MONEY MATTER$

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Self-directed RRSPs have pros and cons

By LARRY BOOKMAN
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Over the past decade, more and more Canadians began contributing to RRSPs (registered retirement savings plans.) They discovered that getting a tax break for their contributions and earning tax-sheltered income is an unbeatable way to invest for retirement.

As RRSPs have grown in popularity, and government-set limits for contributions have increased, many people are now finding they have accumulated significant amounts in their plans. Given that current interest rates are so low, these savers have begun to investigate self-administered RRSPs with an eye to broadening their investment portfolios, particularly to include publicly traded shares. As any chartered accountant will tell you, taking on the responsibility of a self-directed RRSP to invest in equities has its advantages and disadvantages.

A self-directed RRSP is similar in most respects to a regular RRSP. However, instead of buying an RRSP qualified investment, you make your contribution to a special RRSP trust and then decide how to invest the funds in the trust. An administrator, usually a broker, investment dealer or trust company, oversees the trust.

With the self-directed plan, you can invest in specific stocks, rather than being limited to pooling your investment in a mutual fund that invests in a variety of stocks. You can also acquire numerous other types of specific investments, including bonds and mortgages. With a self-directed plan, you are allowed to invest up to 18 per cent of the cost of your investments (20 per cent in 1994 and following year) in foreign securities. This is not possible without a self-directed plan, although mutual funds may invest up to the same limits in foreign investments. As well, you can put your own mortgage on your home in a self-administered RRSP and effectively pay yourself interest.

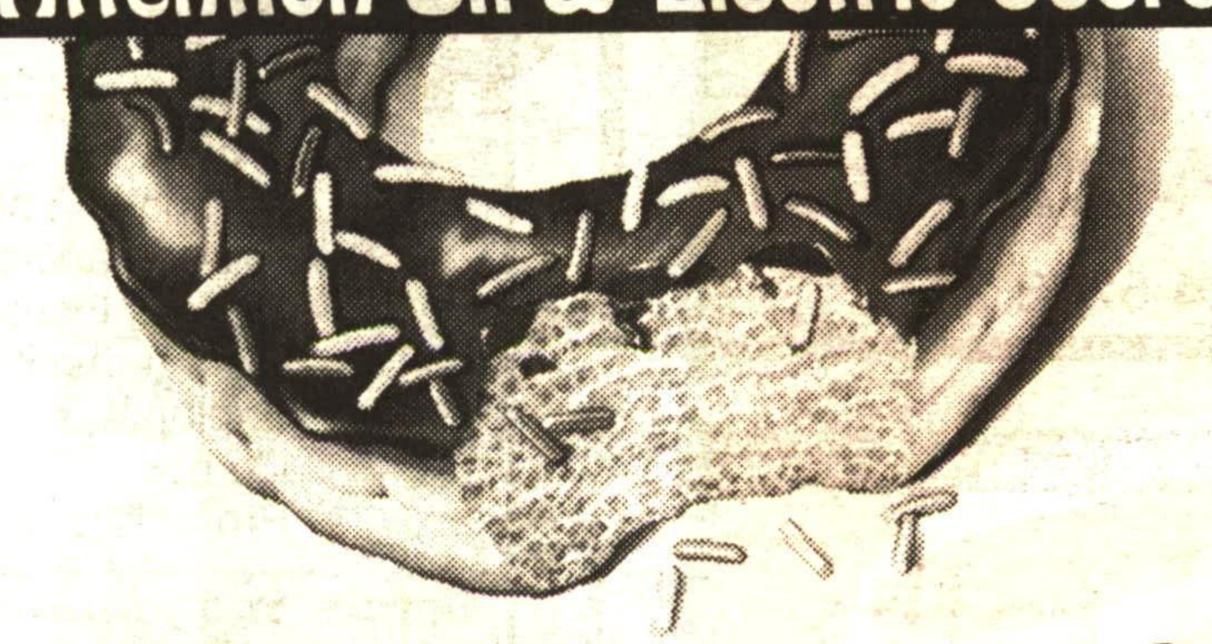
Finally, with a self-directed RRSP, you are allowed to transfer investments you own personally into the plan as part or all of your annual contribution. For example, if you own Bell Canada shares worth $2,000, these can be transferred to your RRSP and you are credited with a $2,000 contribution. Such transfers must be made within your annual contribution limits. As well, you are considered to have sold your stock at the time of transfer, so you may have a capital gain.

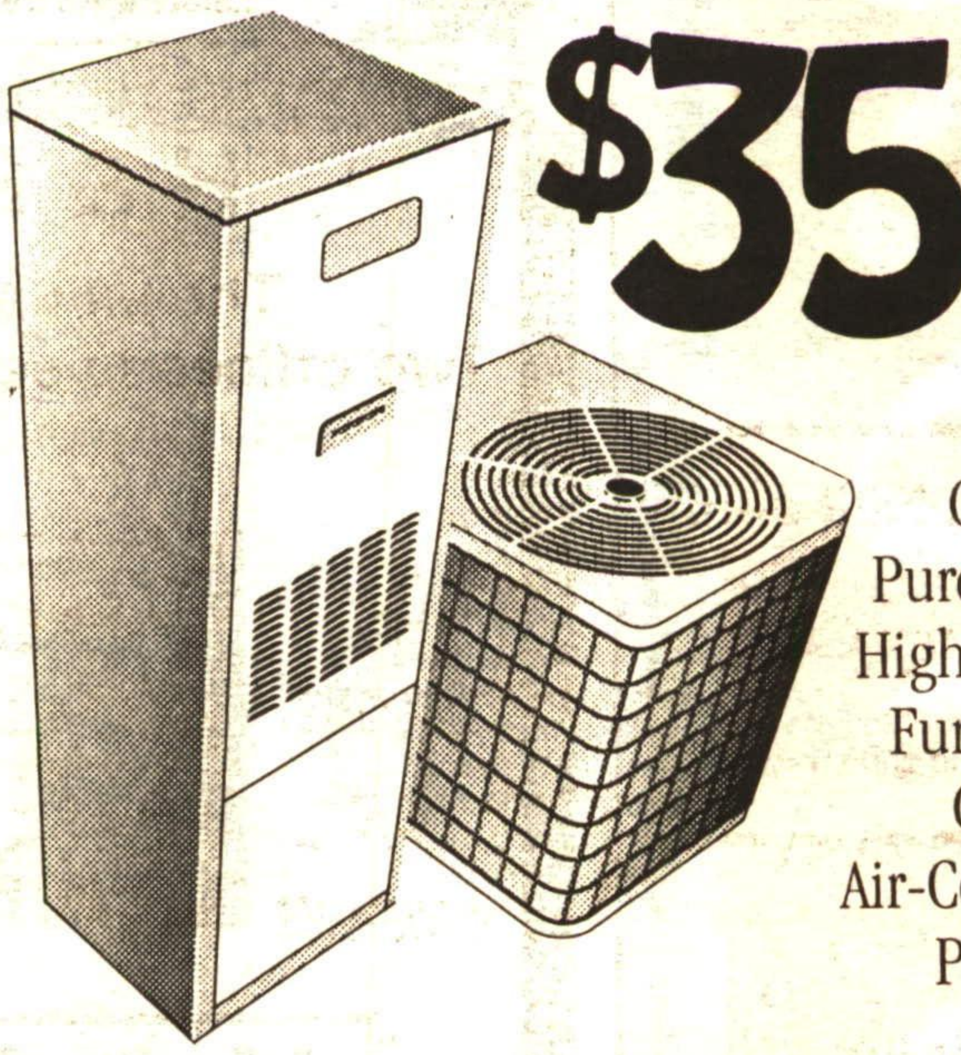
On the negative side, there may be costs associated with a self-directed RRSP and ongoing administration fees charged by the administrator. If paid personally, rather than out of the RRSP, the amount is deductible for tax purposes. Of course, you also must pay regular brokerage charges for all transactions in the plan.

Your level of risk tends to increase with a self-directed plan because you are now making the investment decision. You should find an administrator with who you are comfortable and who understands the level of risk you want to assume with your plan.

In summary, a self-directed RRSP is really only for those people who can accept a certain degree of risk in their investing. If you are not prepared to take you lumps with your gains, chances are a self-directed plan is not for you.

Moneycare is general financial advice by Canada's chartered accountants. Larry Bookman is a partner in Deloitte & Touche.





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SELF-DIRECTED RRSP QUESTIONS AND ANSWERS

Maximizing your RRSP growth is a shared goal between you, the investor, and the firm that you choose.

In my day to day business, I am asked many questions, a few of which I would like to share.

How do I start a self-directed RRSP? The institution you have chosen will supply you with the forms and assist you in completing them, as well as offer advice on the most appropriate investments for your needs.

May I transfer existing RRSP's to my self-directed RRSP? Yes, you need only sign a form supplied by their offices and they will do the rest.

Can I create an RRSP for my spouse, or making contributions to his or her existing RRSP? Yes. Any contributions will be deducted from your annual contribution limit and are deductible from your taxable income. The benefit comes from income splitting at the time of retirement, when both your tax rates are likely to be at a reduced rate.

When is the deadline for contribution? To claim a deduction for the 1993 tax year, the last date is March 1, 1994. Contributions for 1994 can be made from January 1, 1994 to February 28, 1995.

Will the firm monitor foreign holdings held within my RRSP? Yes, they will constantly monitor your account to ensure that foreign holdings do not exceed the specified limit.

Investors must realize that not all RRSPs are created equal. Educating yourself by asking questions and considering all your options is critical when choosing an RRSP. Remember, maximize your financial security by implementing some sound financial planning.

For those interested in learning more about the numerous benefits and flexibility of a self directed RRSP we will be providing a free seminar on the evening of Wed. Feb. 13 at 6:30 p.m. at the Mississauga Central Library. You can reserve a space by calling 287-6794 and asking for Meg Pritchard.

***Cary Leon & Mike Phillips** are a full service financial advisors with First Marathon Securities and can be reached at 855-8266. Call today and inquire about the "NO-FEE" self directed RRSP.*