

## Retirement Planning: Just Get Started

By Gail Vaz-Oxlade

I've been yacking on about RRSPs for years. I'm absolutely passionate about them. I figure, if the government is going to give us such a huge incentive to save for the future with no downside, then we'd be fools not to take advantage of it. Yet, every year, millions of Canadians fail to sock away money in an RRSP. Is it I or they that just don't get it?

Some people don't bother with an RRSP because their company pension plans eat up almost all their RRSP contribution room. More often than not the reason people give me for their not jumping on the RRSP bandwagon is that they just can't afford it. They have no disposable income left over after the rent is paid, the food is bought and the kids are clothed. I empathize. Since I left my full time career to spend as much time as possible with my little ones, I've often found myself wondering whether the small contributions I manage to make each year will be enough. The answer I keep coming up with is, "It's more than I would have if I kept skipping my RRSP contributions completely."

Just \$600 a year (that's just \$50 a month) compounding at an average annual return of 9% a year — not so outrageous a rate of return, eh? — would grow to over \$55,000. So, if I put in \$15,000 of my own money, over 25 years my RRSP will give me back more than \$40,000 in compounded return

When presenting the magic of compounding return — or "Look How Much You'll Have" — the media's focus has been on creating the most impressive story. To make the best case possible, calculations show the maximum contribution compounding at the highest reasonable (and, sometimes, not-so-reasonable) rate of return for a blow-me-away total in the millions. Unfortunately, using this tactic, we've managed to blow thousands of would-be contributors away — all those men and women who say, "Well there's no way I can come up with that kind of cash, so I guess there's no point in bothering."

It's no bother. And there is a point. Opening an RRSP is as simple as filling out a form. In fact, financial advisors have to complete thousands of transactions a day when the deadline draws near, so imagine how easy it must be. And if you accept the fact that everyone has to save — if I need to prove this point, just ask yourself what you'll live on if you lose your job, become disabled, or retire — then the only point to be made here is that it's far more effective to save inside an RRSP than outside one.

If you managed to squirrel away \$1,200 a year and you were in the 40% tax bracket, and earned an average return of 9%, here are how the numbers would play out. Assuming you had to pay tax on the \$1,200 initially, leaving only \$720 to invest, and that you had to pay tax on every penny in return earned — as you would if you were earning interest — at the end of 25 years you would have accumulated a total of \$38,281 outside an RRSP. But if you chose to stick the money in an RRSP and nothing else changed, that same \$1,200 in pre-tax income would grow to a total of \$110,788. That's over \$72,000 more just for choosing to use an RRSP to shelter your savings. And if you're really smart and started investing early, giving yourself 30 or 35 years for the money to grow, you'd have even more. How much more? At the 30-year mark, you'd have just over \$54,000 outside of an RRSP or over \$178,000 inside an RRSP for a difference of \$124,000. At the 35-year mark, you'd have \$74,000 outside of an RRSP and \$282,000 inside an RRSP for a difference of \$208,000. Hey! That can't be right! How could you have a difference of more than \$200,000 just for choosing an RRSP over a non-RRSP investment? And all that for just \$100 a month? I don't believe it!

BELIEVE IT! Pop into any financial institution and they can do the calculations for you. Or use

any of the dozens of retirement calculators on the web to see how the numbers play out. Prove it to yourself.

The nay-sayers often like to position RRSPs as a trap: a way of paying more tax when you finally do start to pull the money, or of reducing our entitlement to government benefits. Phooey! say I disdainfully. In the first case, a look back at the previous example clearly shows that the tax we'll have to pay is hugely offset by the returns earned on a tax-deferred basis. In the second case, if you really believe that it's the government's responsibility to support you in your old age, might I suggest you also invest a dollar a week in a lottery ticket.

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## About Gail Vaz-Oxlade

Gail Vaz-Oxlade has written ten books on personal finance, written hundreds of articles for the financial media, published a financial magazine for women (FinancialXPress), hosted and co-produced a prime-time personal financial television show (Your Money on TVO), and worked with Canada's leading financial services companies to help educate employees and clients.