



RRSPs Basic rules for contributing

Here's a quick run-down of the rules for Registered Retirement Savings Plan (RRSP) contributions for the 2005 tax year. For more detailed information about these rules and limits, please contact your financial advisor.

DEADLINE FOR CONTRIBUTIONS

In order to be eligible for deductions for the 2005 tax year, your RRSP contributions must be made by midnight, March 1, 2006.

CONTRIBUTION LIMIT

Generally, the contribution limit for 2005 is 18% of your 2004 earned income or \$16,500 (whichever is less), MINUS any 2004 Pension Adjustment, PLUS any contribution room carried over from previous years. However, other items can also affect your RRSP

contribution limit. Check your 2005 contribution limit on the Notice of Assessment from your 2004 Tax Return or call the Canada Revenue Agency TIPS line at: 1-800-267-6999.

CARRY-FORWARD OF CONTRIBUTION ROOM

If you have any unused contribution room, you may carry it over for an indefinite period of time, subject to age restrictions. This unused room is indicated on your Notice of Assessment.

OVER-CONTRIBUTIONS

You have a lifetime over-contribution limit of \$2,000. Any over-contribution above that amount is subject to a penalty of 1% per month on the excess amount.





AGE LIMIT

You may contribute to your RRSP until the end of the year in which you turn 69. By the end of that year, all RRSP monies must be either withdrawn or converted into an annuity or a Registered Retirement Income Fund (RRIF). Also, you may contribute to a spousal RRSP as long as you have contribution room, and your spouse is not older than 69.

STRATEGIES TO MAKE THE BEST USE OF YOUR RRSP REFUND

Since after-tax retirement income is the most significant long-term financial goal for most people, understanding and choosing the best refund strategy is critical. The following are five distinct RRSP Refund Strategies, each producing different levels of retirement income. To illustrate, let's assume you have \$1,000 to invest and are in the 50% marginal tax bracket.

1. Spend your refund.

Unfortunately, the most common RRSP Refund Strategy is to spend it. If your primary goal is to produce never ending retirement income, then you must realize that by spending your refund you significantly reduce the retirement benefit. The \$1,000 investment will generate a \$500 refund, reducing the after-tax cost to \$500. If you spend the refund, your after-tax commitment to your retirement goal is really only \$500.

2. Reinvest your refund.

To get more retirement benefits from your RRSP, you can reinvest all of the refund back into your RRSP (assuming you still have contribution room available). Simply investing the 50% tax refund increases your RRSP by the same 50%. By investing the \$500 refund, your \$1,000 RRSP investment increases to \$1,500. You can also reinvest your refund into a child's RESP.

3. Gross-up.

Consider borrowing additional funds to gross up your RRSP contributions* (assuming you still have contribution room available). As an example, for your \$1,000 RRSP contribution, you can borrow an additional \$1,000 to increase your contribution to \$2,000. Your \$1,000 tax refund is used to immediately repay the loan so you pay little, if any, interest. By 'grossing-up,' you get the maximum RRSP dollars working for each dollar you have to invest.

4. Top-up.

Traditional RRSP loans present the opportunity to top up RRSPs to make the maximum annual contribution possible. If your RRSP contribution room for the year is \$5,000 and you only have \$1,000, you can borrow the extra \$4,000 and use the refund to pay off most, if not all, of the loan.





5. Catch-up.

'Catch-up' loans are larger RRSP loans used to catch up all unused RRSP contribution room at once. This is an extension of the 'top-up' strategy, but the loan is paid off over several years. If you had \$20,000 in unused RRSP contribution room available and got a \$20,000 catch-up loan, your tax refund would pay down \$10,000 of the loan, the remaining \$10,000 could be paid off over a few years.

Some of these strategies are complicated, and careful thought should be put into employing them. Consult with your advisor, who can work with you to decide which strategy will best help you meet your financial goals.

As of 2005 the 30% foreign property limit (foreign content rule) has been eliminated on RRSPs, RPPs and other tax deferred retirement plans thus allowing broader international diversification opportunities for retirement investments.

* Interest expenses on money borrowed to contribute to RRSPs is not deductible for tax purposes.

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