Standard Life

Contributions, time and investments: the three basics of retirement savings

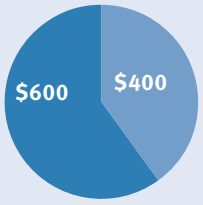
Concentrate on contributions, investments and time and you'll increase your chances of retiring the way you want to – not the way you have to.

Contributions – paying yourself first

Setting up automatic payroll deducted contributions is the easiest way to save before you spend - and you may pay less in taxes if you contribute to a registered plan like an RRSP.

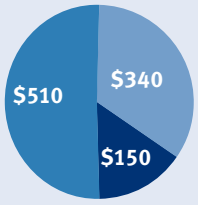
Take a look at Marc and Nancy, each with gross earnings of $1,000 per pay. Assuming a tax rate of 40%, let's see the difference contributing to an RRSP makes.

Marc



- Take home pay
- Tax payable

Nancy



- Take home pay
- Tax payable
- Savings program

As you can see, Marc takes home more money, but he pays more tax - and he has no savings to show for it.

Nancy's contribution of $150 only costs her $90 of take home pay. Plus, she pays $60 dollars less than Marc in taxes.

Time – the magic of compounding

Even small contributions make a difference over time thanks to the magic of compounding.

The longer you let your money work for you, the more you'll have in the end. On the flipside, the longer you put off saving for retirement, the harder it becomes to reach your goal.

Time matters

- **$100** contribution at the beginning of each month over **40 years** between age 25 and 65 ($48,000 total)
- **$200** contribution at the beginning of each month over **20 years** between age 45 and 65 ($48,000 total)

As you can see, if we assume a 5% net rate of return, your savings almost double when you start earlier even though you're contributing a smaller amount. Although, the total amount put in is the same, the advantage is clear when you invest over a longer period of time.

Investments – managing risk

Take the guesswork out of investment risk with dollar cost averaging. Invest on a regular schedule and and you'll be investing sensibly.

Scenario 1 - easier

Dollar cost averaging method

- You invest $150/month ($1,800 total) for one year according to a regular schedule.
- The average unit value over the year is $10, which would lead you to believe that you would purchase 180 units total.

  ($150/month ÷ $10/unit = 15 units per month) x (12 months) = 180 units
- But for the period shown, 190 units were actually bought.

	Deposit	Unit value	Units bought
January	$150	$10	15.00
February	$150	$9	16.67
March	$150	$12	12.50
April	$150	$14 (highest)	10.71
May	$150	$11	13.64
June	$150	$13	11.54
July	$150	$7	21.43
August	$150	$9	16.67
September	$150	$6 (lowest)	25.00
October	$150	$8	18.75
November	$150	$11	13.64
December	$150	$10	15.00
Total	**$1,800**		**190.55**

Scenario 2 - not so easy

Lump-sum purchase method

- You invest $1800 all at once.
- Buying in September, the point at which the unit value was the lowest, would get you 300 units.
- But buying in April, when the unit price was at its highest, would only get you 128 units.

	Low unit value		
	Deposit	**Unit value**	**Units bought**
September	$1,800	$6	300

	High unit value		
	Deposit	**Unit value**	**Units bought**
April	$1,800	$14	128.57

As you can see, random lump-sum investing is tricky and may lead to large variations in purchasing power.

Dollar cost averaging, as shown in Scenario 1, is a sensible option that helps you smooth out some of the risks involved in making investment decisions.

Master the three basics of contributions, time and investments. You'll be glad you did.

www.standardlife.ca

The Standard Life Assurance Company of Canada
Standard Life Assurance Limited

GE12972 GS 08-2012