A variety of plans are available

In the first part of this two-part series (above), we reported that there is a great deal of confusion in the RRSP marketplace about the many different ways in which RRSPs can be invested.

In this article, we have identified the various RRSP types and provided a simple explanation of each. The previous article covered guaranteed plans *while this one will review the three remaining types* — plans offered by life insurance companies, pooled or mutual fund plans, and self-directed plans.

Plans Issued by Life Insurance Companies

Most life insurance companies offer guaranteed plans similar to those of trust companies or banks. However, they do not have CDIC coverage and sometimes charge certain fees such as administration charges or initial policy fees. These plans are usually identified as flexible premium guaranteed interest annuities or single premium deferred annuities.

Additionally, some of the life insurance plans combine life insurance and saving for retirement so the savings component can be used for RRSP purposes. However, this approach is seldom used for RRSPs today. These plans frequently charge large front-end loads and many charge penalties upon withdrawal.

Pooled Funds or Mutual Fund-Type Plans

In mutual fund-type plans, individual investors pool together money for investment as a single portfolio. In effect, investors buy units in a fund and become part owner of the assets of the fund. They pay the manager a fee to administer the assets, and the gains experienced by the portfolio (as well as the losses) are passed through to the participants based on the number of units or the proportion of the fund owned.

Key Facts:

☐ neither the return nor the principal is guaranteed.

☐ many funds charge a front-end load or acquisition fee and almost all charge an annual administration or management fee.

☐ these funds are not eligible for CDIC coverage.

☐ depending on the types of investments held by the fund, the value of your holdings can vary significantly from period to period.

☐ only pooled funds that comply with the allowable investment rules can be sold directly as an RRSP.

☐ there are virtually as many different types of pooled investment funds as there are types of eligible investment for RRSPs. However, the main ones are:

1. Fixed Income Funds:

These include mortgage funds and bond funds which are intended to provide slightly higher returns than guaranteed plans with somewhat higher risk and volatility. However, during times of rising interest rates, the unit value of fixed income funds can decline sharply.

2. Common Stock or Equity Funds.

These invest primarily in common shares traded on major stock exchanges. Because share prices are typically more volatile than other securities, prices of common stock funds tend to fluctuate more widely than income funds or other types of funds. However, over the longer term, common stock funds theoretically should deliver a better return than most other types of funds.

☐ there are a number of other RRSP-eligible funds such as real estate, gold, and money market funds.

Self-Directed Plans

As the name implies, in a self-directed RRSP the plan holder is responsible for making all investment decisions for the plan. For this reason, these plans are best suited to the more knowledgeable investor.

Key facts:

☐ since only certain specified types of assets qualify as RRSP investments, you must be fully aware of the rules before you invest.

☐ with a self-directed RRSP, you are able to tailor your portfolio to your specific investment preferences. However, your return will depend solely on the investment decisions you have made.

This, then, completes the four major types of RRSP investments. You should be able to select among them to build a diversified RRSP portfolio tailored to your specific investing style and financial goals.

Self-directed RRSPS

Benefits and drawbacks to running own scheme

Whether you are an experienced investor or merely a dedicated "do-it-yourselfer", you have probably at some time considered opening a self-directed RRSP.

You may have been attracted by the opportunity to manage your own portfolio or to make your RRSP contribution in the form of assets you already own rather than in cash. On the other hand, you may have been somewhat deterred by the uncertainty and risk of self-directed investing.

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