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Common Cents

How safe is your cash?

By Linda Leatherdale

With bank failures a rarity in Canada today, it's something investors give little thought to, namely, how Ottawa insures the money we deposit in Canada's banks. Yet since 1967 the Canada Deposit Insurance Corp. (CDIC) has been insuring our deposits, like savings and chequing accounts and GICs, in the event a bank was to fail and close its doors.

At first, the limit was \$20,000 per person per institution, but after a string of failures in the 1970s, the coverage was upped to \$60,000 per institution, effective in 1983.

Now here's something else investors rarely think about -- how, over time, inflation has eroded that coverage.

"Inflation has eaten away about half the value of the coverage," says David Newman, founder of Fiscal Agents Inc., who launched an awareness campaign yesterday aimed at waking up Canadians.

According to his calculations, in the past 21 years since the CDIC coverage limit was raised to \$60,000, inflation has decreased its value by 56%. In other words, in today's dollars, the CDIC coverage is actually worth only \$34,000.

And that puts it well behind similar insurance coverage offered by the provinces.

"If your deposits are insured in a credit union in Ontario, your insurance coverage is \$100,000. In Nova Scotia, it's a whopping \$250,000. And in some western jurisdictions (like Alberta, Manitoba and Saskatchewan), credit union investments are guaranteed for every penny -- 100% coverage," Newman points out.

Even investments in insurance companies can offer better deals. He explains the same \$60,000 limit applies, but, "if you're receiving income from an annuitized investment, that income could be insured to a maximum of \$2,000 a month to a total of \$200,000. Beyond that, an 85% coverage rule applies."

Newman says where investors need to pay attention is with mergers like TD Bank and Canada Trust, which could bring deposits under one roof and affect insurance limits.

The bottom line is, in a recent public opinion poll, 92% of investors said the most important factor when making an investment was protecting savings. Yet 60% are clueless about CDIC coverage or how the value of that coverage has been severely eroded by inflation, said Newman.

Here's what his campaign calls for: Upping the insurance coverage to \$100,000.

"But this isn't likely to happen unless savers start making a stink," Newman warns. "We need to put pressure on CDIC to increase the value of deposit insurance to a satisfactory level and also ensure indexation to inflation."

To join in Newman's fight, go online to fiscalagents.com and fill in a petition.

His Web site also offers information on the best savings rates. For example, ING is now offering 2.25% on a savings accounts, which beats this year's 1.35% rate for Canada Savings Bonds.

And for the record, here's what CDIC does insure:

- Savings and chequing accounts.
- Term deposits, like GICs and debentures issued by loan companies.
- Money orders and drafts.
- Certified drafts and cheques. Here's what's not covered:
- Foreign currency accounts.

- Term deposits with a maturity date of more than five years.
- Debentures issued by chartered banks.
- Bonds and debentures issued by government and corporations.
- Treasury bills.
- Investments in mutual funds, mortgages and stocks.

Another fact: Since 1967, 43 financial institutions have failed and bailouts for depositors have totaled \$24 billion.

Some who went bust include Central Guaranty Trust, Fidelity Trust and Northland Bank.

Go online to cdic.ca or call 1-800-461-2342 to learn more.