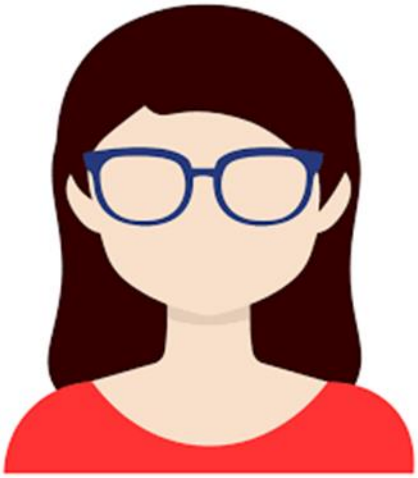
THE VALUE OF FINANCIAL ADVICE SERIES: →putting more away for her future…



Margret turned 40 recently and is thinking more and more about retirement. She has one child in university now and the other two will finish high-school this spring.

Margret has always put the needs of her family ahead of all other considerations and as a result, has only a modest amount of savings to support her in retirement. A friend recommended that she speak to a financial advisor about ways to kick-start her retirement saving programme. She contacted Roger, a financial planning professional, for an assessment of her situation.

Roger notes that Margret has $20,000 in her chequing account, $16,000 in an RRSP and $1,500 in a TFSA. Over the past few years, Margret has managed to save approximately $4,000 annually, divided among these accounts. At this rate, Roger calculates, she will enter retirement with a pool of about **$189,644** (*$130,942 in today's dollars*) to draw on.
This would result in an income stream of about **$10,000** annually.

Roger explains that; with the children nearing adulthood, Margret will have fewer demands on her income and could therefore, devote more of her resources to retirement savings. The advisor makes the following recommendations:

1) Double current rate of savings to $8,000 annually.
2) Channel new savings to registered accounts, RRSP first, then TFSA.
3) Re-invest Margret's tax return.
4) Send $15,000 of the chequing account balance to a daily high interest account (DISA) and retain as an emergency fund.

Roger calculates the impact these changes could have on Margret's retirement situation at age 65:

RRSP value:	**$539,905**
TFSA value:	**$137,700**
DISA value:	**$ 22,306**
TOTAL VALUE:	**$699,911** (*$483,264 in today's dollars*)

This pool of assets would provide a retirement income stream of approximately **$36,842** (*$25,438 in today's dollars*) annually, of which, approximately $30,000 would be taxable.

CONCLUSIONS:

- With a little re-organization of her surplus income now, Margret could retire with approximately **$510,267** (*$352,322 in today's dollars*) more to spend in retirement.

- Margret could use a pre-authorized contribution (PAC) plan in her RRSP, to automatically invest the same annual amount but in smaller, monthly segments allowing her to take advantage of both time in the market and dollar cost averaging (a process whereby participants buy more of the target investment when prices are cheaper and less when it is more expensive resulting in a lower average price per unit).

- The switch to a monthly PAC alone would result in RRSP savings of **$569,923** (*$393,512 in today's dollars*). That's $30,000 more cash available than with annual contributions.

- Under the revised plan, Margret's retirement savings plus Canada Pension Plan (CPP) and Old Age Security (OAS) benefits, should result in adequate income for the rest of her life.