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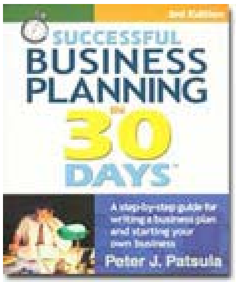

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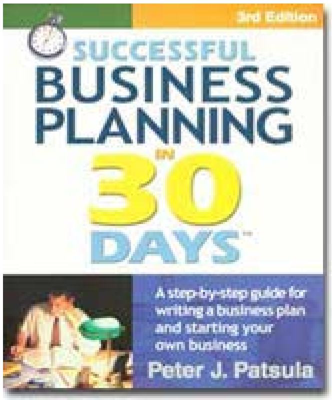

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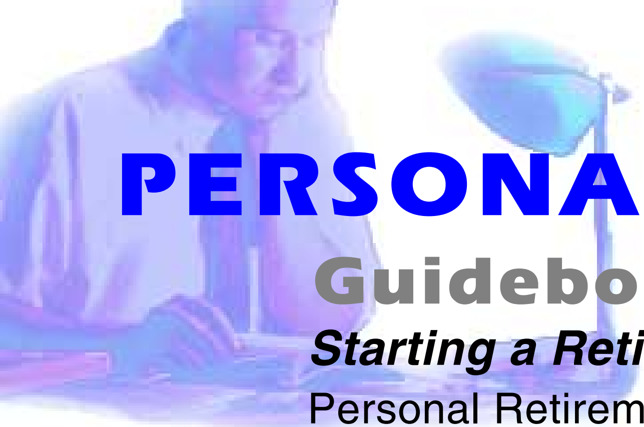
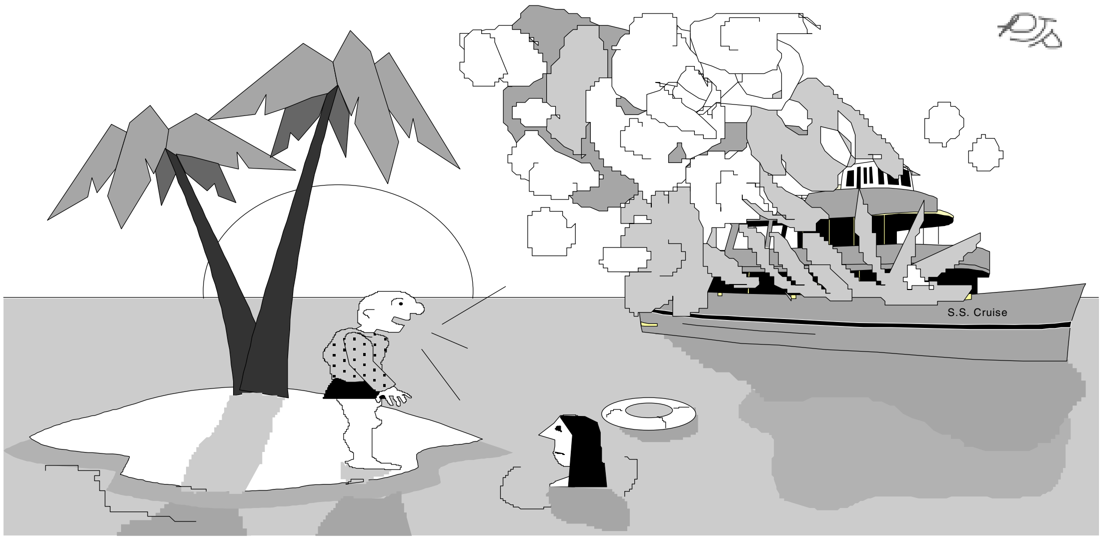


PERSONAL PLANNING

Guidebook #83:



"Look at the bright side. If we're stranded here a couple of years . . . imagine our retirement savings and all that tax-free interest piling up at twelve per cent per annum!"

STARTING A RETIREMENT PLAN

HOPING that the government will be able to take care of you in your old age is wishful, if not dangerous thinking. In the next twenty years, as the baby-boom generation matures, the number of people expected to leave the work force for retirement is expected to double – a phenomenon unprecedented in this century.

The problem with this trend is that not only will these vacancies in the work force deplete tax revenues, but the retiring workers are all going to be pulling pensions plans. Where is this money going to come from? To makes matters even more bleak, all this will be happening when federal governments are expected to be slashing budgets being more cash hungry than ever.

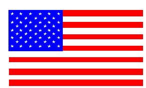
PERSONAL RETIREMENT PLAN STRATEGIES

AS A BUSINESS owner, the first part of your retirement plan will be to open an individual retirement account, a valuable device both for reducing your taxes and for increasing your capital. In fact, the sooner your start contributing to a deferred tax sheltered savings plan, the more rewards you will reap and the better off you will be. Compounding is the key (see **page 12** "The Power of Compound Interest). In America, this means opening an IRA (Individual Retirement Account), while in Canada it means opening an RRSP (Registered Retirement Savings Plan).

I'd like to be rich enough so I could throw soap away after the letters are worn off.
ANDY ROONEY

NOTE A deferred tax sheltered savings plan, also often referred to as a fixed annuity, is one of the long-term investments most favored by financial planners. It offers safety, interest reinvestment, and tax deferment. It can easily make you a millionaire if you start early enough and make regular payments. Of course, a million bucks won't buy as much when you're ready to retire because of inflation, but you will still be way ahead of the game.

The IRA Plan for Americans



In the U.S., you can set up and make contributions to an IRA (individual retirement arrangement) if you received taxable compensation during the year and have not reached age $70\frac{1}{2}$ by the end of the year. You can have an IRA whether or not you are covered by any other retirement plan. The most you can contribute for any year to your IRA is the lesser of $2,000 or your taxable compensation.

NOTE Compensation includes taxable wages, salaries, commissions, bonuses, tips, professional fees, self-employment income, other amounts received for personal services, and taxable alimony.

The RRSP Plan for Canadians

In Canada . . . the long-term policy of Canadian policy-makers is to pull back, over the coming years, from the burden of public responsibility for retirees. The government would much rather have Canadians look after themselves. . In Canada the maximum RRSP contribution is the lesser of 18% of your earned income or $13,500 (1995 budget).

In the United States, more than 25 million workers each year are taking the wise step of investing in a tax-deferred pension and similar savings programs. Up from fewer than 16 million in 1988. With layoffs and cutbacks, more and more Americans are looking out for themselves. ***FUNFACT***

The "New" Social Benefits Clawback – Contributing to an RRSP could backfire on couples close to retirement (over 55) under a new system of seniors benefits due to begin in 2001. In the year 2001, retirement savings will face a double whammy – regular income tax plus a 20 percent clawback of social benefits on income above $25,921 (presently the clawback threshold is $53,215). If a couple's projected retirement income is below the clawback level, they should still contribute. However, anybody counting on more than $25,921 should review their retirement savings strategy. It could pay to quit contributing to RRSPs or if retired to start drawing down existing plans before age 65 or 2001.

NOTE Individuals under 50 should continue to make full use of RRSPs. The effect of a tax break on RRSP contributions, as well as tax deferred compounding of registered savings, should more than compensate for taxes in retirement.

IRA & RRSP Strategies

The following strategies can be applied to both American IRAs and Canadian RRSPs.

Borrow funds to get an IRA. The IRS has now ruled that the interest you pay on money borrowed for an IRA is tax deductible. This means that as long as you don't cash in the IRA in the near future the increased interest rate for the borrowed money will be offset by the allowed interest

Why IRAs and RRSPs are Better than GICs?

IF FOR EXAMPLE, at age 25 you began contributing $1,200 a year to an RRSP earning eight percent, your total investment of $48,000 would amount to about $364,000 at retirement. If you were in the 25 percent tax bracket, the same amount put into nonregistered investment such as a GIC would net you less than half that because of the taxes you would have paid on interest.

tax deductions and compounded returns.

NOTE In Canada, the interest on a loan for a RRSP is no longer tax deductible even though it's for investment purposes. The rules were changed a while back to prevent tax payers from getting, in the eyes of Revenue Canada, two deductions for one RRSP contribution.

Buy IRAs and RRSP with low fund fees. Depending on the type of IRA or RRSP you buy, the fees for managing them can range from zero for bank plans based on simple deposits; to several hundred dollars for load fees on mutual fund investments.

Cash in your IRA's or RRSP's when your income is low. Although IRA's and RRSP's allow you a tax deduction when you buy them and appreciate untaxed, when you do finally cash them in, you pay taxes based on that year's income. Therefore, try and cash them in when your income is low.

In order to avoid a year-end cash flow crunch, try to contribute smaller amounts to your IRA or RRSP throughout the entire year.

Contribute early and often. In order to avoid a year-end cash flow crunch, try to contribute smaller amounts to your IRA or RRSP throughout the entire year. Most financial institutions offer preauthorized purchase plans with automatic withdrawals from checking accounts.

Create a spousal IRA or RRSP to decrease taxes. A spousal IRA or RRSP is owned by your spouse, but you make the contributions.

This is sometimes advantageous because you can then claim a deduction against your own taxable income. And when the money is withdrawn, it will generally be taxable to your spouse, not to you. The idea behind a spousal IRA or RRSP is to reduce tax by splitting your income after you're retired. The result is two relatively low tax rates, rather than a single high one. However, a spousal IRA or RRSP works best when the spouse has little or no income. In other words, it doesn't make sense to contribute to a spousal plan if spouse is a big earner with an IRA or RRSP of his or her own.

Your IRA and RRSP investments should include some growth-orientated investments such as mutual funds and stocks.

In Canada, it works this way: if your RRSP limit is $2,000, you can put $1,000 in your own RRSP and $1,000 in a spousal RRSP, and both of those contributions will be credited to your income tax liability. But be aware that if the funds are withdrawn within the first three years of having been contributed, they will be added to your income and you will be taxed.

NOTE Setting up a spousal plan makes sense if you're relationship is stable. If you aren't going to stay together with your spouse, contributing to a spousal IRA or RRSP is merely prepaying alimony.

Diversify your IRA and RRSP investments. Your IRA and RRSP investments should include some growth-orientated investments such as mutual funds and stocks. This is particularly important when interest rates are low.

Help make a down payment on a house with your RRSP savings. In Canada, the government allows first-time home buyers to borrow up to $20,000 from their RRSP for a down payment and then pay it back within 15 years. It's better than saving the money in a savings account, because you don't have to pay the taxes.

Instead of putting cash into your IRA or RRSP deliver shares or bonds. When contributing to your RRSP or IRA you are not restricted to cash. You can also deliver shares or bonds as your contribution. First, you purchase shares or bonds in your own name (equivalent to the amount of your contribution) then pre-register them in the name of the IRA or RRSP. The effect of this is that the shares or bonds are placed in your RRSP with neither brokerage nor registration fees. These fees can then be used as expenses in your annual tax filing. Furthermore, when you deliver the shares or bonds to your RRSP (often you are allowed up to five days to do this) you can use the lower bid price at market close rather than the higher ask price. This means you can get more into your plan.

Money begets money.
JOHN RAY
English Proverb

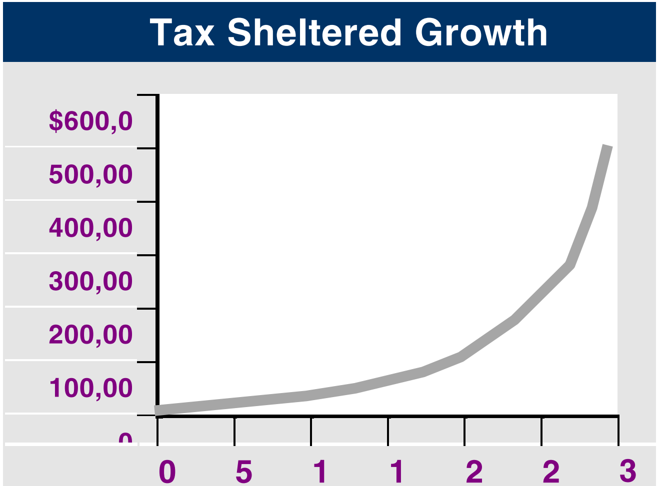
Make sure you deposit into your IRA or RRSP account before the deadline. In the U.S., to get the tax deduction in the year you want, invest in an IRA account by December 31. In Canada, you have two months longer and must be invested by March 1st.

Maximize your foreign holdings. Canada is a small country representing only three per cent of the world's stock market. For faster growth, look outside of Canada's borders. Remember, you are allowed to hold 20 percent of your RRSP in foreign property (stocks, bonds and currencies). That 20 percent is based on the book values, or original cost, of the investments, not their appreciated market value.

Maximize your IRA and RRSP contributions. In the U.S., the maximum IRA contribution is presently $2,000 a year. In Canada, the maximum RRSP contribution is the lesser of 18% of your earned income or $13,500 (1995 budget). Earned income is based upon your previous year's income – this means that your contribution for the 1998 taxation year, for example, is based on your declared earned income in 1997.

FUNFACT If you invest $3,000 per year for 30 years and get 15% per year, and the end of the 30 year period it would be worth. $1,499,871 million.

Pay all the costs of your IRA or RRSP



GROWTH OF TAX SHELTERED RETIREMENT INVESTMENTS

Note: Annual contribution $1000 at beginning of year; 15% return

outside the account or plan. Many IRAs and RRSPs conveniently take their fees off your principle. This is very convenient for them. But for you, it wastes a possible deduction. Arrange to pay all fees for your IRA or RRSP by check from funds not inside the plan. This way you can charge the costs of commission, registration and administration as expenses against your personal income for tax purposes.

Once your IRA or RRSP grows to a certain size around $30,000 to $40,000, you should investigate setting up a self-directed plan.

NOTE In Canada, based on current Revenue Canada administrative policy, these fees are 100% deductible.

Reduce source deductions. If you make your entire RRSP contribution for a tax year at the beginning of that year, you can ask the IRS or Revenue Canada to have your employer reduce the tax taken off your paycheck. This way, although you won't get a tax refund at the end of the year when you file, you will however have use of your money all through the year. You can then use that money to start accumulating your next year's contribution.

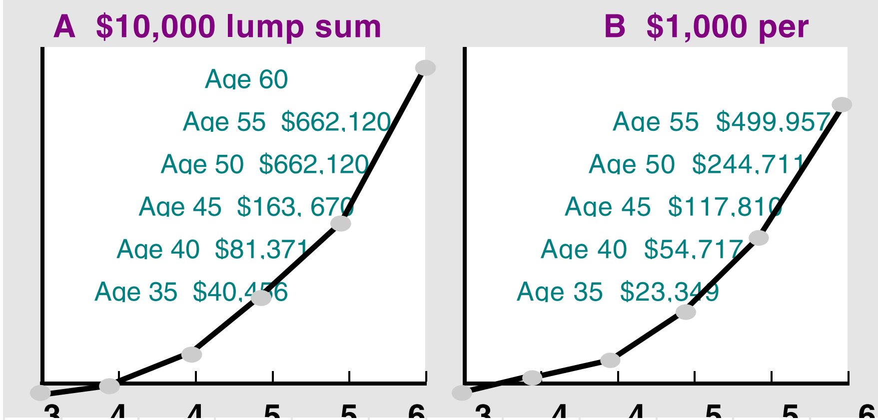
Set-up a self-directed retirement bond portfolio. A well-managed bond portfolio can outperform the equity markets over the long haul (this is especially true in Canada but not the U.S.). This is true because the income flowing into your IRA or RRSP is certain, untaxed and continuous.

NOTE Once you buy a bond. Don't trade it. Buy quality and hold it for the duration. Every time you trade you pay.

Set-up a self-directed retirement plan. Once your IRA or RRSP grows to a certain size around $30,000 to $40,000, you should investigate setting up a self-directed plan. This type of plan allows you to hold a greater variety of investments and the flexibility to change your investment mix to take advantage of fluctuations in market conditions and changes in your personal finances.

Most investment advisors will recommend that you consolidate all of your RSP holdings into one Self-Directed plan to gain greater control over it. In this way, all of your holdings will appear on one easy-to-read

The Power of Compound Interest



Example A shows a 25 year-old man or woman investing a lump sum of $10,000 in an IRA or RRSP and getting an annual rate of return of 15%.

Example B shows the same 25 year-old investing $1,000 each year for 30 years and also getting an annual rate of return of 15%.

NOTE If, in the first example, you invested an additional $2,000 at the end of each year, by age 65 you would have over $8 million dollars!

statement. Self-directed RSP accounts are available through investment dealers and other financial institutions.

NOTE There are two myths about self-directed retirement plans. The first one is that they are only for the wealthy because of high administration fees. However, in Canada, fees average about $125 a year regardless of your portfolio size. This means that if your RRSP is worth $30,000 or more, the fee represents less than half a percent of the annual return. And if the fee is paid separately, rather than deducted from the fund, the fee itself is tax-deductible. The second myth is that RRSPs are suitable only for knowledgeable and sophisticated investors. However, this isn't true either. While self-directed plans are ideal for experienced investors, they are also suitable for relatively inexperienced people, providing they have a competent broker to advise them.

Combining an IRA or RRSP mutual fund investment with a systematic withdrawal plan will allow you to increase your after-tax income.

NOTE In Canada, RRSPs must have a trustee. Make sure these trustees are certified by Revenue Canada.

Set up a systematic withdrawal plan. Combining an IRA or RRSP mutual fund investment with a systematic withdrawal plan will allow you to increase your after-tax income. This is achieved by withdrawing, at regular intervals, income derived from your principal which is tax free, together with dividend and capital gains income, allowing your investment to continue growing within the mutual fund. You may save on the old age security claw-back and save taxes at the same time.

Supplement your child's IRA or RRSP plan with an RESP. To save additional money for your child's college, use a Registered Education Savings Plan, but only in conjunction with your overall investment plan. RESPs work this way: Your contributions to an RESP, although not tax deductible, are invested in a special trust account in which earning accumulate tax fee until they are distributed to children, grandchildren or other family members in the form of post-secondary educational assistance payments. You may invest as much as $31,500 per child. Though, total annual contributions are limited to $1,500. Each plan must collapse on or before the last day of the twenty-fifth year following the year the plan is entered.

Put high-tax investments in your IRA or RRSP since your earnings will compound tax-free.

Switch bond funds in your portfolio into IRAs or RRSPs. Put high-tax investments in your IRA or RRSP since your earnings will compound tax-free. Higher taxed investments include bonds and other interest-bearing investments.

NOTE Investments that may qualify for capital-gains status (stocks, some bonds, mutual funds) should be held personally to receive favorable capital-gains treatment. The tax breaks on the tax-favored items would be lost if you held them in your IRA or RRSP.

Use the Carry-Forward Rule. If you contribute less than your IRA or RRSP limit in any year, you can make it up in future years. This strategy should be considered if for example you are planning to pay down your mortgage first, then make IRA or RRSP contributions once the mortgages is paid, or if your tax rate is low this year and you know it will go up substantially next year (therefore you can get a bigger tax deduction next year).

NOTE The carry-forward can be dangerous if you use it to put off your contributions.

When showing the cost of the securities you purchased for delivery to your IRA or RRSP, exclude the commission and use this expense as a charge against current income for tax purposes.

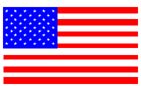
When showing the cost of the securities you purchased for delivery to your IRA or RRSP, exclude the commission and use this expense as a charge against current income for tax purposes. The registration fees can also be used to reduce your taxable income. Furthermore, you will probably have paid the higher ask price for the securities, but when pricing them for delivery to your IRA or RRSP use the lower bid quotation the creating a capital loss for the current year's tax filing. You now have three items to charge against current taxes; commission, registration fees, and capital loss."

Withdraw funds from your IRA or RRSP in small, bite size bits and beat the withholding taxes. In Canada, for amounts under $5,000 only 10% is withheld.

COMPANY RETIREMENT PLAN STRATEGIES

THE SECOND part of your retirement plan is to contribute to a company pension plan for both yourself and your employees.

Company Retirement Plans for Americans



Retirement plans are savings plans that offer you tax advantages to set aside money for your own and your employees' retirement. In general, a sole proprietor or a partner is considered an employee for purposes of participating in a retirement plan. A retirement plan can be funded entirely by your contribution or by a mix of your contributions and employee contributions. Your contributions as an employer to an employer-sponsored retirement plan are generally deductible within certain limits. In the U.S., in addition to IRA plans, small business owners, can set up either a qualified plan (which includes Keoghs and SEPs) or an unqualified plan (see **page 23** for summary chart on 'Key U.S. Retirement Plan Rules.").

Retirement plans are savings plans that offer you tax advantages to set aside money for your own and your employees' retirement.

There are two basic kinds of qualified retirement plans:

- defined contribution plans
- defined benefit plans

NOTE Qualified plans include retirement plans for the self-employed, such as HR-10 (Keogh) plans and simplified employee pensions (SEPs) discussed in more detail later on.

Defined Contribution Plans – There are five types of defined contribution plans:

- HR-10 (Keogh) Plan
- Simplified Employee Pensions (SEPs)
- Profit Sharing Plan
- Stock Bonus Plan
- Money Purchase Plan

Defined Benefit Plans – In general, a qualified defined benefit plan must provide for set benefits. Your contributions to the plan are based on actuarial assumptions. To set up such a plan you will likely need professional help, as the plan must be approved by the IRS. The determination or opinion of the IRS will be based on how the plan is written, not on how it operates.

It may be easier for you to adopt an existing IRS-approved master or prototype retirement plan than to set up your own original plan.

NOTE It may be easier for you to adopt an existing IRS-approved master or prototype retirement plan than to set up your own original plan. Master and prototype plans can be provided by trade or professional organizations, banks, insurance companies and mutual fund organizations.

Unqualified Plans – You can deduct contributions made to a non-exempt trust or premiums paid under a non-qualified annuity plan. Your employees generally must include the contributions or premiums in their gross income.

The Keogh (HR-10) Plan

In the United States, a Keogh plan is a

tax-deferred pension plan that can be set up by either full-time or part-time sole proprietors or partnerships.

To set up a Keogh plan, it is not necessary to have employees besides yourself, as a self-employed person is considered both an employer and an employee. In general, under this plan your deduction for contributions to a profit-sharing plan cannot exceed 15% of the yearly compensation from the business paid to any common-law employees participating in the plan. In the case of a money purchase pension plan, contributions cannot exceed 25%. On the other hand, personal contributions are limited to the smaller of $30,000 or 13.0435% (15% reduced) of your net earnings for a profit-sharing plan and 20% (25% reduced) for a money purchase pension plan. In the first case, if $50,000 is drawn out of a business as personal income, you can contribute up to $6,522 a year to the Keogh. Your net earnings are your business gross income minus allowable deductions from that business. Allowable deductions include contributions to the plan for your common-law employees along with your other business expenses.

NOTE You generally cannot take into account more than $150,000 of your compensation (net earnings) in figuring your

Tax Sheltered Growth

Years in Plan	5%	10%	15%
10	13,207	17,531	23,349
20	34,719	63,002	117,810
30	69,761	180,943	499,957

contribution to a defined contribution plan.

Keogh Contribution Plan Deadlines – All paperwork for your Keogh plan must be completed by December 31 of each year, though the actual money need not be paid into the fund until tax-filing time April 15 of the following year. Form 5500c must be filed along with the declaration.

Withdrawing from a Keogh – After age 59, half of your Keogh plan savings can be withdrawn as a lump sum and taxed using five-year forward averaging. This is one advantage of Keogh plans over IRA plans – the latter does not have five-year forward averaging available.

Men are divided between those who are as thrifty as if they would live forever, and those who are as extravagant as if they were going to die the next day.
ARISTOTLE

The Simplified Employee Pension (SEP)

A simplified employee pension (SEP) is a written plan that allows you to make deductible contributions toward your own and your employees' retirement without getting involved in more complex retirement plans. A Corporation can also have a SEP and make deductible contributions toward its employees' retirement. Under a SEP, you make the contributions to an IRA which is owned by you or your common-law employee. Under this plan, yearly contributions cannot exceed the smaller of 15% of the employee's compensation (or your net earnings) or $30,000. This limit does not include employee contributions. Employees can also make contributions of up to

$2,000 per year.

NOTE In general, your contribution limit for each employee is limited to a maximum of 15% of $150,000 of their compensation. For employees in a collective bargaining unit for which the $150,000 limit is not effective, the compensation limit is $245,000.

Profit Sharing Plan

This plan lets your employees or their beneficiaries share in the profits of your business. The plan must have a definite formula for allocating contributions to the plan among the participating employees and for distributing the funds in the plan.

Stock Bonus Plan

This plan is similar to a profit-sharing plan, but only a Corporation can set it up. Benefits are payable in the form of the company's stock.

Money Purchase Pension Plan

Under this plan, your contributions are a stated amount, or are based on a stated formula that is not subject to your discretion. For example, your formula could be 10% of each employee's compensation. Your contributions to the plan are not based on your profits.

Company Retirement Plans for Canadians

Retirement plans for Canadians offer similar tax advantages as those for Americans. The most important being that employer contributions are tax deductible. The two most important types of Canadian retirement plans are the RPP and the DPSP.

Registered Pension Plans

RPPs are formal savings plans run by employers voluntarily or as a result of contract negotiations with unions. They are not required by law, but once set up face stringent provincial and federal regulations.

RPPs are formal savings plans run by employers voluntarily or as a result of contract negotiations with unions

An RPP may be:

- **Contributory –** In a contributory RPP, contributions are required by employees members.
- **Non-contributory –** In a non-contributory RPP, the employer pays the full cost of the plan.

Defined Benefit Plan – The most common form of an RPP is the "defined benefit plan." In this plan, the employer promises a set amount of retirement income, usually based on years of service and average income. This type of RPP is often used for government employees and those who work for large corporations.

NOTE If you have employees, they must be included in your company pension plan, if they work at least 1,000 hours a year and have been with the company for a minimum of two years. Part-time employees who work less than an average of 20 hours a week or who are employed for only a short while need not be included.

The DPSP Plan

A Deferred Profit Savings Plan is an

employer-sponsored plan, registered with Revenue Canada, in which the employer shares the profits of a business with all the employees or a designated group of employees. A DPSP is similar to a defined contribution RPP in that an employee's pension amount is not known until the end of their career. It differs however in that employees do not make contributions.

If you have employees, they must be included in the company pension plan, if they work at least 1,000 hours a year and been with the company for a minimum of two years.

PROS of a DPSP – DPSPs are not as widespread as other retirement plans and are generally offered in addition to one or more other types of retirement plans. However, to their advantage:

- A DPSP can focus employee attention on your bottom line.
- The allocation of funds to member accounts can be structured or arbitrary.
- The annual information return is not complicated.
- No contributions need to be made in years which you had no profit.

Minimum & Maximum Contributions – You may contribute an amount no greater than 9% of your employee's earnings for the current year to a maximum of $6,750 (half of the RPP maximum). The minimum contribution is 1% of payroll, or 1% profit, or $100 per member.

NOTE Contributions do not attract payroll taxes.

Key U.S. Retirement Plan Rules

Type of Plan	Last date for Contribution	Maximum Contribution	When to Begin Distributions
IRA	Due date of IRA owner's income tax return (NOT including extensions)	Smaller of $2,000 or taxable compensation	April 1 of year after year IRA owner reaches age $70^1/_2$
SEP-IRA	Due date of employer's return (Plus extensions)	Smaller of $30,000 or 15%[2] of participant's taxable compensation[3]	April 1 of year after year participant reaches age $70^1/_2$
Keogh	Due date of employer's return (Plus extensions)[4]	**Defined Contribution Plans** **Employee** Money Purchase – Smaller of $30,000 or 25% of employee's taxable compensation Profit-Sharing – Smaller of $30,000 or 15% of employee's taxable compensation **Self-Employed Individual** Money Purchase – Smaller of $30,000 or 20% of self-employed participant's taxable compensation[5] Profit-Sharing – Smaller of $30,000 or 13.0435% of self-employed participant's taxable compensation[5] **Defined Benefit Plans** Amount needed to provide an annual retirement benefit no larger than the smaller of $120,000 or 100% of the participant's average taxable compensation for his or her highest 3 consecutive years	Generally, April 1 of year after year participant reaches age $70^1/_2$ [6]

[1] Distributions of at least the required minimum amount must be made each year if the entire balance is not distributed.

[2] 13.0435% of the self-employed participant's taxable compensation before adjustment for this contribution.

[3] Contributions are made to each participant's IRA (SEP-IRA) including that of any self-employed participant.

[4] The employer must set up the plan by the end of the employer's tax year.

[5] Compensation is before adjustment for this contribution.

[6] If the participant reached age $70^1/_2$ before 1988, distributions must begin by the year he or she retires.