From D'COSTA'S Files

February 1995

Early retirement could be costly

According to Statistics Canada survey 40% of today's workers intend early retirement.

Apparently, this does not include those who are forced into retirement before age 65 by employer cutbacks.

Early retirement should be given careful thought. Some of the points below are worth considering:

The earlier you retire the longer your money must last.

Inflation factor should not be discounted because the cost of living will increase and can substantially reduce your retirement funds.

Usually people earn and save more in their 50's. This is due to the fact that commitments such as mortgage, children education are out of the way. Therefore retiring early can jeopardize savings growth.

A general rule of thumb is that a 70% of your prior year's earnings are sufficient for the first year of retirement. However, due consideration has to be given to the general hobbies and travel you may involve to keep yourself occupied. Do not expect a drop in cost of living?

Employer pension can be a valuable contribution. However, if you are enjoying company benefit such as a car, consider the cost involved in replacing that vehicle - gas, maintenance, insurance.

What about the employer group insurance. How much you would have to pay to avail those benefits after tax dollars. If you are in a 50% marginal tax bracket a $150 monthly drug/dental benefit is worth about $3,600 a year in gross income.

Canada Pension Plan (CPP) is not available until age 60 and Old Age Security benefits do not start until age 65.

Will you move your residence? Often retirees move to smaller or cheaper communities. Will you be able to make this move and miss your friends and families?

RULE OF 115?

Ever heard of the rule of 115?

You must be aware about the rule of 72 which lets you instantly estimate how long it will take to double your money.

The rule of 115 indicates how long it will take your money to triple.

For example, divide 115 by 11.5 (interest rate) and you will notice that it will take about 10 years to triple.

Similarly, if you divide 72 by 6 (interest rate) it will take 12 years to double your money.

And, if you want your money to triple in 10 years divide 115 by 10 which tells you that you need 11.5% returns on your investment.

Remember, these are ballpark figures and assume your investment compounds annually.

Do I need disability insurance

Is your disability coverage adequate?

Most family providers have life insurance to provide for their families if they die early. Yet many of those same providers do not have adequate protection to keep money coming in if they are ill or injured.

In fact, disability strikes working households more than premature death. It can be as simple as a carpenter breaking an arm or as devastating as a computer programmer suffering a stroke that wipes out reasoning ability.

Disability insurance is essential not only to support you and your family but often to provide retraining or special equipment to help you become self supporting again.

All employees have basic disability coverage from provincial workers' compensation plans and /or federal unemployment insurance. You may also have employer-sponsored group coverage. Here are some things to keep in mind to make sure your coverage is adequate:

Is it enough?

Group plans generally pay 60-75% of gross salary but there may be maximum dollar limit that is too low for you.

How does the plan define "disability"?

Must it be total? Is the determination made by your doctor or the insurer's? How long must you be disabled before benefits begin? The most extensive coverage is "own occupation". That means you will collect if you cannot do your current job. Some plans are based on whether you can do another job related to your training and experience, while others pay only if you cannot do any work.

How is a recurring disability handled?

If you become disabled, recover and are then disabled again, does your plan require a new waiting period for benefits?

continued next page ....

This newsletter is compiled by Francis D'Costa. While utmost precaution has been taken to ensure accuracy of the information in "**From D'Costa's Files**", the publisher do not assume liability for financial decisions based on it.

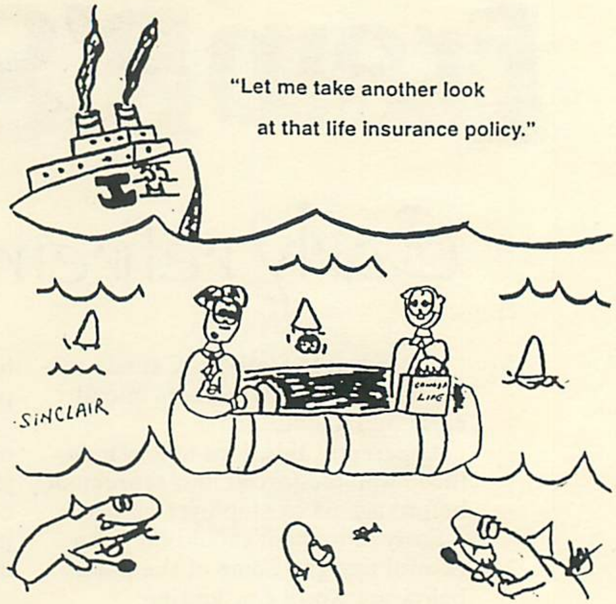
Readers are advised to get professional financial management advice.

SUM FUN

Which sum is greater, that of the figures on the left or on the right?

987654321	123456789
87654321	12345678
7654321	1234567
654321	123456
54321	12345
4321	1234
321	123
21	12
1	1

answer on last page



"Let me take another look at that life insurance policy."

Do I need disability insurance contd...

Who pays premiums?

If you do, any payouts are tax-free. If your employer pays even $1 of the group premium, payouts are taxed. Many employers pay for short-term disability coverage and have employees pay for long-term protection.

Is there inflation indexing?

While inflation is currently low, it may well be a factor in the future, will your coverage offset cost of living increases?

What about holidays?

What happens to your coverage if you take a paid or unpaid leave of absence?

Many people buy their own "top-up" disability plan to supplement group coverage. Individually owned coverage can be customized to broaden the definition of disability, include inflation-indexing, shorten the waiting period, or meet other concerns.

Before buying a top-up plan see if your group plan has an "all sources" rule that would reduce your group benefit by value of any other disability payouts.

An important reason to get your own plan is that group disability coverage is strictly tied to your job. Unlike life insurance, it is not automatically convertible to an individual policy.

Protect your family

The disability of a family provider can devastate a family. Give me a call and I can help you make sure you and your family are adequately protected.

Canada/Quebec Pension Plan - 1995 Facts

	1994		1995	
	CPP	**QPP**	**CPP**	**QPP**
Yearly Maximum Pensionable Earnings (YMPE)	$34,400	$34,400	$34,900	$34,900
Yearly Basic Exemption (YBE)	3,400	3,400	3,400	3,400
Maximum Annual Contributions*				
-Employee	806.00	806.00	850.50	850.50
-Employer	806.00	806.00	850.50	850.50
-Self-Employed	1,612.00	1,612.00	1,701.00	1,701.00
Retirement Benefits -Maximum Monthly Retirement Pension (@age 65)	694.44	694.44	713.19	713.19
Death Benefits -Lump Sum	3,440.00	3,440.00	3,490.00	3,490.00
-Maximum Monthly Spouses Pension				
-under age 55	384.59	578.68	392.24	585.71
-age 55 to 64	384.59	660.01	392.24	667.04
-age 65 or older	416.66	416.66	427.91	427.91
Monthly Orphan's Pension (each child)	160.47	50.95	161.27	50.95
Disability Benefits -Maximum Monthly Contributor's Pension	839.09	839.09	854.74	853.15
-Monthly Child's Pension (each child)	160.47	50.95	161.27	50.95

Old Age Security $385.81 @ Jan.1, 1995

* For 1995 the employee and employer contributions are each equal to 2.7% of employment earnings up to the YMPE, reduced by the YBE.

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RICH MAN POOR MAN

Despite Canada's status as one of the world's richest nations, a large number of Canadians are retiring with very little money to live on and only one out of every 100 retirees are truly wealthy.

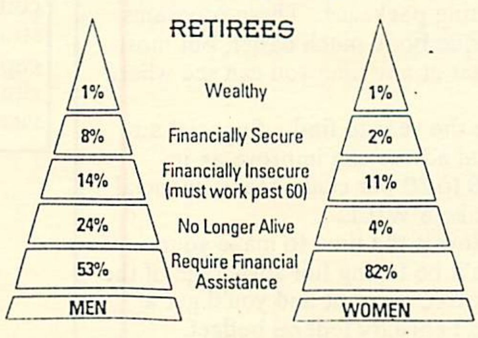
This startling revelation, based on Statistics Canada research, shows that for every 100 men who reach age 65, 53 need government assistance to make ends meet.

The same forecast shows that for women at age 65, the retirement reality is even worse. 82 out every 100 women need government assistance, while only three out of 100 are financially secure.

What most often separates those who are on the road to prosperity from those who are not, is a proper investment program.

If you are nor investing, systematically, 5 to 10% of your annual income from the time you are 30/35 then your financial future could be in jeopardy. In 25 years, the cost of living may have doubled and social assistance programs may be available to only the most needy. This sounds overly pessimistic, but look at the number of retired Canadians today who are living at subsistence levels before you pass judgement.

To overcome the impact of inflation over the long term I recommend you consider opening an RRSP account. By using this tax shelter, you receive a tax refund meaning a true cost of $1 contributed is actually only 60 cents (assuming you are in a 40% tax bracket).



To illustrate the power of an RRSP, consider this example. If you contribute $10,000 to RRSP investment earning a 10% return, you will have $572,750 in 20 years. On the other hand, if you contribute $10,000 to the same investment outside an RRSP and you are in the 40% tax bracket, you are left with only $367,855 after 20 years.

Opening an RRSP is easy and you have until March 1, 1995 to make your contribution that is deductible on your 1994 tax returns.

As you see the choice is yours. You can take steps now to establish an investment plan, or you can do nothing. I hope you chose not to ignore the warning signs.

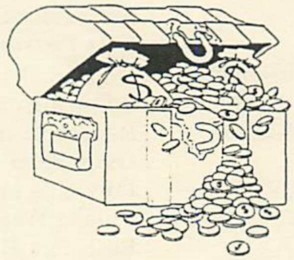
700 DOLLARS PER SECOND

That's what the life and health insurance industry in Canada pays out to policy holders. Every second, every hour, every day of the year. That amounts to billions per year.

Here's another fact that may surprise you. Nearly nine out of every ten dollars paid out, goes to living policyholders.

For those individuals, the payouts mean income for a more comfortable retirement, payment of a child's university fees, offsetting expenses during a period of disability, supplementing - down payment on a house, assisting children with marriage expenses or for a thousand other needs.

We at the life insurance industry believe life insurance should do more for you than create an estate for your beneficiaries. It should help you plan for your future.



Time to get finances in shape

Here are tips from money specialists that should help everyone have prosperous years ahead.

- **Set goals for 1995:** Begin by figuring out your net worth. This is the total value of everything you own minus the sum of everything you owe. This represents your actual wealth, as opposed to income. By tracking it year in and year out, you can measure whether you are getting ahead.
- **Duck the higher interest rates:** Interest rates have been rising with predictions of more increases ahead. Rule Number 1 is to pay off non-deductible credit-card interest monthly.

What better investment could you make? When you factor in the effect of taxes, the typical return is 35%/56% for the top-bracket taxpayers with credit cards.

- **Be a better banker:** If you fear you have been contributing too much to huge profit announced recently by the big banks, check and compare service charge packages.

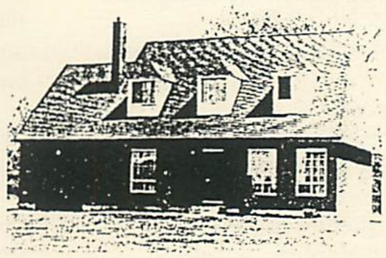
Review your accounting system. For most of us, that's our cheque book, the closest thing we have to a day-to-day record of income and expenses. If you have a home computer, now is good time to switch to one of those cheque-writing packages. These programs not only make balancing your cheque book much easier, but most of them categorize expenses, so that at any time you can see where your money is going.

- **Get good advice:** This may be the year to find a financial advisor. Research shows professional advice can improve an individual's investment returns by 20 to 30 per cent. Many financial advisors will first tell you this: Make a WILL.
- **Get ready for tax collector:** Now is the time to make your RRSP contribution for 1995. You'll be taking full advantage of the ability to generate income in a tax-free account and you'll get a jump on any RRSP changes in the February federal budget.

CLOSING UP THE COTTAGE -- FROM TAXES

Cottage owners are finally getting the message that 1994 tax year is the last chance they will get for a tax break on their vacation properties.

It is an important consideration for people who plan to keep the cottage in the family.



If the cottage is given to the children or if the owner dies, it is deemed to have been sold and this may result in tax on any profits made between the introduction of the capital gains tax on Jan.1, 1972 and the lifetime elimination of capital gains exemptions this past Feb.22, 1994.

This profit can be huge in some markets. A senior citizen had paid $15,000 for his cottage which is worth $400,000 now.

The tax squeeze on people who own assets such as second properties began two years ago when the federal government started eliminating the use of capital gains exemptions on real estate gains. In last year's budget, the rules changed again and the government announced the complete elimination of the exemption.

Cottage owners can avoid paying tax on up to $100,000 of profit by claiming some or all of their exemption without actually having to sell the property.

For people who want to keep the cottage in the family there are other strategies to reduce or postpone capital gains taxes. As each family's situation is different, professional advice is essential.

SUM FUN

Believe it or not, they both add up to exactly the same figure - 1,083,676,269.