RRSP Basics

Each year, as the deadline for Registered Retirement Savings Plans contributions draws near, Canadians are bombarded by a media blitz concerning RRSP investing. However, statistics indicate that despite this massive yearly campaign, only one in every two Canadians has an RRSP. It's an unfortunate reality that, given the importance of proper retirement planning, some Canadians continue to ignore the need for beginning a savings plan early in life.

One reason might be the apparent complexity of RRSP rules. People often avoid issues which seem difficult to understand. These rules, once explained, are not that complex. RRSPs allow you to contribute now towards funding your retirement. Contributing to an RRSP has two main benefits: first, your contribution is tax deductible and second, your contributions grow tax sheltered inside your RRSP and as a result, they have the potential to grow at a much faster rate than funds saved outside an RRSP.

Contributions

To begin, let's look at who can contribute to an RRSP. If you are under the age of 69 and have earned income in the previous year, then you are eligible for an RRSP. Earned income includes income from employment, and can also include supplementary unemployment benefits, alimony and maintenance payments, royalties, research grants, net business income, net rental income, and a few other miscellaneous types of income.

Your maximum contribution limit is 18% of your previous year's earned income up to the maximum level for that year, less your pension adjustment (PA) and/or your past service Pension Adjustment (PSPA)*. The pension adjustment (PA) can be found on your T4 Supplementary form.

If you are not a member of a Registered Pension Plan or a Deferred Profit Sharing Plan, you don't need to worry about the PA. As well, the government will send you confirmation of your RRSP contribution room with the notice of assessment for your previous year's tax return.

The schedule of maximum contribution limits is capped at $15,500 for the year 2004. This means that if you have earned income of $86,111 and over, you can't contribute more than $15,500. Below is a table of how different levels of earned income can contribute and the tax savings that contribution will generate:

Income	Contribution	Tax Savings (ON)
$35,000	$6,300	$1,962
$45,000	$8,100	$2,523
$60,000	$10,800	$3,561
$86,111	$15,500	$6,728

Under current legislation, you have up to $2,000 of room to make over contributions to your RRSP. If you were to over-contribute the $2,000 today, you would not be able to take it as a tax deduction but the $2,000 would be invested on a tax-deferred basis within your RRSP until the

833 11191 11/04

time you decide to use it as a contribution. This tactic can make a significant difference to your retirement savings.

Eligible Investments

There are a number of eligible investments for an RRSP. If you have a self directed RRSP, these investments can include guaranteed investment certificates (GICs), shares of Canadian companies listed on a recognized Canadian stock exchange, bonds, treasury bills, strip coupons, mortgage backed securities, covered call options, warrants and rights issued by companies listed on a Canadian stock exchange, mutual funds, and eligible foreign investments.

Foreign Content

The maximum amount of your RRSP that you can have invested in foreign investments is 30% of the acquisition value, or book value, of the investments. A penalty tax of 1% will be levied on any foreign content above the maximum. Maximizing your foreign content is important in order to take advantage of international markets that may be outperforming the Canadian market.

Spousal RRSPs

You may set up an RRSP for your spouse and make contributions on their behalf, up to your own personal limit. For example, if your limit for this year was $10,000 and you made a $6,000 spousal contribution into your spouse's RRSP, you would only be allowed to make a $4,000 contribution into your own RRSP. While the plan is owned by your spouse, you get the tax deduction. There are numerous benefits to spousal plans, the most important of which is the long term benefit of providing your spouse with an income stream at retirement and potentially reducing the tax you pay.

These are just a few of the basic rules governing RRSPs. There are different types of RRSPs that are available, each with their own features and benefits. For more information on these topics and on RRSPs in general, contact your ScotiaMcLeod advisor.

* The PA represents the value of any pension benefits accruing for that year from participation in a Registered Pension Plan or Deferred Profit Sharing plan. The PSPA arises where a member of a defined benefit pension plan has benefits for past service, post-1990.

833 11191 11/04