



Understanding the benefits of your RRSPs

All Canadians of working age should consider making a registered retirement savings plan part of their long-term financial strategy.

A Registered Retirement Savings Plan (RRSP) provides one of the few ways in which Canadians can shelter their income from taxes. Still, the vast majority of Canadians don't take full advantage of their RRSP eligibility. According to Statistics Canada, fewer than one in five Canadians contributed to an RRSP in 2002. And the amount they contributed represented only about nine per cent of the total room available.

Considering that so few Canadians take full advantage of them, are RRSPs still a good idea? "Absolutely," says Toronto financial advisor Jerry Baum. "Where else can a person earning \$60,000 a year, paying income taxes at a rate of 40 per cent, put away \$10,000 and get a \$4,000 gift in return?"

Not only do you get an immediate deduction from your annual tax bill, Baum says, but your investment within an RRSP grows tax-free. And when you reach the age of 69 and have to convert your plan to another tax-free investment vehicle such as a registered retirement

income fund (RRIF), only the money you withdraw is subject to income tax. The rest remains within the tax-free environment until you need it.

"I think an RRSP is a great idea," says financial advisor Robert Lee, who founded the Robert Lee Insurance Agency in Milton, Ontario, in 1975. "As companies cut back on their pension plans, people have fewer opportunities to force themselves to save. It's crucial that people put something away to supplement their income in their retirement years." For this reason alone, says Lee, RRSPs are an intelligent investment.

Lee advises people to save "in the easiest way possible," and that includes arranging for automatic monthly withdrawals to cover RRSP contributions throughout the year rather than investing a single lump sum. That way, he says, you maximize your contribution, you incorporate the regular withdrawals into your monthly financial routine and you are not tempted to reduce your annual contribution so that you can spend some of the money elsewhere.

Even advisors who prefer other ways of investing for retirement agree that an RRSP makes sense in some situations. As part of the evaluation that he conducts when he assesses a client's financial situation, Barry



Fowler, a financial advisor in Windsor, Ontario, determines whether the individual should invest in an RRSP or borrow money to invest outside an RRSP, repaying the loan on an interest-only basis.

Fowler is often an advocate of the latter course, but he admits that many people “can’t stomach the idea of borrowing money for investing.” For them, he recommends an RRSP.

INTEREST-BEARING INVESTMENTS

Once you make the commitment, how should you invest the money within your plan? All advisors recommend that you hold interest-bearing investments within an RRSP, because the interest accumulates tax-free. Canada Customs and Revenue Agency (CCRA) currently places an annual contribution limit on RRSPs of 18 per cent of your taxable income to a maximum of \$14,500. You shouldn’t waste the available contribution room, advisors say, on investments that grow in other ways. Investments that generate capital gains and dividends, for example, already receive preferential tax treatment and should be held outside an RRSP.

How you allocate the assets within your plan depends on several factors, including your tolerance for risk and your ultimate goals. “If you know what you want to do,” Fowler says, “you can then figure out the return you need to do it.”

Some people may feel comfortable placing their money in low-risk investments such as GICs, which provide a

stable and relatively safe return. “If you only want three per cent, why invest in a more risky instrument?” Fowler says. “If the investment returns five per cent, you’re ecstatic. But if it returns only three per cent, well, at least you’ve met your goals.”

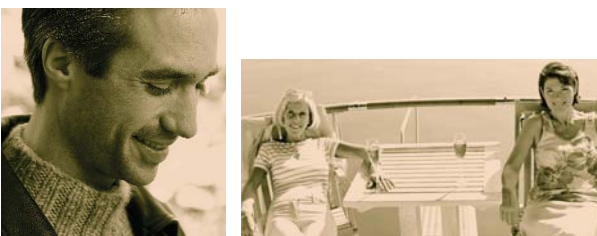
UNUSED CONTRIBUTION ROOM

What about all that unused contribution room available to most Canadians? CCRA allows you to carry it forward from one year to the next. If you are eligible to contribute \$10,000 every year to your RRSP, for example, but set aside only \$8,000 this year, you can invest \$12,000 next year or any year after that up to and including the year you turn 69. Some Canadians have sheltered so little money in their RRSPs that they could invest tens of thousands of dollars more than their annual limit, if they only had the money. “I advise people to keep chipping away at it,” says Lee. “And keep doing it till you’re 69.”

Lee says borrowing money to maximize your RRSP contribution makes sense only if you meet certain criteria.* “It has to fit into your financial situation,” he says. “You have to make sure you have the cash flow to handle the repayments.”

Fowler agrees. “It depends on a number of factors, such as how you want to live when you retire; how much money you will need; where you will get the money in the future.” But Fowler advises against maximizing your RRSP contributions just to receive the tax break. It has to fit within your complete financial plan,” he emphasizes.

* Interest on money borrowed to contribute to an RRSP is not deductible for tax purposes.





CANADA RETIRES

Average net worth for adult Canadians:	\$235,400
Number of Canadians reporting income from investments (excluding RRSPs and RRIFs):	7.5 million
Total amount reported:	\$29.5 billion
Median investment income:	\$500
Number of Canadians contributing to an RRSP:	6 million
Amount contributed to RRSPs in Canada in 2002:	\$27.1 billion
Percentage of adult Canadians with an RRSP:	69
Percentage of adult Canadians with investments outside an RRSP:	53
Percentage of Canadian families with RRSP savings:	55
Average value:	\$51,200
Percentage of Canadians between the age of 45 and 59 who plan to retire at the age of 65:	23
Before the age of 60:	22
Between the age of 60 and 64:	22
After the age of 65:	3
Who don't know when:	12
Who plan never to retire:	18
Percentage of the Canadian workforce 65 years of age or older:	7
70 or older:	4

Percentage of retired Canadians who say their financial situation is about the same as the year prior to retirement:	53
Improved:	13
Worse:	34
Percentage of parents who hope their children will attend post-secondary school:	87
Percentage of those who are saving for the post-secondary education:	41
Percentage of those saving for post-secondary education who have the money invested in an RESP:	40
In an in-trust account:	35
Canadian private pension assets held in employer pension plans:	\$604 billion
In RRSPs or RRIFs:	\$408 billion

Sources: General Social Survey, Statistics Canada, 2002; Study of Canadians' Attitudes Toward Financial Planning – Wave II, Financial Planners Standards Council; Finance Canada.

Compliments of:

Manulife and the block design are registered service marks and trademarks of The Manufacturers Life Insurance Company and are used by it and its affiliates including Manulife Financial Corporation. The information contained in this article is not intended nor should it be considered as providing specific legal or tax advice. Individuals should consult with their professional advisors to ensure that any information provided is applicable and appropriate to their specific situation. Commissions, trailing commissions, management fee and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. The rates of return are used only to illustrate the effects of the compound growth rate and are not intended to reflect future values of the mutual fund or returns on investment in the mutual fund.

www.manulife.ca/investments

 **Manulife Investments**
With you every step of the way!TM