Financial Services Group

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Registered Retirement Savings Plans & Your Retirement

The 1985 deadline for R.R.S.P. contributions was March 01, 1986. Were you a last minute purchaser? Did you get what you paid for? Have you made your 1986 contribution?

This issue of the Financial Services Group Newsletter deals with these questions and gives you an opportunity to realize how your current planning will affect your future.

Now is the time to plan for 1986.

Specifically we will look at:

1. The "In Advance" concept for R.R.S.P.'s.
2. Shop Intelligently before purchasing an R.R.S.P.
3. Myths & Facts about R.R.S.P.'s.
4. The ultimate Tax Shelter.
5. Why is there a need for Financial Planning?

1. The "In Advance" Concept For R.R.S.P.'s

The following shows the benefit of buying at the start of the year (assume 10% per year return).

	$2000 lump sum per yr. Start Feb./87 End of Tax Year	**$166 per month Start Mar./86 Throughout Tax Year**	**$2000 lump sum per yr. Start Feb./86 Beginning of Tax Year**	**"In Advance" Gain**
Feb/87	$ 2,000	$ 2,108	$ 2,200	$ 200
91	10,210	12,871	13,431	3,221
96	29,874	33,601	35,061	5,187
2001	61,543	66,986	69,900	8,357
06	112,550	120,755	126,003	13,453
11*	194,693*	207,348	216,363*	21,670*
16	326,986	346,808	361,885	34,899
21	540,048	571,410	596,253	56,205
26	883,185	933,133	973,703	90,518

* For a 40 year old today the gain at age 65 is $21,670, by making a lump sum deposit of $2000 at the beginning of the tax year (Feb./86), compared to waiting one year.

Prepared by Orville Sleen — Edmonton.

NEWSLETTER

2.

Shop intelligently before purchasing an RRSP

Life insurance companies, banks, investment dealers, trust companies and credit unions all sell individual retirement plans, known commonly as Registered Retirement Savings Plans (RRSPs).

These plans all have a common purpose — to help individuals accumulate funds for retirement.

Because contributions made to an RRSP by an individual are deductible, within certain specified limits, from that individual's otherwise taxable income, such plans offer a means of reducing the taxpayer's income tax.

The attractiveness of these plans is further enhanced by the fact that any growth in an RRSP is sheltered from income tax until the RRSP is either surrendered for cash or used to purchase an annuity or a Registered Retirement Income Fund — in which case each payment is taxed as income when received.

The competition between the various types of companies which sell RRSPs is fierce.

To understand all the various plans available is virtually impossible, especially with the abundance of advertising and information which you, the consumer, are faced.

The following information may be helpful, however, should you wish to compare the various RRSP plans available to you.

The more general ways in which the various RRSPs differ are:

Type of fund. The type of funds available include guaranteed interest, equity, mortgage or some combination.

How do you feel about investing money? Do you like to be safe, secure — or do you prefer to take some risk in the hope of a greater gain?

Your own answers determine the kind of fund you should consider.

Fees or commissions. What amounts will be deducted from your deposits or your gain to pay the "handling charges"?

Institutions don't handle your money for nothing. Either the return you are getting has been adjusted downward to allow the firm handling your RRSP to make its expenses and profit by the difference between the return paid to you and the return it has received by investing your funds, or you are paying directly a commission or fee to the institution.

Find out which it is and how much it is, in writing, before you decide to involve yourself in any particular plan. Satisfy yourself that you will likely get your money's worth (performance and service) before you put your first dollar into anybody's RRSP.

Net projected yield. Subject to the level of guarantee, what net return can you expect over various periods into the future? What has happened in the past?

The word "net" is used because fees and commissions, if applicable, serve to reduce the tabular or gross return, and it is the gross return which is most often quoted to a prospective RRSP customer.

A final piece of advice: When considering the purchase of an RRSP and after having received satisfactory answers to your questions, ask the company with which you are contemplating investing your savings to provide you with a one-page summary of its recommended plan or plans, showing the projected cash-in value of your savings after each of the first 10 years, and each five years thereafter until your planned retirement date.

Our firm specializes in guaranteed type RRSPs — for which we act as both consultants and brokers. Please call our office at 432-1409 if we can assist you in this area.

Prepared by Jim Rogers — Vancouver.

3. Myths & Facts About RRSPs

1. **Myth**

"Even though I get a tax saving now on my RRSP contribution I will have to pay even more tax back to Ottawa when I cash out my plan in the future."

Fact

The RRSP not only provides tax relief now but shelters you from tax on investment income over a long period of time. Compare two individuals (A & B) investing $5000/year of pre-tax income over a 20 year period as shown below.

	A. (Non-RRSP)	B. (RRSP)
Pre-Tax Income	$ 5000/yr.	$ 5000/yr.
Tax Payable (@ 40%)	$ 2000/yr.	$ 0
Amount left to invest	$ 3000/yr.	$ 5000/yr.
Investment rate (pre-tax)	10%	10%
Value in 20 years*	$116,978	$315,012
Tax payable if cashed in (@ 50%)	0	$157,506
Net investment *after* all taxes	$116,978	$157,506

*Assumes 40% marginal tax rate on investment income.

Even if you cashed out the RRSP and paid 50% tax on *all* of the proceeds you could be 35% better off than had you not purchased an RRSP. Furthermore, you could easily have cut your tax bill further by splitting the benefits of the RRSP with your spouse.

2. **Myth**

"There is no way that I can know how much money I'll need at retirement or when I'll be able to afford to retire."

Fact

With computer assisted planning we can project with a fair degree of accuracy what your future income needs will be. These projections are adjusted annually to take into account changes in your income, financial position, tax bracket, inflation and your age.

In summary, we believe that sound retirement planning is a combination of **conservative investing, tax-effective investments or savings,** and regular analysis of your personal needs. RRSPs can provide the foundation for financial security in retirement.

4. The Ultimate Tax Shelter

Inevitably, at the end of each year, we see one tax shelter after another promoted in the media. Choices range from left over MURBs to exotic yachts and all are touted to eliminate our tax problems and provide us with financial security.

However, it often happens that the reduction in our tax bill provided by these shelters is no match for the reduction in our bank account and personal net worth since the value of the asset acquired often exists only in the initial projections and not, ultimately, in fact.

Let's suppose you could design your own tax shelter. It would probably have all of the following features:

- The amount you invested would be 100% deductible.
- You would not be required to make additional investments in future years unless you chose to do so.
- The tax shelter would be 100% liquid and could be guaranteed to be worth at least 100% of your *pre-tax* investment immediately.
- The tax deduction would be available to the highest income earner in your family but the benefits could be taxed to a lower income earning spouse.
- You would have the final decision on how your funds were invested and could choose from hundreds of options.
- You could sell the investment at any time and receive the fair market value for it within days of making that decision. Furthermore, you could sell all or part of the investment as you needed funds.
- The plan could be designed to be fully protected from your creditors.
- On a fully *guaranteed* basis the investment would show a growth record that far outstrips inflation.

Of course by now, you will recognize that we are describing what we feel is the ultimate tax shelter — A Registered Retirement Savings Plan (RRSP).

5.

Why Is There A Need For Financial Planning?

Inflation, changing tax laws, fluctuating interest rates and a variety of financial products have created a changeable and complicated financial environment. Old ways of preparing for the future no longer lead to security, and an individual is easily lost in the maze of new information. Yet, these financial tasks must still be accomplished:

- Hedge against inflation
- Reduce income taxes
- Provide for education
- Increase net worth
- Plan for retirement
- Use insurance effectively
- Provide for smooth disposition of your estate

A variety of financial tools are needed to create each individual's solution to this complex set of problems. A sound financial plan combines the right set of financial products to create a secure future.

What Is Financial Profiles?

Financial Profiles is a planning system based on the premise of listening to a person's feelings about the handling of financial decisions. Then, using a computer, an individual's financial situation is objectively analyzed to determine which financial solution fits both the circumstances and the preferences.

Financial Profiles is unique because it considers what *you* want. To identify your wants and gather objective data for a financial plan, Financial Profiles:

- Provides a snapshot of an investment temperament based on your concerns, desires and needs.
- Identifies the types of financial property now owned and then compares it to the kinds of property that would ideally suit you.
- Superimposes a profile of current investments over your self-determined ideal.
- Directs thinking towards investment alternatives that could help you reach your investment goals.

Should a Personal Report be of interest to you please call our office for details.

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