The Source Line Wellness Letter

February 2005

SOURCE LINES

FINANCIAL COMMON SENSE

RRSP Season is upon us. And with it comes the reminder that anyone who intends to rely on the Canada Pension Plan to get them through their "golden years" is 'planning' to be among the 50% of Canadians who retire in financial hardship. None of us want to retire to a rocking chair. Most of us would prefer to use retirement to do things and see places. In the present we are all in better shape when we have our spending and saving under control and have a financial plan for the future.

Several years ago David Chilton wrote **The Wealthy Barber: The Common Sense Guide to Successful Financial Planning.** Here are some questions asked in the book:

"THE BEST TIME TO PLANT AN OAK TREE WAS TWENTY YEARS AGO. THE SECOND BEST TIME IS NOW."

1. Have you selected the proper amortization period for your mortgage?
2. Is your Will up to date?
3. Could your dependents live comfortably in the event of your death?
4. If you plan to retire early, have you set up a suitable savings program?
5. How do you plan to assist your children in paying for their education?
6. Are your debts structured properly?

These questions are for the youngest of our work group as much as for the older crowd. Like planting an oak tree, start early or start late. Just start. Consider this: The biggest payoffs in savings and mutual fund investments takes place in later years. This is because compound interest **"pounds"** most loudly as time goes on. For example: "If you begin contributions in your early twenties and stop when you reach age 35, leaving the balance in your RRSP, you'll end up with more money at age 65 than if you waited until you were 35 to begin and contributed **every year** thereafter. Chilton provides an example of twenty-two-year-old twins and their ways of saving for retirement. The first opens an RRSP, invests $2,000 a year for six years, and then stops. His RRSP compounds at 12% a year. The second twin procrastinates and doesn't open an RRSP until the seventh year — the year his brother stopped. He then contributes $2,000 a year for thirty-seven years. He, too, earns a rate of 12% a year. At age sixty-five, they go out for dinner to compare their RRSP holdings. The second twin, who is fully aware that his brother stopped contributing thirty-seven years earlier, is confident that his RRSP will be worth at least ten times as much. What do you think? — He's wrong. At age sixty-five they would each have approximately $1,200,000."

We all know that when our finances are out of wack everything can seem a bit too much to cope with and not worth the effort. For many of us from time to time our **"money runs out before the month does."** If this is all too frequently the case perhaps it's time to sit down with a financial planner and clarify your priorities and begin a process to set things straight. If you didn't start at age 22 at least start now.

"MONEY ISN'T THE ROOT OF ALL EVIL. LACK OF MONEY IS"
GEORGE BERNARD SHAW

"Breathe. Breathe again. Breathing is good. Consider the alternative."

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