

WHY INVEST IN A REGISTERED RETIREMENT SAVINGS PLAN (RRSP)?

There is a lot of discussion about RRSPs, especially at this time of year. With all the advertising and promotions there are still some issues that are sometimes overlooked.

Why should you invest in an RRSP? There is a definite tax advantage to making an annual contribution to an RRSP, and the rewards are noticed when your tax return is filed.

A common misconception of an RRSP is that funds in a registered plan grow tax-free. It is true that no tax is payable while the funds are growing within the RRSP. However, tax must be paid when the funds are taken out, unless withdrawn under specific guidelines, like the home buyers plan. Funds are usually withdrawn during retirement, once they have been converted to a Registered Retirement Income Fund (RRIF). Government guidelines require that an RRSP be converted to a RRIF at age 69, and a defined percentage must be withdrawn from the RRIF annually thereafter. These funds will be taxed at the owner's personal tax rate.

One way to reduce tax payable at this stage is by planning ahead and splitting income. If you have a partner who earns a higher income, that partner may want to consider contributing to a spousal RRSP. This would then be considered as building more equal assets for the future, when the income will be required. When both partners' assets have grown on a more even basis, future RRIF withdrawals will be lowered for each person, thus reducing the personal tax payable.

Long before retirement there are some decisions that need to be considered, for example How much income will be needed for retirement? What type of lifestyle will you lead? Will there be any other sources of income, such as pensions or government benefits? What expenses will you have? There are no easy answers. However, planning now for the future will help simplify your retirement. Whatever the choices you make, it all comes down to your personal financial plan.

I agree with author Nick Murray, who summarizes one of life's important goals as the endowment of a long, comfortable, and totally worry-free retirement, with no compromise in lifestyle, and no real concern about ever running out of money.

Tax sheltered savings can help. The bottom line? Invest early, contribute as often as you can, and plan ahead for a worry-free retirement.