From: Bill Strautman
Sent: August 12, 2011 5:28 PM
To: ~Finance/Finances
Cc:
Subject: RE: YOU ARE INVITED TO SHARE YOUR PRIORITIES FOR THE 2012 FEDERAL BUDGET

Hello,

It has been brought to my attention that the federal government is interested in receiving ideas and priorities for consideration before preparing the upcoming 2012 budget. This may be a policy idea rather than just a budget item, but I'd like to have it given serious consideration as I believe it's an idea that makes a lot of sense and would help may young people who are trying to get established in the farming industry.

I originally started circulating this around 2007 – hence some of the comments are a bit dated, but are relevant in that they foreshadowed events that did happen and are currently happening again.

Following that is a letter I sent to some of the federal politicians back in 2008, requesting them to give this idea consideration.

Thanks for giving it additional consideration.

Bill Strautman

Dalmeny, Sask.

(Originally written in 2007)

Using registered retirement funds to help finance core farm assets

Currently the Canadian government allows individuals to use RRSP funds to make a down payment on their homes. The RRSP withdrawal must be paid back over 15 years. Individuals having difficulty coming up with a down payment, yet with enough RRSPs, are now in a position to purchase a home.

I'd like to suggest a similar opportunity be provided to individuals trying to buy a farm. If the individual has enough RRSP savings to buy some core farm assets, the Canadian government should develop a program, similar to the RRSP home down payment program, that allows people to purchase farm assets with RRSP savings.

Those RRSPs would also have to be paid back, over time, like the home down payment program, but could help people come up with a paid off core farm asset, to assist them with starting a farm operation.

In my situation, my wife and I are sitting on approximately $400,000 in RRSP investments and we have purchased my mother’s farm, worth about $400,000, through a mix of vendor financing, gifting, early inheritance and a $200,000 loan.

The returns of our RRSPs has been variable, to say the least. Some years the investments go up, some years they stay the same and some years they drop significantly. However, the interest rate on our land loan is always there and has been in the six to eight percent range every year.

By using half of our RRSPs to pay down this land loan, we’d be guaranteed about a seven percent return, for as long as it takes to pay off this loan under normal conditions. I’d just as soon be guaranteed that seven percent on half our current RRSP investments, as take a chance on the stock markets every year, on all my RRSP investments.

Here’s how I envision the program would work.

An individual would designate specific assets as his/her ‘core farm assets’ for the purposes of the RRSP program. Let’s say six quarters of land are worth $400,000 and the individual wants to borrow $200,000 from his RRSP. He would designate three quarters as ‘core farm assets’ and use funds from the RRSP to pay down those assets.

Those three quarters would be paid off, free and clear, but would have the ‘core farm asset’ caveat applied to them. They could not be used as security for any loans, until the RRSP is paid back and the 'core farm asset' caveat removed. If one-third of the RRSP is paid back and the land is valued equally, then the core farm asset caveat could be removed on one quarter of land, and so forth, until the whole RRSP is paid back.

I would suggest that unlike the home owner program, where repayment starts the year after the home is purchased, that repayment of the Core Farm Asset RRSP not be required until the individual turns a certain age, say 60, and must be completely paid back by age 69. Of course, if the individual chooses to pay it back sooner, that's fine. And if the owner wants to sell the land, the appropriate amount must be returned to the RRSP first. And it must all be paid back by a specific age – and definitely before that individual's RRSP must be collapsed.

This program would provide a number of significant advantages to individuals trying to get started in a capital intensive industry, plus would be revenue neutral to the federal government. In all cases, the RRSP would be completely paid back and taxed normally when the plan is terminated. So this program shouldn't cost the federal government anything.

For the individual, farmers often look at their farm investment as their retirement plan, so using RRSP funds to help pay down debt does fit in with the retirement plan objective. Often, farmers are not interested in other industry sectors, but are forced to invest in them with their RRSP investments, through lack of alternatives. In many cases, they'd much rather invest in something they know and understand and this would allow them to do so.

While there might be some negative aspects or down sides to this type of program, I can’t think of any right now. The only resistance would come from banks and financial planners, who would lose their management fees on the funds used for the core farm assets. From my perspective, I’d rather see a bunch of farmers saving that seven percent interest cost, than a bunch of financial institutions earning this interest income.

I think it would make for an innovative platform plank in the next federal election and would be a fairly straight forward policy to implement in the first budget after the election is over.

If you’d like to discuss this idea further with me, drop me an email or give me a call.

Thank you.

Sincerely,

Bill Strautman

Dalmeny, Sask.

October 8, 2008

Dear Mr. Harper, Flaherty, Ritz and Vellacott,

I would like to suggest again, a policy for your consideration. In light of the current events of the Canadian and world stock markets, I think it’s an idea that’s long overdue. In fact, I’d like to see my original idea of using RRSP/LIRA funds to purchase ‘core farm assets’ modified to allow RRSP/LIRA funds to be used for capital purchases by small business owners and to allow home owners to use funds to pay down home mortgages, rather than just as down payments for first time home buyers.

For the longest time, I could never understand why my RRSP and LIRA had to be invested in either mutual funds, the stock market or in low-yielding interest bearing investments – one group highly variable and risky and the other with a guaranteed low return, generally lower than inflation.

Recently I’ve been able to diversify into speculative land development projects. At least it’s not in the stock market, but in light of current conditions, I’m not sure if they’re going to pay off either.

And why is it that I have to invest my RRSP/LIRA in land developments in Phoenix Arizona, Dallas Texas, Calgary Alberta and Toronto Ontario, when I live in small town Saskatchewan, own a home with a mortgage and a farm with a mortgage?

I’m forced to speculate in areas where I have no interest and/or expertise, while I’m paying a farm mortgage and home mortgage that have a guaranteed annual interest cost until (or if ever) they’re paid off – two things I have a direct interest and personal expertise in.

If I had been able to use our family’s pre-market meltdown $400,000 RRSP/LIRA funds to pay down our farm and home mortgages, we would have no farm mortgage payment and no home mortgage payment. We could work for the next ten or twenty years to repay that fund, without worrying about banks foreclosing or markets behaving irrationally, as they often tend to do. Now, I don’t even want to look, but I’m sure our pension fund is down well below $300,000, and we still have both mortgages to deal with.

If you want to give the average Joe Canadian a chance to get ahead, put into law a policy that allows Canadians to use their retirement savings -

in a repayable form - to pay down home mortgages, farm land or other farm capital assets, and small business capital asset purchases.

Right now, my family has lost perhaps $150,000 of retirement savings, and there may be more lost in the near future. Can you imagine how much better off the average Canadian would be if they could use their retirement savings to put them in a better position for their retirement right now? If people are worried about their mortgages, their pensions and their future, here’s a simple way to ease those worries in the here and now.

The craziest part of this suggestion is that it would cost the government nothing. All those sheltered RRSP/LIRA funds will eventually be taxed, whether invested in homes, farms and small businesses, or in the highly risky areas they’re in now.

It’s such a simple idea, I can’t believe anyone else hasn’t come up with it or implemented it yet.

It would be nice if one of you candidates would actually give me a call to discuss this idea further, tell me why it isn’t a good idea if you don’t think it is, or explain how you actually plan to implement this if you do think it’s a good idea.

Sincerely,

Bill Strautman

Dalmeny, Sask.