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## Not all RRSPs are created equal

by Michael Phillips and Rick Fisher

Sound financial planning is fundamental. Every Canadian must do it to maximize financial security. The financial cornerstone for most Canadians is their Registered Retirement Savings Plan (RRSP). The responsibility for starting and developing an RRSP is yours, the investor. You alone must make the decision to invest. You must decide when to invest, how much to invest and what to invest in it.

An RRSP does two things. It allows your nest egg to grow without the burden of income tax-tax is deducted only at the time of withdrawal, when your tax rate will normally be much lower in the meantime, these tax savings are working for you.

An RRSP also reduces taxable income. Your yearly RRSP contribution is deductible from your taxable income, thus reducing the amount of taxes you pay annually. Your RRSP helps to pay for itself.

There are basically three types of RRSPs; managed, mutual fund and self directed.

A managed RRSP is available through a bank or trust company. They will not offer financial advice to the holder of a managed RRSP and will invest your money in a relatively low yielding security (usually a Guaranteed Investment Certificate).

A mutual fund RRSP is exactly what the name implies. These types of RRSPs are held with a specific mutual fund company chosen by the investor. He or she may only invest in the products that that particular company offers.

The self-directed RRSP, which we believe to be without question the superior type of RRSP, can be set up at various institutions. These commonly are banks, trust companies or through full service financial advisors who are employed by regional, national or international brokerage firms. Self-directed RRSPs carry annual administrative fees which are charged to the investor. Rick and I have found, what we believe to be to our knowledge, the only full service firm in Canada to offer a no fee self directed RRSP. We would be happy to share the name of the company who offers this service upon request.

The most common question these days is, why a Self-Directed RRSP? The market today is flooded with prepackaged RRSPs available from financial institutions that will

gladly make all your decisions for you... at the risk of you becoming just another number. We believe the vested interest you have in your own future security will lead you to better results. Having a self-directed RRSP means you make the decisions and control the results of your retirement savings investments. We feel that it is important for you to find a firm that will supply all the assistance you need to design your portfolio strategy to meet your goals, determine the best portfolio mix for the current economic climate, and monitor its appropriateness over changing economic circumstances.

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

In our day to day business, Rick and I are asked many questions, a few of which we 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 RRSPs into 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 make 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 1992 tax year, the last date is March 1, 1993. Contributions for 1993 can be made from January 1, 1993 to February 28, 1994.

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.

What is a RRIF? RRIF stands for Registered Retirement Income Fund. It is one of the options open to you to pay yourself income at retirement. It works by spreading income payments over many years, thus deferring and reducing applic-

able taxes. Hopefully the firm you choose can arrange a RRIF for you.

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.


Mr. Phillips & Mr. Fisher are full service independent financial advisors. They can be reached toll free at 1-800-263-1668.

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