

# The RRSP Investor™

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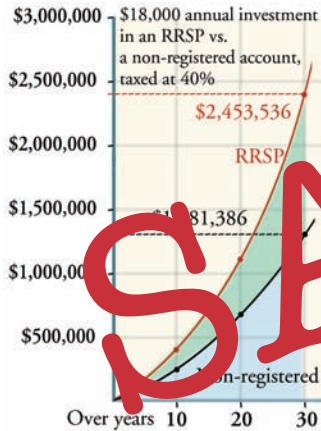
## The RRSP Tax Break

A "registered retirement savings plan" (RRSP) is an individual savings plan devised by the government to offer tax incentives to income-earning Canadians investing for retirement.

It allows you to make tax-deductible contributions during your pre-retirement income-earning years that can be entirely subtracted from your earned income, thus lowering your annual taxable income. This can provide you with an annual tax refund. Contributions are invested and earn tax-free income, providing you with the opportunity for enhanced growth (untaxed until withdrawn) of your savings to live on when you retire.

### Illustration example:

Assume that an annual RRSP contribution of \$18,000 is invested at 9% over 30 years. If the investor is in a high tax bracket of 40%, the RRSP grows to more than double the amount invested at the same rate in an unsheltered investment. The RRSP will be valued at \$2,453,536 while the non-registered will equal only \$1,281,386 (provided the non-registered account is not sheltered from tax). You can see from the graph that time is your greatest asset.



## RRSPs and Foreign Market Exposure

The old 30% RRSP foreign content limit is now an unrestricted 100%. You can diversify your portfolio among domestic (only about 3% of the world's capitalized market is in Canada) and many of the world's markets and among various sectors such as: natural resources, finance, technology, pharmaceuticals, health sciences or consumer products. Domestic and worldwide

market sectors and economies don't necessarily rise or decrease at the same time.

## Over-Contribution

In a year when you have extra cash to invest, you can over-contribute up to, but not in excess of the lifetime maximum buffer allowance of \$2,000 (designed to help taxpayers who might erroneously over-contribute). You can claim the tax deduction in a later year. What is the benefit of doing this? You will get the benefit of ongoing tax deferral on the investment income within the RRSP from the time the deposit is made.

*Note:* A 1% per month tax penalty applies for contributions that exceed the combined total of your maximum RRSP contribution limit plus the lifetime over-contribution limit.

## Carrying Forward Unused Contribution Room

If your allowed contribution is not made this year, you can carry forward any unused difference to a future year, without affecting your annual contribution limit. For example, if you are eligible to make a \$16,500 contribution this year, but are only able to contribute \$12,000, you can carry forward the \$4,500 amount to a future year without affecting your regular contribution limit.

*Note:* If you didn't maximize your RRSP contributions in previous years, the unused portion since 1991 is automatically carried forward to use in subsequent years subject to age restrictions. You will find your contribution limit for each year printed on your Notice of Assessment (form T1028) sent to you by Canada Revenue Agency (CRA) after filing your annual tax return (see RRSP Deduction Limit Statement). To report new unused contributions, you have to file Schedule 7, RRSP Unused Contributions, Transfers, and HBP or LLP Activities, with your return. A contribution, if registered where there was allowed room available, even though invested, if not currently claimed, can be claimed in a later year. Amounts over-contributed before February 27, 1995, up to \$8,000 must be used instead of new contributions, reducing the excess to \$2,000. There will be no penalty if this is done before new contributions are made.

## Spousal or Common-Law Partner RRSPs

Though optional, the rules allow spousal/common-law partner RRSP contributions to benefit from future "income splitting." If you make a spousal RRSP contribution, you claim the RRSP deduction on your tax return, even though your spouse or common-law partner is the annuitant. This means one spouse can contribute on behalf of the other who is the plan holder. Later in retirement, your spouse or common-law partner who owns the plan, reports the income for tax purposes when the funds are withdrawn (as long as certain conditions are met). If your spouse/partner has less income than you do at that time, tax may be reduced significantly. This income splitting may place one or both of you in a lower marginal tax bracket. Thus your combined tax bill at the time of retirement may be significantly lower than the taxes paid on a single RRSP/RRIF income stream. This could reduce or avoid future clawbacks of government benefits relative to income (such as Old Age Security). There may be another spousal RRSP advantage. Let's say you are over 69 with remaining RRSP contribution room. Your spouse or common-law partner is 69 or younger. You can use your RRSP contribution room by contributing to a spousal RRSP. Thus



you will reduce your current taxable income, while increasing your spouse's or common-law partner's future income in his or her income-withdrawing years. Essentially, when you invest in a spousal RRSP, you actually give some of your eventual retirement income to your partner, who then owns those funds. You get the tax deduction when you contribute. After more than three years from the time of contribution, the money withdrawn will be classified as your partner's income.

## Converting Your RRSP to a RRIF

At any time before age 69, you can withdraw income from your RRSP. By the end of the year in which you turn 69, you must convert your RRSP, while remaining tax-deferred, to a Registered Retirement Income Fund (RRIF) or an annuity. You must begin withdrawing taxable income from your registered savings in the next year. A minimum percentage of the value of your RRIF, increasing annually, must be withdrawn as taxable income. Where there is a younger spouse or common-law partner, you can choose to base the withdrawals on the younger partner's age.

## Pension Severance/Retiring Allowance Transfers

Upon retirement or termination of employment, you may receive a severance package (or a retiring allowance). The eligible portion can be transferred into your RRSP (without reducing your RRSP contribution room) within 60 days of December 31st: \$2,000 for each part, or full year of service before 1996 in which you were employed. You can also transfer an extra \$1,500 for each part, or full year of service before 1989 (if you were not entitled to receive any benefits earned under a pension plan or Deferred Profit Sharing Plan (DPSP) from contributions your employer made for each of those years). These transfers do not reduce your RRSP contribution room.

## Transferring money from a pension plan

A LIRA, LIF and LRIF are similar to a RRIF. Pension benefits cannot simply be withdrawn from your employer's plan upon termination of employment. They may be transferred to a locked-in retirement account (LIRA) that is an RRSP subject to federal or provincial pension legislation. Locked-in RRSPs are subject to the same withdrawal restrictions as were the funds in the original pension plan. By the year you reach age 69, your locked-in funds must be transferred to a life income fund (LIF), a locked-in retirement income fund (LRIF), or a life annuity. LIRs and LIFs are RRIFs with restricted maximum yearly payout. A LIF requires an annuity purchase not later than age 80, while there is no such requirement for the LRIF. Terms vary somewhat from province to province.

## Withdrawing Money Pre-Retirement

Subject to the terms of the investment you choose, you can withdraw part or all of your RRSP money. It will be subject to income taxation in the year of withdrawal, and you will not have any more potential for ongoing tax deferral on that amount. When you withdraw funds from your RRSP, a prescribed amount will be withheld by the institution, as

an installment of your income taxes. There is no taxation if you are directly transferring funds from one RRSP plan to another.

## A Dependent Child Can Receive Your RRSP

The RRSP or RRIF money can be transferred to an annuity for a financially dependent child or grandchild under age 18 to provide benefits payable to age 18. Funds can also be transferred to an RRSP of a child of any age who is dependent on you due to a mental or physical infirmity.

## RRSP Beneficiaries

Where applicable, consider naming your spouse or common-law partner, dependent child or dependent grandchild, rather than your estate, as beneficiary of your RRSP or RRIF. Assets may pass tax-sheltered upon your death directly to an existing or new RRSP or RRIF of your surviving spouse or common-law partner, or to a dependent child's annuity (transfer via a Designation of Beneficiary in your RRSP or RRIF or via your will).

## Estate Planning & Your RRSP/RRIF

If there is a spouse or dependent child or grandchild, estate RRSP/RRIF proceeds can be rolled over tax deferred to their RRSP, RRIF, or an annuity. Otherwise, your estate will pay up to 50% tax on such remaining RRSP/RRIF capital, due in your final tax return.

Consider pre-funding your tax liability by purchasing life insurance, which is received tax-free. The benefit can offset your departed RRSP portion of an estate on your death. Such policies can often be purchased for annual premiums as low as 2% of the full value of your current RRSP/RRIF holdings.

In most provinces you can specify your beneficiary in your RRSP or RRIF statement or in your will.

*Note:* Consult your District Taxation Office, legal or tax advisors to get additional specific information regarding your situation.

## The Growth Potential of RRSP Contributions

A Canadian taxpayer (children included) with qualifying earned income from the previous tax year can open an RRSP. The

deadline for your contribution is the 60th day following the current tax year. You can find your personal contribution limit on your Notice of Assessment from Canada Revenue Agency (CRA), which you receive each year after you file your income tax return. As a general rule, you can contribute up to 18% of your previous year's "earned

Maximum Allowed Contribution	
Tax Year	Contribution
2005	\$16,500
2006	\$18,000
2007	To be indexed to average wage increases.

income", or the maximum limit amount of \$16,500 for the 2005 tax year, \$18,000 for the 2006 tax

year: less pension adjustments you may have through membership in a company retirement plan (pension or group RRSP). The pension adjustment represents the value of your pension benefits (employer pension plan or deferred profit sharing plan) earned for the previous year. The more that has been set aside by you and/or your employer towards your pension, the less you will be allowed to contribute to your RRSP. Pension adjustment reversals may increase contribution room where your employment was terminated in a year before your pension was fully vested. By maximizing your allowable contribution year by year, you can enhance your tax savings and achieve more growth over time.

*Note:* Non-dependent minor children can invest in an RRSP if a child under age 18 has earned income, even if his income is far below the income exemption. He or she can invest in an RRSP. Though no tax may be due when filing his or her return, RRSP contribution room will be created for future RRSP investing. A child cannot over-contribute the \$2,000 as others can. Contributions made to a child's RRSP may be rolled forward indefinitely, and deducted in a future year to reduce higher taxable income.

Start at age	Invest \$18,000 annually at 9% in an RRSP until retirement, creating income to age 90				
		Retire @ 65	Retire @ 60	Retire @ 55	Retire @ 50
30	RRSP capital	\$3,882,794	\$2,453,536	\$1,524,616	\$920,882
	Annual income	\$292,446	\$162,912	\$92,565	\$52,365
	Non-Reg capital	\$1,942,900	\$1,386,031	\$966,950	\$651,562
40	RRSP capital	\$1,524,616	\$920,882	\$528,497	\$273,473
	Annual income	\$114,832	\$61,146	\$32,087	\$15,551
	Non-Reg capital	\$966,950	\$651,562	\$414,212	\$235,590
50	RRSP capital	\$528,497	\$273,473	\$107,725	N/A
	Annual income	\$39,806	\$18,158	\$6,540	N/A
	Non-Reg capital	\$414,212	\$235,590	\$101,164	N/A
	Annual Income	\$25,293	\$12,101	\$4,549	N/A

*Note:* 1st year income amounts stated - they will then keep pace with an annual rate of inflation at 4%; income is pre-tax in future dollars. Non-RRSP has a pre-retirement tax rate of 35% and retirement tax rate of 30%.

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