



You got a raise! Congratulations!

And now for a reality check. Despite how impressive the annual dollar figure sounds, a raise often adds up to just a few extra dollars a week thanks to income tax.

According to a 2004 survey by Hay Group, a Canadian management consultancy, 84 per cent of 500 companies polled expect to award salary increases in 2005. The survey polled both public- and private-sector employers in Canada, and found that the average wage increase for 2005 will be 3.2 per cent.

Diane McCurdy, a Vancouver-based certified financial planner and author of the best-selling book *How Much is Enough? Balancing Today's Needs with Tomorrow's Retirement Goals*, says that's about what she would have expected. "The average is usually around 3-4 per cent," she says.

Here's why your raise can seem like pocket change by the time it makes its way into your bank account. Suppose your salary is \$50,000, and you've been given a comparatively generous 5 per cent raise. That's \$2,500 a year. If your marginal tax rate is around 36 per cent, your after-tax raise is more like \$1,600 – which breaks down to \$133 a month, or just \$62 per bi-weekly paycheque.

PUT YOUR RAISE TO WORK BY INVESTING IT

It's hard enough to get ahead in such circumstances without also frittering the extra money away on smaller purchases, like more take-out meals or a bigger shoe collection. Instead, consider strategies to get better long-term value out of your raise – for instance, use it to boost your pre-authorized paycheque contributions to an RRSP. It can really pay off over time. You could also pay down any non-deductible debt or buy the





extra life insurance or critical illness insurance you've been considering.

"Getting a raise is a good reason to revisit your budget," McCurdy suggests. "It's especially valuable to get into good savings habits while you're young."

Think about that extra money as though you don't have it – after all, you've been managing without it all along. Put it directly into an RRSP account, or if you want to save up a down payment on a home, put it in a high-interest savings account or other non-registered short-term investment vehicle, says McCurdy.

"If you can, try to max out your RRSP contribution room," says McCurdy. "If you're really conservative, consider a term deposit or a GIC."

Although it can feel like very little, even \$40 extra per week can add up dramatically over the long term. If you invest that money in an equity mutual fund that produces an average annual return of 8 per cent, in 10 years you'll have \$31,300. Over 20 years, you would have almost \$99,000 – definitely more than pocket change.

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