and start reducing their total debt burden, their spending power will increase. Governments may use some of the money saved on debt servicing to reduce taxes. Or they may opt to build political capital by improving health care and education or sweetening the benefits offered to retired Canadians.

If tax reduction is the choice, you'd be well-advised to use some of the extra money to add to your retirement savings program.

Ultimately, the most effective way to

deal with the retirement uncertainty that lies ahead is to increase your personal savings.

This article was submitted by John McCallum from Royal Trust.

## Top Priority

**Generation X:** Take advantage of low rates by using savings on mortgage payments to add to retirement savings program.

**Baby Boomer:** Take a hard look at anticipated retirement income from all sources. If need be, accelerate savings.

**Soon to be retired:** Structure your retirement income plan to ensure required cash flow.

**Retired:** Improve after-tax returns, for example, when interest rates are low, dividends are often more effective investment choices.

## Future Strategy:

**Generation X:** If tax cuts materialize, save some of the money and join a pension plan or group RRSP.

**Baby Boomer:** Invest prudently. Retirement isn't far off; you can't afford a major loss but need growth for longer life expectancy and more active lifestyle.

**Soon to be retired:** The mandatory age for winding up an RRSP drops to 69 in 1997. If you're effected, start planning now.

**Retired:** Watch changes to government support programs, including tax breaks. If you're effected tell your federal and provincial legislators.

## Outlook:

**Generation X:** May carry a disproportionate share of the cost of supporting retired people.

**Baby Boomer:** Likely to be hardest hit by government cutbacks. Possible offset—tax cuts while still in your earning years.

**Soon to be retired:** Well positioned. More likely to have well-funded pension plans. Low inflation will be a big bonus.

**Retired:** Better off will lose some government benefits, but effect should be minimal. Low inflation will mean stable purchasing power.

## EDUCATION INVESTMENT WORKSHOP



MAREK TANANA, R.I.B. (Ont.)

**Date:** MONDAY  
JAN. 20th & 27th

**Time:** 7 P.M.

**Place:** MARKHAM LIBRARY  
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## CONFUSED ABOUT WHERE YOU SHOULD BE INVESTING YOUR RRSP?

QUESTIONS YOU SHOULD BE ASKING THE BANK OR MUTUAL FUND SALESPERSON THIS YEAR.

ASK. Q. "WHAT GUARANTEES ARE THE ADVISORS OFFERING YOU THIS YEAR?"

ASK. Q. "IS MY MUTUAL FUND CREDITOR PROOF?"

ASK. Q. "CAN I CRYSTALIZE MY GAIN IN ANY YEAR?"

ASK. Q. "CAN YOU MAKE MY RRSP SELF COMPLETING IF I AM SICK OR DISABLED?"

TO FIND OUT THE ANSWERS TO THE ABOVE QUESTIONS THAT THE BANK OR MUTUAL FUND SALESPERSON WON'T TELL YOU ABOUT, ATTEND ONE OF MY WORK SHOPS.

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## Edward Jones RRSP INVESTING LUNCHEON SEMINAR

**Date:** Thursday, January 23, 1997  
**Time:** 12:00 - 2:00 p.m.  
Refreshments and Sandwiches will be served!

**Location:** Edward Jones  
4591 Highway #7, Unit 110  
Unionville, Ontario

**R.S.V.P.:** To Kathy at (905) 305-8507  
Seating is limited so please don't delay

**Speakers:** Dave Redwood of TRIMARK  
Larry Stadnyk of Edward Jones

**Agenda:** RRSP Growth Investments with TRIMARK MUTUAL FUNDS

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## INVESTMENT INSIGHT

Q: In the past, I have purchased international mutual funds for the foreign component of my RSP. Upon switching some of my foreign mutual funds from an International Equity Fund to an Emerging Markets Fund, the book value of my foreign content increased causing me to exceed my allowable foreign content limit of 20%. I had to sell an investment that I wanted to keep in order to get back to the 20% limit. Is there any way for me to sell part or all of an international mutual fund and purchase other international funds without causing my foreign content to exceed the 20% limit?

P. Chan  
Unionville

A: In a previous Investment Insight, we answered a question which dealt with how to increase your foreign content by selling a Canadian investment that had appreciated. As discussed then, when most investments are sold within an RSP, the book value of the RSP changes according to the proceeds of sale.

However, selling appreciated foreign investments to purchase other foreign investments will result in increased book value of your foreign content causing you to exceed the 20% limit. If you wish to actively manage your foreign investments inside your RSP, perhaps your best choice of investment is to purchase shares of a Mutual Fund Corporation. Don't confuse this with regular mutual funds which are structured as a trust. By purchasing shares of the corporation, you can switch between a "class" of shares, for example, international equity class to emerging markets class, without triggering any increase in the book value of your foreign content as long as you remain within the same Mutual Fund Corporation. The benefits are that you will be able to actively manage your foreign investments and could surpass your foreign content limit of 20% significantly without attracting penalties from Revenue Canada. Also, by increasing your foreign content, you may reduce risk, volatility and increase overall investment return over time.

You can fax your questions to Investment Insight at 294-8880 or call Dan Galszechy or John Niekaszewicz of Fortune Financial Corp. Markham, 294-1200.