Registered Retirement Savings Plans (RRSP)

Registered Retirement Savings Plans were originally designed for Canadians who did not have pension plans. In essence the RRSP became the pension plan that an individual funded themselves.

With continued skepticism that the government will not be able to help support an individuals retirement needs, the RRSP is one of the most important savings vehicle for your retirement. Not only are your contributions tax deductible, but all of the income earned on those contributions compounds on a tax deferred basis.

Your RRSP Contribution Limit

Your RRSP contribution room is based on your prior year's earned income. It is the lessor of 18% of the earned income or the maximum dollar limitation. See Table below. After 2005, the limit increases will be tied to the growth in average wages.

YEAR	MAXIMUM DEDUCTION LIMITS
2001 to 2003	$13,500
2004	$14,500
2005	$15,500

If you contribute to a registered pension plan at your place of employment, your contribution room will be reduced by a pension adjustment amount. Your employer calculates this figure on your behalf and is reported on your T4 slip.

In addition, any unused contribution room from prior years (starting in 1991) will increase your current room.

Investing Regularly-Monthly vs Annually

Contributing your RRSP contributions regularly throughout the year can have a significant impact on the value of your RRSP. For example if you contribute $1,000 monthly to your RRSP, after 10 years at 8% growth the RRSP will be worth $181,195. If instead you contribute the $12,000 as a lump sum at the end of the year, after 10 years your RRSP is worth $173,839. Your RRSP that was funded monthly is worth $7,356.

A Pre-Authorized Contribution Plan (PAC) allows you to automatically make regular investments from your bank account directly into your RRSP. This will allow you to take advantage of investing regularly and ensures that your money goes to work for you right away.

Self Directed RRSPs

There are basically three types of RRSPs:

plans that are limited to cash and guaranteed investment certificates (GICs);

plans that invest in mutual funds

and self-directed plans. The self directed RRSP offers you the maximum investment flexibility.

Self-directed RRSPs offer investors the ability to choose their own preferred mix of products –whether stocks, bonds, mutual funds, guaranteed investment certificates or treasury bills. They also offer convenience – all investments are shown on a single statement from a single source.

If you currently have RRSPs that cannot accommodate foreign content, consolidating them into one self-directed plan allows you to take maximum advantage of your foreign content room (see below).

Contribute Securities to your RRSP

Your RRSP contribution does not have to be made in cash. A contribution in kind gives you the benefit of the immediate tax deduction while at the same time keeping the security. You must, however declare any capital gains accrued on the investment at the time of the transfer. If the investment is in a capital loss position, you are not permitted to claim that loss unless you sell the security first and then make the contribution as cash.

Spousal RRSPs

One of the few remaining income splitting opportunities is a spousal RRSP. A spousal RRSP is an account in which you make contributions however, your spouse is the annuitant or the owner of the account. This means that your spouse has control over the account in terms of investment decisions and when payments are received from the account.

The primary reason for establishing a spousal RRSP is to allow for income splitting at some time in the future, usually retirement. Because the assets are considered the property of your spouse, when the funds are withdrawn from the plan, they are taxed at the spouse's marginal tax rate. The opportunity to income split arises when the spouse would have little other retirement income while the contributing spouse would be at a high marginal tax bracket.

For example, if you will be paying tax at the top marginal tax rate of 46% (Ontario), a $5,000 payment from your RRSP would result in $2,300 of income tax. If your spouse has little retirement income, a $5,000 payment from a spousal RRSP might be received tax free. This would result in tax savings of $2,700 each year. See **SC Online/Wealth Planning/Articles/Spousal RRSPs-Understanding How They Work** for a more detailed article.

Foreign Content

The Income Tax Act (ITA) places restrictions on the amount of foreign securities that one has in their RRSP. You may hold up to 30% of the book value of your RRSP in qualified foreign securities. These investments include foreign shares listed on a prescribed foreign stock exchange as well as the bonds of those corporations.

By limiting your investments solely to the Canadian markets you are ignoring 97% of the available international investment opportunities. It is important to reduce your risk by diversifying within the major asset classes, it is just as important to have global diversification in your portfolio to take advantage of potentially higher investment returns. See **SC Online/Wealth Planning/Articles/ Foreign Content** for a more detailed article.

Conclusion

Contributing to an RRSP is one of the soundest ways to turn your retirement goal into a reality. The earlier you begin contributing to your RRSP, the larger your retirement nest egg will grow to.