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Money Matters

RRSPs

Easy answers to common questions

by M.H. PARMA

Are you one of the 70 per cent of Canadians who have bought at least one lottery ticket this year in the hopes of funding your retirement?

If you are, why gamble your money away when you can invest it in a Registered Retirement Savings Plan (RRSP) and make it work for you.

RRSPs are government-registered savings plans which encourage you to save for your retirement.

Why should I buy a RRSP?

In addition to helping you provide for a retirement income, there are two important tax benefits:

1. An RRSP reduces your income tax at the time you make a contribution.

2. The money earned by an investment in an RRSP is not taxed until you withdraw it.

These points are impressive! Canadian RRSPs are the most generous tax breaks for working people in the world. What more can you ask for - you save on income tax every year you accumulate tax-deferred savings for your retirement.

"One of the advantages to receiving your RRSP proceeds at a future age in the form of "retirement income" is that you will probably be in a lower tax bracket," says Vic Anderson, an RRSP specialist with The Co-operators insurance and financial services.

But what about the government pension plan?

It's no secret that the government is making a number of cutbacks to our social programs and the Canada Pension Plan is no exception. By the year 2010, more than 50% of the population will be over the age of 65. What this means to you is that with fewer people working and contributing to the government pension plan, there will simply not be enough money to finance your retirement. That's why it makes sense to prepare for your retirement now with an RRSP.

I'm young. Why should I buy an RRSP now?

Saving for retirement is something everyone knows they should do, but keeps putting off. There is no better time than now to buy an RRSP. The combination of time and compound interest makes RRSPs a very wise investment.

How much can I contribute?

Each year, Revenue Canada will notify you of the amount you can contribute for that year. To be eligible for this tax year, contributions must be made no later than 60 days following the end of the year.

I never seem to have money at RRSP time.

This is a common problem. But there is an easy answer to this dilemma! Many institutions allow you to contribute to your RRSP in regular monthly installations, rather than in a lump sum payment once a year. Not only is this easier to budget for, it increases the value of your RRSP compared to contributions at the end of the tax year. And you don't have to wait for your income tax refund!

"When you make monthly payments into an RRSP, you can obtain forms which will allow the government to reduce the income tax deducted from your pay cheque, rather than receiving a lump sum return the following year," says Anderson.

Can I set up an RRSP for my spouse?

Yes. You are allowed to contribute to a plan your spouse owns and deduct these contributions from your taxable income, provided your total RRSP contributions do not exceed your own RRSP limit. This allows both of you to maximize your combined pensions at retirement and qualify for the annual pension tax credit.

Should I buy an RRSP through a life insurance company?

There are several benefits to purchasing your RRSP through a life insurance company:

1. You have the option of converting your RRSP to a lifetime annuity. This option guarantees an income for as long as you live.

2. Protection Against Seizure: In most cases, if you name a spouse, child, grandchild or parent as beneficiary, the benefit is free from claims by your creditors.

3. In the case of death, the funds will pass directly to your named beneficiary, thereby avoiding costly and lengthy delays.

4. Most companies are members of The Canadian Life and Health Insurance Compensation Corporation (CompCorp). CompCorp administers the Consumer Protection Plan which was instituted to provide protection to the policyholders of member companies. RRSPs are covered by the Consumer Protection Plan.

To help you with your retirement planning, The Co-operators has produced a retirement booklet with valuable advice on how to plan your retirement budget, information about RRSPs, inflation factors and more. For your free copy, please write to: The Co-operators, Retirement Booklet Offer, Priory Square, 8E, Guelph, Ontario N1H 6P8.