Investing Essentials:

The Power of PACs

You may be saving towards building your retirement nest egg, your children's education or buying your dream home. But life can get busy while juggling day-to-day responsibilities, making it easy to put saving for your goals on hold.

Fortunately, there's a convenient way to make sure that saving for your goals doesn't fall through the cracks. With a Pre-Authorized Contributions (PAC), you can save easily and automatically. Simply choose how much you'd like to contribute and how often – such as monthly or every two weeks – and you'll be saving without even thinking about it.

Did you know?

Contributing to long-term investments (e.g. retirement) is the most important financial priority for Canadians.[1]

[1]Scotiabank, Scotia Global Asset Management Investor Sentiment Research: June 2021

Benefits of Pre-Authorized Contributions

1. Helps you stick to your goals

When it comes to saving, it's sometimes easy to get sidetracked. Setting up a PAC allows you to make saving a top priority by ensuring you don't lose sight of your goals.

2. Works with almost any budget

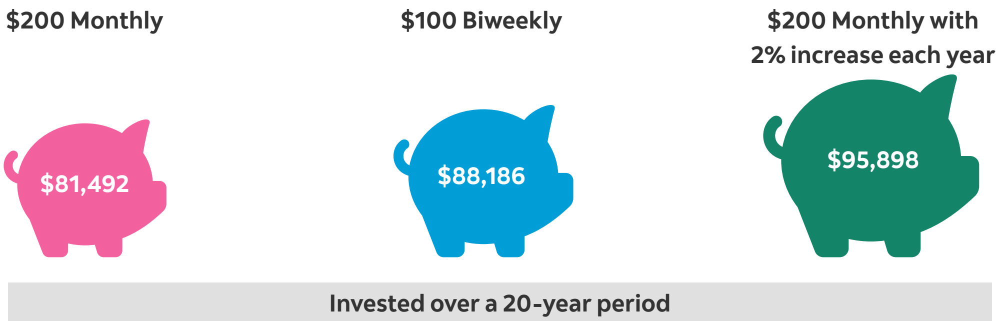
With a PAC, you determine how much and how often you can afford to save. You can get started with as little as $25 per month.

Set it, but don't forget it

Over time, it's always a good idea to revisit your regular contributions on a regular basis as your financial circumstances change – especially after major milestones, like paying off student debt or landing a promotion. While it's tempting to just set it and forget it, you might be surprised to see just how much your savings could grow by increasing your contributions – even by a little bit. On the flip side, you may have to temporarily reprioritize your cashflow as other needs arise, in which case, you can choose to change the amount and/or frequency of your PAC or suspend it.

Figure 1 shows various approaches to saving regularly with a PAC over a 20-year period. Instead of contributing monthly, consider a biweekly schedule and you'll save even more. You may already be making biweekly mortgage payments. Do the same with your savings. It's a small change, but the benefits can add up. Increase your contribution annually and your savings could grow even more.

Figure 1 Invest automatically and save



For illustrative purposes only. Assumes a 5% rate of return and is not intended to reflect actual rate of return or reflect the returns or future value of an actual mutual fund or any other investment. Compounding simulation is used to demonstrate the effects of compound growth on a fixed monthly contribution over various periods of time. Excludes any applicable taxes, fees, the impact of inflation and based on current dollars.

Not sure how much or how often to save? Try our **interactive PAC calculator** to get started and speak to your Scotiabank advisor to see how your savings can grow.

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3. Minimizes scrambling to meet the Registered Retirement Savings Plan (RRSP) deadline

With a PAC, you'll save automatically for your RRSP – all year round – and avoid the stress of meeting the RRSP contribution deadline and making a yearly lump-sum contribution.

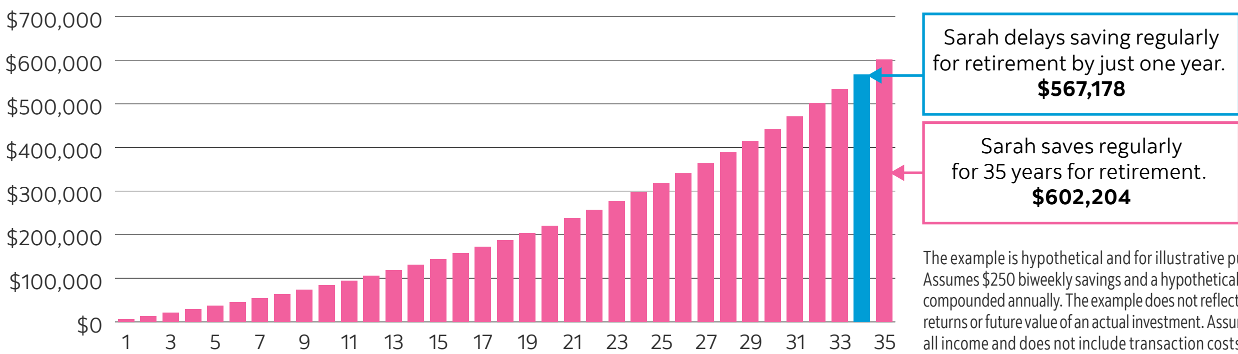
4. Takes advantage of potential compound growth

Saving over a longer period allows your money to benefit from compound growth. Rightly referred to as the *eighth wonder of the world* by Albert Einstein, **compounding** is the process by which an asset's value increases as the earnings increase over time.

The Power of Compounding

Consider the example of an investor – Sarah. Saving for retirement is Sarah's top priority. She is 30 years old and wants to retire at age 65. This gives her 35 years to save enough to last her another 25 years or more in retirement. Sarah's financial plan shows that she needs to save approximately $600,000 by the time she is ready to retire.

Assuming her investment earns 5% compounded annually, she can achieve this by starting today and setting aside $250 biweekly for the next 35 years. This means she will invest a total of $227,500. Compounding over time will do its work and Sarah will grow her investment by an additional $374,704, to reach a total of $602,204 by retirement. If Sarah delays her savings plan by just one year, her total nest egg falls to $567,178. The cost of procrastination amounting to a drop of more than $35,000!



The example is hypothetical and for illustrative purposes only. Assumes $250 biweekly savings and a hypothetical rate of return of 5%, compounded annually. The example does not reflect actual results or the returns or future value of an actual investment. Assumes reinvestment of all income and does not include transaction costs, fees, or taxes.

5. Eliminates the guesswork of when to invest

Market swings can often make it difficult to determine exactly when to invest and trying to time the ups and downs of the market is a bit like the roll of a dice.

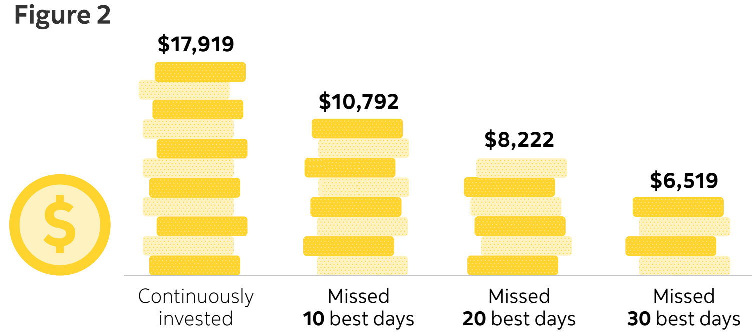
It's time and discipline…not timing

Consider the impact of missing the best 10, 20 and 30 days on the value of $10,000 invested in Canadian stocks over the past 10 years.

As Figure 2 shows, sitting on the sidelines can be costly. Over a 10-year period, if you're out of the market for even a small number of days when the market is outperforming, you can substantially reduce your return potential.

Investing on a regular basis with a PAC is much more effective than trying to "time the markets" – especially during periods of volatility.

Figure 2



Source: Bloomberg. S&P/TSX Composite Total Return Index, November 30, 2010 to November 30, 2020. It is not possible to invest directly in an index. Assumes reinvestment of all income and no transaction costs or taxes. Value of investment calculated using compounded daily returns. Missing 10, 20 and 30 best days, excludes the top respective return days.

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By contributing a fixed dollar amount on a regular basis with a PAC, you can also take advantage of **"Dollar-Cost Averaging" (DCA)** and help reduce the risk of timing a lump-sum investment. By investing a fixed dollar amount on a regular basis, the DCA process can help control the effect of market volatility. Over time, and in certain market conditions, it could help you purchase investments, such as mutual funds, at a discount and earn a higher return. While it's important to note that DCA doesn't always produce a higher return versus lump-sum investing, this systematic approach can help investors stay the course by taking the guesswork out of when to invest.

Key Resource

Market volatility can be unsettling for even the savviest of investors. For tips on how to manage – and potentially benefit from – market volatility, check out 5 Timeless Tips on Managing Market Ups and Downs.

The bottom line: Investing automatically with a PAC is an effective way to build your savings effortlessly and help keep you on track to meeting your long-term financial goals faster. What's more, it's easy to set up.

Want to learn more about how a PAC could work for you? A Scotiabank advisor can help set up a PAC that meets your needs.

Contact your Scotiabank advisor today to get started.

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