Planning for **retirement**

Now is the perfect time to start or continue with healthy financial habits that will last you a lifetime. With a registered retirement savings plan (RRSP), you have the ability to start saving early in your career and increase your contributions as you continue to advance in your chosen vocation.

What is a registered retirement savings plan (RRSP)?

Simply put, a RRSP is a government approved plan to help you save for your retirement and potentially reduce your annual income tax. A RRSP allows you to invest money when you can most afford it during your peak earning years to build up a comfortable retirement fund. You can have any number of plans as long as you preserve your contribution limits.

How does a RRSP work?

Every year that you earn income, you also earn contribution room that you can invest into your RRSP. The contribution limit is 18% of your earned annual income, to a maximum which is established each year.

Your contributions, within limits, are tax deductible and the income earned is tax sheltered. Not only is a portion of your investment money that would otherwise be paid in taxes, but the earnings of your plan are not taxed until you withdraw them. Since 100% of these earnings can be reinvested and compounded, the growth of your RRSP increases rapidly over the years, due to the power of compound interest.

There are many ways to contribution to your RRSP plan. You can:

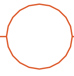
- **Borrow to contribute –** Get a RRSP loan from G&F Financial Group so you can take advantage of the tax reduction. Depending on the size of your income tax return, you could put all or a portion of the refund toward paying off the loan.
- **Set-up a monthly contribution plan –** Plan ahead and contribute to your RRSP on a monthly basis so you're ready when it's time to file your income tax return. You may contribute at any time during the year. Contributions made during the first 60 days of any year may be deducted for the current or the immediately preceding tax year.
- **Contribute a partial amount –** You don't have to contribute the full amount of your contribution limit. You can contribute a portion and the remainder can carry forward indefinitely. This applies whether or not you actually make a contribution.
- **Contribute to a spouse –** With a spousal contribution, part or all of your RRSP deduction limit can be contributed to RRSPs for your spouse. This is advantageous if the spouse who is in a higher tax bracket contributes to the spouse who is in a lower tax bracket. You as the contributor, are still entitled to the tax deduction, but the assets of the plan belong to your spouse. To set up a spousal RRSP, your spouse applies for a plan in their name, even if they may not have earned any income.

You can continue contributing to your RRSP until the year you turn 71 and you can contribute to an RRSP for your spouse until the year in which your spouse turns 71. Although you can take out money from your registered plan at any time, once you turn 71, you must start withdrawing from your RRSP on an annual basis. Funds withdrawn from a RRSP are taxable based on your tax bracket at time of withdrawal. Once you retire and are no longer earning, your tax rate should drop.

Retirement - this is what you have saved for, now it's time to enjoy!

RRSP deduction limit

Your RRSP deduction limit for the following year is included on your Notice of Assessment from the Canada Revenue Agency (CRA), which you will receive after filing your tax return. Your RRSP deduction limit is



18% of your earned income to a maximum value each year. For example, the contribution limit for 2019 is 18% to a maximum of $26,500.

In addition to your RRSP deduction limit, there are a number of special deposits you can make to your RRSPs including:

- **Lump sum transfers –** You can transfer lump sums directly from a Registered Pension Plan or a Deferred Profit Sharing Plan (DFSP) to your RRSP.
- **Another RRSP –** You can transfer amounts directly from another one of your RRSPs.
- **Registered Education Savings Plan (RESP) –** Provided the RESP subscriber has sufficient RRSP contribution room and is a Canadian resident, you can transfer up to $50,000 of accumulated income from an RESP to an RRSP in the name of the subscriber or to a spousal RRSP in the name of the subscriber's spouse.
- **Retiring allowances –** A retiring allowance is a lump sum or sums paid to you by your employer, at or after your termination, in recognition of your loss of employment.

Over contribution means you exceeded your deduction limit. An over-contribution of up to $2,000 can be made by an individual who was 18 years of age or over in the prior year and can be carried forward indefinitely. If you go above $2,000 you will pay a 1% penalty tax per month on the amount in excess of $2,000.

Types of RRSPs

There are three basic types of individual plans available. The following is a short description of each plan – but remember that plan features will vary among issuers.

Deposit-type plans

Deposit-type RRSPs are the most common plans. They offer familiar savings options including saving accounts, term deposits or guaranteed investment certificates (GICs). The rate of interest may be variable, fixed or index-linked. Key choices include the term of the deposit (ranging from daily to multi-year); and frequency of interest calculations and payments to the RRSP (daily, monthly, annually, or end of term). Key considerations include the issuer's policy regarding early withdrawals (your investment may be non-redeemable for the term), and deposit insurance coverage.

*Mutual Funds**

Mutual funds provide flexibility, potentially greater returns and diversification for a RRSP saver. There are many types of funds available. Common types are money market funds, income funds and equity funds. The first is invested in short-term securities such as treasury bills and government and corporate notes. Income funds have the same investments from time to time, but predominantly invest in longer term bonds and mortgages. An RRSP- eligible equity fund invests primarily in stocks.

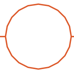
There are also balanced funds which hold all three types of investments.

The funds are divided into units. Unit values are updated frequently based on the market value of the investments. When mutual funds are held in an RRSP, income or capital gains distributions are commonly used to purchase additional units. Since mutual fund investments do and will fluctuate in value, they don't provide a guaranteed rate of return. Mutual funds are not covered by deposit insurance. Sales fees, called front-end or back-end loads, may be charged by a mutual fund dealer on the acquisition or redemption of units. In addition, all mutual funds have management fees for the day to day management of the fund. The management fee is charged by the mutual fund company.

Self-directed plan

With this kind of plan, you can make all your own investment decisions within a wide range of qualified investments. A trustee does all the administration work for you. A self-directed plan may not be economical for those with limited RRSP funds, because of the normal administration and transaction fees charged.

Common types of qualified investments for a self directed plan included cash, GICs, government or corporation bonds*, mutual funds, and securities* listed on a designated stock exchange



Group (employer-sponsored) plans

Group RRSPs have become popular in recent years as more and more employers make them available to their employees. They can have all the same investment options as the other types of plans. An individual account is maintained within the group RRSP for each participating employee. A group RRSP can also provide for an employee to contribute to an account in their spouse's name.

Contributions to a group RRSP by an employer form part of the employee's deduction limit.

Employer contributions are also a taxable benefit to the employee, offset by receiving an RRSP contribution receipt. You may not be able to withdraw the employer's contributions and/or your own contributions, and the income earned thereon, as long as you remain in that employment. Additional restrictions (such as requiring that the employer's portion be used to provide a pension at retirement) are not allowed.

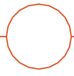
Contributions to group RRSPs by employers and employees are usually voluntary. If employees contribute through payroll deduction, the income tax deducted from their paycheque is reduced at the same time, and employees recognize the reduction in their taxable income.

When the employment terminates, any restrictions imposed by the employer on withdrawal or transfer of the funds from the group RRSP cease.

5 reasons to open a RRSP

There are a number of benefits to saving in a RRSP:

1. **Contributions are tax deductible.** You claim your RRSP contribution as a deduction on your tax return. Your contributions reduce the tax you have to pay – the amount is dependent on your tax bracket.
2. **Savings grow tax free.** You won't pay any tax on investment earnings as long as they stay in your RRSP. This tax-free compounding allows your savings to grow faster. That's the power of compound interest.
3. **You can convert your RRSP to get regular payments when you retire.** You can transfer your RRSP savings tax free into a RRIF or an annuity when you retire. You'll pay tax on the regular payments you receive each year – but if you're in a lower tax bracket in retirement, you'll pay less tax.
4. **A spousal RRSP can reduce your combined tax burden.** If you earn more money than your spouse, you can help build their tax-free savings by contributing to a spousal RRSP. Retirement income will then be split more equally between the two of you – which may reduce the total amount of tax you pay.
5. **You can borrow from your RRSP to buy your first home or pay for your education.** You can take out up to $25,000 for a down payment on your first home under the Home Buyers' Plan (HBP). You can also take out up to $20,000 to pay education costs for you or your spouse under the Lifelong Learning Plan (LLP). You won't pay any tax on these withdrawals as long as you pay the money back within the specified time periods.



Is a RRSP right for you?

Anyone with earned income subject to Canadian taxation, including non-residents, may contribute to a RRSP. Even if you do not need to pay tax, you should still file a tax return to report your earned income and create RRSP deduction room.

Look for the plan that has the best potential return for the risk you are prepared to take. If there are fees involved, take them into account and know if you're investing for the short or long term.

Also consider when you want to retire. This defines the number of years you'll be able to accumulate assets and contribute to retirement plans, as well as the length of time you'll draw on these for retirement income. In the past, 65 has been the usual retirement age, but people today are taking a more flexible approach. Some are preparing for earlier retirement while others are continuing to work as long as possible.

The more you know about your RRSP before you invest, the better. The best approach is to speak with a financial advisor who can guide you through your retirement objectives and set up a customized Smart Money Plan™ to meet your specific goals. Your planner will work with you to help you determine which options make sense for you.

Set yourself up for financial success during retirement by talking to an expert today.

How to get started

Take charge of your finances – connect with us to set up a retirement and financial plan that's right for you. Visit us in-branch, call our Member Hub (604-419-8888) or book an appointment with an advisor online. (https://www.gffg.com/Personal/AboutUs/ContactUs/Financial/)

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