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# Top 10 RRSP tips

## Get the most from your RRSP

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Whether retirement is five years or 25 years away, the best strategy for reaching any goal is to have a plan - and these important RRSP strategies can help you get started.

# 1. Maximize your tax savings by maximizing your contribution

Ideally you should use your full allowable contribution limit each year, but if you haven't been able to, you have likely been accumulating unused registered retirement savings plan (RRSP) contribution room. If you don't have enough cash to contribute the maximum, there are two ways you can make use of your full allowable limit:

## Contribution in kind

If you have non-registered investments such as mutual funds, you could contribute them to your RRSP. You can also make a withdrawal from a tax-free savings account (TFSA) to fund your RRSP contribution. You will receive a tax receipt equal to the investment's market value at the time of the transfer. Please note that a contribution of an investment in kind from a non-registered account is a deemed disposition for capital gains purposes, so you should consider your capital gains position on that investment at the time of the transfer.

## Power-up by borrowing

Alternatively, you could consider an RRSP loan. Rates are very competitive and although you'll pay interest on the amounts borrowed, the long-term benefits can far outweigh interest costs. In addition, your contribution could trigger a tax refund that you can use to pay down the loan and keep costs to a minimum.

# 2. Contribute early

Procrastination can be costly, so make your RRSP contribution early in the year. The sooner you put your money into an RRSP, the sooner it starts working for you on a tax-deferred basis. If you can't do it all in January, a monthly contribution program is simple and powerful.

# 3. Give yourself a raise

If you're receiving a large annual tax refund, you could be missing out on certain opportunities. A tax refund essentially amounts to an interest-free loan to the government, not free money as many like to think. By filing a T1213 form to the Canada Revenue Agency (CRA), you could potentially reduce the amount of income your

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## Cost of an RRSP withdrawal

The following shows the lost value of your RRSP based on various lump sum RRSP withdrawals:

LUMP SUM RRSP WITHDRAWAL	LOST RRSP VALUE AFTER 20 YEARS
\$10,000	\$25,298
\$15,000	\$37,947
\$20,000	\$50,595
\$25,000	\$63,244
\$50,000	\$126,488
\$100,000	\$252,977

Assumes the amount withdrawn from your RRSP would have compounded at an annual effective rate of 4.75% over 20 years. The figures shown above are used only to illustrate the effects of the compound growth rate and are not intended to reflect future values of your RRSP or returns on investment.

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employer withholds from your paycheques, putting more money in your pocket for your immediate use.

Make sure you get tax advice before making any withdrawals.

## 4. Tax planning for two through spousal RRSPs

A spousal RRSP is an RRSP for the benefit of one spouse, but contributions are made, and deducted, by the other spouse. Spousal RRSPs are a good strategy if you expect one spouse to be in a lower tax bracket in retirement because they provide the benefit of balancing retirement income. It's also beneficial if one spouse is older than the other. The older spouse can continue to make RRSP contributions to the spousal plan until the end of the year the younger spouse turns age 71 (provided the contributing spouse has qualifying earned income and available contribution room). There are attribution rules associated with early withdrawals from a spousal RRSP.

## 5. Make tax-efficient deduction decisions

Although it seems counter-intuitive, if you expect to have a significantly higher income in coming years, you can defer taking the tax deduction this year. You can make an RRSP contribution now and not claim the deduction until you're in a higher tax bracket. For example, a \$10,000 contribution deducted at a 29% rate will generate \$2,900 in tax savings. A \$10,000 contribution deducted at a 45% tax rate will generate \$4,500 in tax savings. You'll still benefit from the tax deferral for any income generated by investments in your RRSP in the meantime, even if you have not taken the deduction.

## The case for maximizing contributions

AMOUNT ACCUMULATED IN AN RRSP	GENERATES AN AVERAGE ANNUAL INCOME OF
\$200,000	\$13,492
\$400,000	\$26,985
\$600,000	\$40,477
\$800,000	\$53,969

Assumes your registered investments will grow at an effective annual rate of 4.75% over 25 years of retirement. Average Annual income is the sum of equal monthly payments received at the beginning of the month throughout each year of retirement.

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## The cost of procrastination

INVESTMENT DATE	AMOUNT	FREQUENCY	MARKET VALUE (20 YRS)
January 1 of tax year	\$10,000	Annual	\$337,354
March 1 deadline	\$10,000	Annual	\$334,755
All year long	\$833	Monthly	\$330,152

Assumes all contributions earn a 4.75% effective annual rate of return. All contributions are made at the beginning of the month over a 20 year period.

## 6. Go for growth

In their search for security, some investors limit themselves to fixed income investments such as guaranteed investment certificates (GIC). But there's also risk in being too conservative. With a GIC and other very conservative, fixed-income securities, the biggest danger is inflation which can erode the purchasing power of your investment. A properly balanced investment portfolio, which includes equity investments, can protect you against inflation and provide promising long-term growth potential.

## 7. Resist the temptation to dip into your RRSP

Usually, there is nothing to prevent you from accessing your RRSP before retirement. However, consider the consequences before you do. First of all, withdrawals are taxed at your marginal rate, and are subject to withholding tax of 10% to 30% at the time of withdrawal. Secondly, you cannot restore the contribution room. The amount that you can contribute to an RRSP in your lifetime is limited. A withdrawal erodes some of this potential.

Special circumstances can help you access your RRSP without these consequences. The Home Buyers' Plan and the Lifelong Learning Plan allow tax-free withdrawals with the ability to re-contribute. However, even in these plans there is no ability to replace the tax-deferred growth on your investments that was lost. It is more tax-effective to make a withdrawal from a TFSA, as no tax applies and you can re-contribute the withdrawal amount in a future year.

## 8. Tax-efficient investing – the bigger picture

Capital gains and Canadian dividends are subject to a lower tax rate than other sources of income. Any income withdrawn from an RRSP is fully taxable at your top

marginal tax rate. In keeping with your asset allocation plan, it makes tax sense to hold interest-bearing investments inside your RRSP – since they are 100% taxable – and hold investments that produce Canadian dividends and capital gains outside your RRSP.

## 9. Special RRSP deductions

There are two special RRSP deduction opportunities that may be available to you – special because they allow you the opportunity to invest more than your allowable contribution room.

### Retiring allowance

If you leave a longtime employment position and receive a severance or retiring allowance, you are entitled to transfer tax-free into your RRSP an amount equal to \$2,000 for each year of service before 1996, and an additional \$1,500 for each year before 1989 in which you did not earn a vested pension benefit.

### Pension Adjustment Reversal

Individuals who leave a company pension plan or deferred profit sharing plan will receive a "Pension Adjustment Reversal" (PAR) if the total value of their past Pension Adjustments exceeds the benefit they receive out of the plan. The PAR restores lost RRSP contribution room. If you have changed employers in the past year, professional advice definitely can pay off in this situation.

## 10. RRSPs and your estate

In most provinces, you can designate a beneficiary on your RRSP so that the assets immediately become their property upon your death. Generally speaking, the assets do not form part of your estate and as a result do not attract probate fees (not applicable in Québec). In addition, if the beneficiary is your spouse or a disabled dependent child or grandchild, the tax-deferred status of your registered assets can remain. However, there may be instances when you would want to name your

estate as the beneficiary of your RRSP. By naming your estate and granting executors the authority to make tax-deferred rollovers, you may be able to reduce taxes payable on other assets. Incorporating your RRSP into your estate plan can be a complicated process.

## Get Expert Help

Your RRSP is a vital part of your retirement plan. As we've seen here, there are several small tune-ups you can employ that each can contribute to the growth of your plan. Along with other professional advisors, we can provide the necessary assistance to help you make the right choice. ●

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