



Your final RRSP contribution at age 69

The clawback of government benefits can have a significant impact on an individual's retirement income. Some careful RRSP planning as age 69 approaches, however, can reduce taxable earnings in retirement – and reduce the clawback of government benefits.

The tax deductibility of contributions is one of the most valuable features of an RRSP. For individuals approaching age 69 and closing out their RRSPs, however, the tax benefits associated with RRSP contributions can gain even greater importance.

Because RRSP tax deductions can be carried forward indefinitely – long after an investor's RRSPs have closed – a final year RRSP contribution can be an important tool for lowering earned income in retirement and reducing the impact of any clawbacks on government earnings-tested benefits such as Old Age Security.

AN IN-DEPTH LOOK AT THE ISSUES...AND THE OPPORTUNITIES

There are two situations in which individuals turning age 69 can make allowable RRSP contributions before they close their RRSPs by December 31st of that year:

- They have not maximized their RRSP contributions in previous years and have unused contribution room that has been carried forward
- They have earned income in their final RRSP year that generates RRSP contribution room for the following year

In general, Canadians should take advantage of every contribution opportunity available to them before they close their RRSPs

By reducing taxable earnings, many investors can reduce the clawback on income-tested government benefits.

THE IMPACT OF THIS CLAWBACK CAN BE SIGNIFICANT

For example, in 2006, the clawback of Old Age Security benefits begins when an individual's income reaches \$62,144, with the full benefit amount – approximately \$5,900 - clawed back at an income level of about \$101,000.





TIP

RRSP deductions can be carried forward indefinitely, and can be spread out over several years in order to reduce taxable earnings in retirement.

MAKING IT WORK

The final RRSP contribution strategy

If an investor has not maximized RRSP contributions in previous years and has unused RRSP room, they can make a lump sum contribution before closing their RRSP. The resulting tax deduction does not have to be used on that year's tax return. Instead, deductions can be used at any time in the future, whenever they are the most beneficial for the individual in reducing taxable earnings.

HOW IT STACKS UP

In this example, Ruth is making a \$50,000 deposit, and has an annual income of \$70,000.

Additional RRIF payment after tax 32%*	\$2,509 (at age 71)
Tax savings on annual \$5,000 deduction for 10 years	\$1,600
Additional OAS benefit	\$134
Other tax credits	N/A
	\$4,243

The extra \$4,243 in additional income and tax benefits is equivalent to a GIC return of 12.5 per cent on Ruth's \$50,000 investment.

THE OVER-CONTRIBUTION STRATEGY FOR THOSE TURNING 69 IN 2006

Even if the investor has no carry-forward RRSP contribution room, but has current year earned income that will generate RRSP contribution room in the following year, they should consider a final December over-contribution before closing their RRSP.

To take advantage of the contribution room for 2007, the individual can make a contribution during December 2006, before the RRSP is officially closed.

Since the contribution is being made in 2006 and 2006 RRSP room has been maximized, an over-contribution penalty applies of 1 per cent per month on any amounts in excess of \$2,000.

HOW IT STACKS UP

In this example, assume an income of \$50,000 with a 32 per cent marginal tax rate (with no penalty on the first \$2,000):

\$50,000 x 18% = \$9,000 contribution room created for 2007	
\$9,000 = additional after tax RRIF income at age 70**	\$306
Tax savings on the \$9,000 deduction, at 32% marginal tax rate	\$2,880
Less 1% penalty for one month	(\$70)
	\$3,116

The after-tax benefit of the over-contribution is \$3,116 in the first year, and \$452 in the second year

* (RRIF income at 7.38 per cent).

** (RRIF income at 5 per cent)



IDEAL CANDIDATES

- Those who are approaching age 69 with unused RRSP contribution room
- Those who have earned income in the year they turn age 69 that generates RRSP contribution room in the following year
- Those for whom a tax deduction in retirement will either increase their eligibility for tax credits or reduce the impact on their income-tested government benefits subject to a clawback

TAKE ACTION

For individuals who are getting ready to transfer their RRSPs to a RRIF, they should consider:

- The amount of earned income they have for the year
- Any unused RRSP room

Their final contribution or over-contribution can make a significant difference.

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