

Sharpening your RRSP strategies this year for that edge

What is the difference between 10% and 11%? When it comes to annual returns within your Registered Retirement Savings Plan, the difference is a lot more than one percentage point.

Improving a 10% average annual return by just one percentage point increases RRSP accumulations after 30 years by 31%. Add two percentage points, and accumulations are increased by 72%.

Whether you invest your RRSP contributions strictly in mutual funds or are considering other investment vehicles, it's well worth the effort to pursue that extra percentage point or two. Here are six performance boosting strategies to consider.

1. Always maximize contributions — It should go without saying that you should contribute the maximum to your RRSP each year. However, statistics show that very few Canadians maximize their contribution. (Your 1994 tax assessment will tell you the maximum you can contribute for 1995.)

If you will have trouble finding funds for a maximum contribution, look at the rest of your investment portfolio. Consider cashing in interest bearing securities and using the proceeds for your RRSP contribution. You also may be able to transfer investments such as mutual fund units, stocks, or bonds directly into your RRSP. Remember, though, that these will be considered to have been "disposed of" for tax purposes, so any capital gain will be taxable. Also, be cautious because a loss realized in these circumstances cannot be claimed against other gains, nor can it be carried forward.

To contribute the maximum to your RRSP, you may need to borrow. If the interest rate on the loan is about the same as the earnings rate in the RRSP, this strategy is effective. If you are focusing on growth strategies for your RRSP, however, the interest rate on the loan will typically be lower than the average long term growth earnings rate in your RRSP. In this case, borrowing makes more sense. If you pay off the loan quickly, you'll be even further ahead.

2. Use up unused contribution room — Check your tax assessment for unused contribution room from previous years. Filling that gap now means more retirement income in the future.

3. Use tax-deferred transfers effectively — You can transfer amounts from your other RRSPs and in some cases from Registered Pension Plans (RPPs) and Registered Retirement Income Funds (RRIFs) owned by you directly to your RRSP at any time. As well, you may be able to transfer a retiring allowance or termination payment to your RRSP. You can transfer up to \$2,000 for each year or part-year of employment before 1996 with your former employer. As well, you can transfer \$1,500 for each year or part-year before 1989 that you were not a member of the employer's pension plan or deferred profit sharing plan.

If you have changed jobs recently, look at the consequences of transferring pension plan accumulations to a locked-in RRSP.

4. Use of spousal RRSPs wisely — With a spousal RRSP, you make the contribution to your spouse's RRSP within your

own contribution limit and you receive the tax deduction.

Then, when your spouse eventually receives the retirement income from the RRSP, it is taxed at his or her marginal tax rate. If your spouse's marginal rate is lower than your own, this strategy can reduce your family's tax bill significantly once you are retired. Remember, withdrawals will be traced back to the contributor spouse if your spouse withdraws amounts from his or her spousal RRSP within three years of your contribution to the plan.

5. Maximize your RRSPs foreign content holdings — Up to 20% of the cost of investments in your RRSP can be held in foreign securities, such as international mutual funds.

On the international stage, Canadian stock markets have not been outstanding performers over the past decade. By investing abroad, you may be able to improve your returns substantially.

Canadian mutual funds which hold no more than 20% of international content are still considered Canadian content for your RRSP. Adding such mutual funds to your portfolio can increase the amount of your international diversification without affecting your allowable foreign content.

6. Diversify your RRSP investments — Literally hundreds of different types of securities qualify as RRSP investments. The most common — mutual funds, GICs and, new for 1995, government savings bonds — can be registered as RRSP investments.

— Submitted by Jis. Gordon and Hans Beck, Investors Group, Milton.

Reduce your taxes

Understanding spousal contribution rules for RRSPs

It is often said that marriage provides many benefits such as support, companionship and love. But did you know that marriage benefits can also extend to your RRSP?

So, if you haven't started an RRSP already, visit your nearest financial institution today. It's never too late to start thinking about your future. Retirement planning is very important for married couples, and that's why a full understanding of the special RRSP contribution rules which apply only to married couple (this includes common law spouses) is important.

These rules are more commonly known as spousal contribution rules, and if you take advantage of them, you can provide yourself with an opportunity to reduce your taxes when you retire. So let's look at how these rules work.

lower marginal tax rate.

Attribution rules may affect spousal contributions

There are, however, some instances where the contributor will be taxed rather than the spouse. These instances occur where attribution rules apply.

Specifically, attribution rules state that any withdrawal of funds from an RRSP, made within three years of the spousal contribution, is included in taxable income of the contributor rather than in the taxable income of the spouse receiving the funds.

So, it is wise to consider the many factors involved when you're thinking of using a spousal RRSP to minimize taxes over the shorter term.

— Submitted by Mary Perley of Bank of Montreal, Milton

Making a spousal contribution

In any given year when you're eligible to make an RRSP contribution, you can contribute some, or even all, of your contribution limit in your spouse's name and still claim the contribution on your tax return as a tax deduction. In this way, you become the contributor while your spouse becomes the RRSP plan holder.

And what's more, your contribution does not affect what your spouse can also contribute to an RRSP and claim the tax deduction against taxable income.

Why make a spousal contribution?

You may ask however, why do such a thing? Well, contributing to a spousal RRSP is an effective way to equalize income between spouses at retirement. And this may mean an opportunity to reduce the amount of tax paid on retirement income.

This is because contributing to a spousal RRSP over the years will subsequently provide for income splitting at retirement. And through splitting at retirement. And through income splitting, the spouse in a higher tax bracket can effectively transfer income to the spouse who is in a lower tax bracket.

Then, when RRSP funds are withdrawn at retirement, generally it is the plan holder, your spouse, who pays tax on withdrawn funds. Consequently, total tax paid may be lower if both spouses are taxed at a

| Points of Comparison | Insurance Company Segregated Funds | Mutual Funds |
|---------------------------|---|---|
| Definition | Pools of investment money, managed by a team of professionals. The Funds' assets are kept separate from the company's assets. | Pools of investment money, managed by professionals. |
| Fund Types | Growth (Canadian Equity, Bond, Balanced, Money Market, etc.) | Stocks, Bonds, Balanced Short-Term, etc. |
| RRSP / Non-Registered | Qualified investment option for both registered and non-registered. | Qualified investment option for both registered and non-registered. |
| Creditor Protection? | Yes — with some restrictions | None |
| Death Benefit Guarantee | Yes — from 75%-100% of deposits. | None |
| Probate Bypass | RRSP contracts with a named beneficiary held with a life insurance company bypass probate. | RRSP contracts, regardless of whether there is a named beneficiary or not, go through probate. Depending on the province, the estate may incur probate. |
| Guaranteed Maturity Value | Yes — from 75%-100% of deposits. | None |

— Source: Bob Lee of Miltowne Insurance Agency



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