Maximize the benefits of RSP investment

By BRIAN SLESSOR

Your RSP is the key to beating inflation, saving taxes and ensuring a financially healthy retirement. But unless you are taking steps to maximize your RSP contribution each and every year, you are likely cheating yourself out of significant benefits at retirement. In order to take advantage of tax-free compounding over time, it is vital to contribute as much as you can and as early as possible. If you're among the many Canadians who have trouble coming up with cash at RSP time, the following strategies might help.

Consider borrowing the necessary funds for a contribution. Although interest on loans used to make RSP contributions has not been tax deductible since November 13th, 1981, the taxes saved on the RSP contribution and on earnings in the RSP will generally more than compensate for the interest paid. ScotiaMcLeod is offering RSP loans through our parent company, the Bank of Nova Scotia, at the prime rate.

Another idea if you're having difficulty coming up with cash is to open a self-directed plan and make a contribution in kind. This means contributing assets rather than cash. For example, if you presently own Canada Savings Bonds, you can use the bonds as a contribution. Certain stocks, bonds and mutual funds are also eligible. When you make a contribution in kind, Revenue Canada considers that you have sold the asset at its fair market value (although you really haven't). Any resulting capital gain will be subject to tax (depending on the availability of your $100,000 capital gains exemption). However, any capital loss cannot be claimed. You should therefore think twice before transferring assets with accrued losses to your RSP.

There is a good reason for ensuring that you can make your maximum allowable contribution this year. Proposed pension reform would allow unused RSP contributions to be carried forward for up to seven years. Therefore, if you could only make half of your allowable contribution, you would be able to add the unused portion to a future year's contribution within the seven year period. Under current legislation, if you do not contribute the maximum amount to your RSP in any one year, you will not be able to make up the difference at a later time. This

Dollars and Sense

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results in a permanent loss to future retirement benefits.

Beginning in 1991, investors can carry forward unused contributions from one year to the next, for up to seven years. However, because the purpose of an RSP is to facilitate the accumulation and growth of assets over time, delaying contributions is not an effective strategy. This provision will help some individuals in years when they simply cannot make a contribution.

Generally, for taxation years ending on or before 1990, total contributions exceeding $5,500 were subject to a penalty tax of 1% per month on the amount over $5,500. Overcontributions could be withdrawn tax-free in the year in which the tax return giving rise to the overcontribution is assessed or in the following year. Any withdrawal of excess contributions after this period was subject to tax.

The government has established a new lifetime overcontribution limit of $8,000. As the law provides for indefinite carryforward of undeducted contributions, it is possible to reduce the contribution that would otherwise be made in a later year and claim the earlier contribution. Therefore, no double tax would result. (Double tax would arise if the amount is not deducted as all withdrawals (except as noted above) from the RSP are taxable). It is important that clients reduce regular RSP contributions as they approach retirement so that by the time they retire, there will be no more excess contributions in the RSP.

The earlier the $8,000 is contributed in the life of the RSP, the more tax-deferred income can be earned on those funds up until retirement when they are withdrawn from the plan.

Another way to maximize RSP contributions is to contribute as early as possible in a given calendar year. By making your annual contribution in January of each year rather than waiting till the end of February of the following year, your RSP assets would enjoy an extra 14 months of tax-deferred growth every year. This can mean a difference of thousands of dollars over time.

For more information on RSP's, call Brian and ask for a copy of his free booklet "Successful RSP Investing."

Brian Slessor is an investment executive with ScotiaMcLeod. Any questions should be directed to him and he can be reached at (416) 863-2825. If outside Toronto, please call collect.

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Trust plan geared to attract youngsters

A new savings account and depositors club for younger people has been developed by Municipal Trust. Known as the Future 1st Rate Savers Account, the savings account was designed specifically for the needs of younger customers up to and including 16 years of age.

"While the primary customer group for Municipal Trust are those financial consumers who are aged 50 or more, we still have many other customers from all age groups, including younger people," according to Robert Stewart, Vice-President of Marketing for Municipal Trust.

"We wanted to develop a package for children that would make banking exciting for them as well as informative," Stewart said. "It is important to treat younger customers favourably, as they will become the customers of Municipal Trust in the future."

The Future 1st Rate Savers Account is simple to understand. There are two levels of interest with very competitive interest rates. Interest is calculated daily and paid monthly. There are no service charges.

A Future 1st Rate Savers Account can be opened by a child up to age 16. The account can also be opened by an adult in trust for a child. In all cases, the account holder receives a special orange neon coloured passbook to keep track of their savings and interest, as well as a special prospector's poke bag to store their passbook.

"To add extra excitement, we also created the Golden Nuggets Club for our younger savers, and to join, all they have to do is open a Future 1st Rate Savers Account," stated Mr. Stewart. Members of the Golden Nuggets Club receive a personalized membership card which currently entitles them to purchase investment certficates for as low as $100. Municipal Trust has plans to expand the features of the Golden Nugget Club.

All 26 Municipal Trust branches are ready to open these accounts for its younger depositors. Further details are available by calling any one of the branches.

Municipal Trust is a subsidiary of Municipal Financial Corporation which has over $1.4 billion dollars in assets and headquarters in Barrie, Ontario. Municipal Trust offers a full range of financial services from its 26 branches located throughout Ontario.

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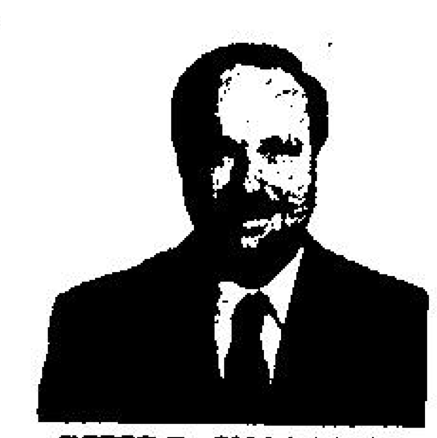

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