Spousal RRSPs: Saying "I Do"

By Heather Meehan

(NC)—Paying tax is part of life, yet there are ways to help reduce it. Spousal RRSPs can help couples benefit now by reducing their immediate tax and also saving for retirement.

Immediate benefits

"If one spouse earns a higher income than the other, they can contribute to an RRSP in their spouse's name, providing that there is contribution room," says Christie Rose, V.P., Fiduciary Trust Co. of Canada. "The higher-earner's taxable income will be reduced by the contribution amount, leading to significant tax savings."

RRSP contributions must remain invested for the year in which they were made and two years following; otherwise, the contributor will be taxed on the withdrawal.

Long-term benefits

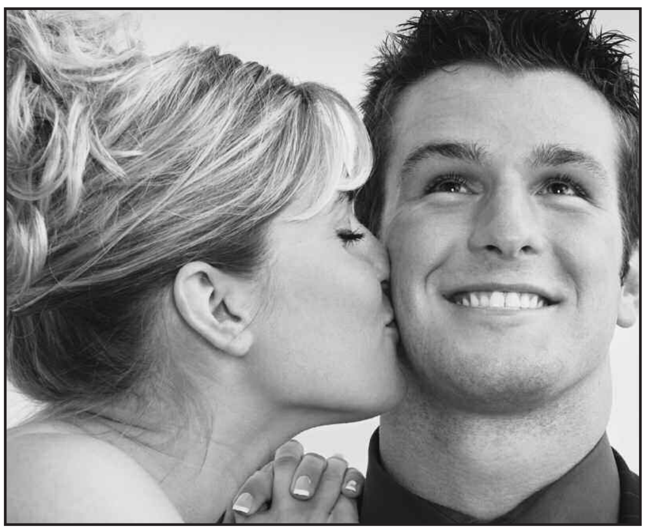
Ultimately, the goal of a spousal RRSP is to balance the couple's individual annual income in retirement, keeping both in the lowest tax bracket possible. When a withdrawal from the spousal RRSP occurs either before or during retirement, the lower-income spouse will be taxed rather then the contributor. More information on RRSPs is available on websites like www.fiduciarytrust.ca.

Not to worry if it's not forever

Although no one likes to think their nuptials will end in divorce, the reality is that some marriages do not last until "death do us part." This prospect should not prevent you and your spouse from planning for retirement and taking full advantage of tax saving opportunities.

"If a marriage breaks down and a spousal RRSP needs to be cashed out, the contributor will not necessarily be taxed, so long as proof of separation or divorce is provided," says Rose. "In this case, the spouse who made the withdrawal will be taxed on the amount."

Speak to your investment advisor about spousal RRSPs and other ways you can reduce tax.



Lifecycle of RRSP Investing: Stage I

It's never too early to plan for retirement

By Sarah Powley

(NC)—Just started your first job? It's time to start thinking about retirement planning. "Getting an early start on retirement planning when you're young has many advantages," says Liz Lunney, Senior V.P., Fiduciary Trust Co. of Canada. "While enjoying the tax break on your RRSP contributions, you have time on your side to save money and for your investments to grow."

To maintain a comfortable lifestyle after you stop working, you will need about 75 per cent of your pre-retirement salary. Canada Pension Plan (CPP), Old Age Security (OAS) and company pension plans will only count for a fraction of what you'll need to retire comfortably; therefore, it's important to also save money in an RRSP.

Getting started is easy

First of all, speak to an investment advisor and assess your current situation, identify your goals and develop a plan to reach them. More information on retirement planning is available at www.fiduciarytrust.ca.

Make it more convenient to save by setting up an automatic monthly contribution to your RRSP. Lunney adds: "It's easier to contribute $100 a month, than a lump sum at the end of the year."

Gradually increase RRSP contributions

About half of Canadians retire in their early sixties, decreasing the time they will have to save, while increasing the number of years they need to live off their retirement savings.

If you're planning to retire early, make sure that you start contributing the maximum amount to your RRSP each year," says Lunney.

As your annual salary increases, your RRSP contribution room will also increase the following year. Take advantage of this by increasing your contributions if you can. Lunney adds: "Saving a little more will really add up over time and make a big difference in your retirement."

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