

The Benefits of a Self-Directed RRSP

As a group, today's investors are becoming more knowledgeable and more aware than ever before of their financial needs, choices and the consequences of their investment decisions. Retirement planning, in particular, has become a growing concern for Canadian baby-boomers. Many realize that by the time they reach retirement, there will be a slim chance that the government pension income that they expect to receive will be sufficient to maintain the standard of living that they envision for their golden years. Investors are acknowledging the important role that their personal retirement savings plans will play, over and above government and employer pension plans, in allowing them to retire in comfort.

Once investors realize that they will ultimately be accountable for their own financial security, many seek the advice of an investment advisor in designing a self-directed RRSP to fit their personal circumstances.

A self-directed RRSP, like all RRSPs, is a type of savings plan that allows investors to contribute a portion of their earned income each year and receive a tax deduction on that amount. Contributions are invested and compound tax-free in the plan until they are withdrawn, usually at retirement.

Unlike other types of RRSPs, self-directed RRSPs are retirement savings accounts in which your investment decisions are guided and explained by a professional investment advisor. In essence, your RRSP is treated like a portfolio. Based on your investment objectives and individual risk tolerance, your investment advisor will help you decide what investment strategies will help you achieve your retirement goals, and specifically, which investment vehicles can be purchased to support those strategies.

In fact, the wide range of eligible investment choices available to investors is another distinguishing factor. Self-directed investors may hold any combination of qualifying bonds, GICs, mutual funds, coupons, common and preferred shares, and even many foreign content investments (up to 30% of the book value of your RRSP). Consolidating all your RRSPs into one self-directed plan gives you the opportunity to maximize foreign investment. Spreading investments globally has historically produced higher returns, and lowers the degree of risk as a whole.

If an investor does not have cash available to contribute, he or she may make a non-cash contribution instead. A non-cash contribution is an investment in a qualifying security that is already owned by the contributor and that is deposited into the self-directed RRSP without being cashed in or redeemed. In this case, the deduction available for income tax purposes would be determined by the security's fair market value on the day of deposit.

Self-directed RRSPs are so flexible that as economic conditions fluctuate, causing new investments to become more attractive or your personal circumstances to change, you can easily adjust your RRSP investment strategy to respond to these changes. The ability to take advantage of market timing as well as the broad range of securities selection gives you the opportunity to increase your return by accepting small increases in risk. Over time, even a slightly higher annual return can have a significant impact on the end value of your RRSP.

For more information on how a self-directed RRSP would benefit your financial situation, or to determine the eligibility of an RRSP investment, contact your ScotiaMcLeod advisor.