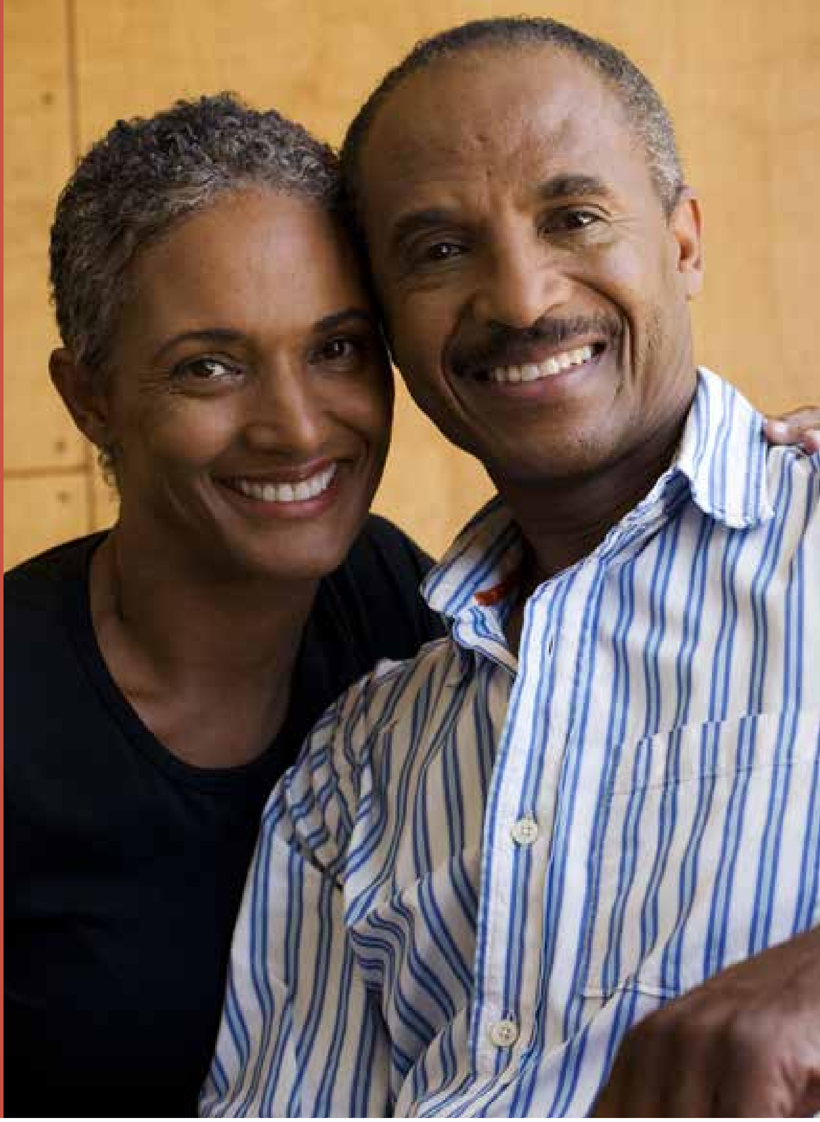
Canadian Credit Union Association | Association canadienne des coopératives financières



Saving for Your Future

Understanding RRSPs

A Versatile Investment Option

A registered retirement savings plan (RRSP) is a government-approved plan that helps you save for retirement. Your contributions, subject to annual limits, are tax deductible and the income earned is tax sheltered. You can have a number of plans.

A RRSP allows you to save and invest during your peak earning years. Since income inside the plan is not taxed until you withdraw it, your savings can grow more quickly.

Anyone with earned income subject to Canadian taxes may contribute to a RRSP. Even if you have income below the taxable threshold, you should file a tax return and create RRSP contribution room.

You can contribute to a plan in your own name, or in the name of your spouse. In that case, you will get the tax deduction, but the investment will belong to your spouse.

Contributions can be made until the end of the year in which the plan holder turns 71.

RRSP Contribution Limits

Each year, your notice of assessment from the Canada Revenue Agency (CRA), received after filing your taxes, will state your RRSP contribution limit for the following year. You can also contact the CRA by phone or online to learn your limit.

The size of your allowable contribution will depend on whether you are a member of a pension plan and if so, the type of the plan. For example, employer contributions made to a group RRSP on your behalf count as part of your RRSP contribution.

If you don't make a contribution, you can carry forward the unused contribution room indefinitely. Your annual notice of assessment from the CRA will show your cumulative contribution room when it shows your maximum RRSP deduction for the current year.

Special Transfers to Your RRSP

In addition to your RRSP deduction limit, there are times other deposits are permitted.

- Lump sum transfers can be made directly from a registered pension plan, a deferred profit-sharing plan, another RRSP, or a registered retirement income fund (RRIF).
- If you are terminated from your job, eligible parts of your retiring allowance can be transferred directly to a RRSP by your employer or can be paid to you and you can set up a RRSP, with no tax deducted.

Contribution Deadline

You may contribute any time during the year. Contributions made during the first 60 days of a year may be deducted from the current year, or the previous taxation year.

Over-Contributions

An over-contribution of up to $2,000 is permitted and can be carried forward indefinitely. But if you go over $2,000, you will pay a penalty of 1% tax per month on the excess in your account.

Borrowing for a RRSP

You can borrow to make an RRSP contribution, but you cannot deduct the interest on the loan.

Types of RRSPs

There are four basic types of RRSPs:

1. **Deposit-type RRSPs:** with the money invested in savings accounts, term deposits, or guaranteed investment certificates. The rates paid will vary. These deposits are usually protected by deposit insurance.

   - There are many mutual funds available that can be used for RRSPs:
     - Money-market funds invested in short-term securities
     - Income funds invested in bonds
     - Equity funds that hold stocks
     - Balanced funds that hold stocks and bonds

2. **Self-directed plans:** allow you to hold a wide range of investments, with a trustee who does the administrative work for you. Such plans are suitable for people with investment experience and a larger amount invested, otherwise the administrative and transaction fees may be too costly.

3. **Group RRSPs:** many employers now make group RRSPs available to their employees, instead of defined benefit pension plans. An individual account is maintained for each employee within the group RRSP. If you leave the employer, you can transfer the money to another RRSP without

paying tax. Consult a financial advisor at your local credit union before any such move.

4. **Spousal RRSP:** allows you to register an account in your spouse's name and make contributions to their retirement account. Your contributions would be tax-deductible, but the actual investments will remain in the spouse's name.

RRSP Fees

When deciding which RRSP is best for you, always ask about fees and transaction charges, especially for mutual funds, which can have management expenses, front-end commissions, or deferred sales fees.

Income Tax Considerations

Be aware that any capital gains, or dividend payments earned in a RRSP will eventually be taxed as income. On investments held outside a RRSP only half of capital gains would be taxed and taxes on dividend payments would be reduced by the dividend tax-credit. Your advisor can help you minimize your tax exposure.

Withholding Tax

When you withdraw money from your RRSP, government regulations require the issuer to withhold 10% up to $5,000; 20% on amounts from $5,000 to $15,000; and 30% on amounts over $15,000. Claim that amount on your return for the year as part of total income tax deducted.

Transfers and Withdrawals

You can transfer your RRSP to another issuer at any time, unless the investments are non-redeemable, which means you may not be able to make a transfer until the term of the investment expires. The transfer must be made directly from one issuer to another.

You can also withdraw your funds at any time, but any withdrawal is added to your taxable income in the year it is taken out. There are special rules for withdrawals from spousal plans. Have questions? Consult with your credit union.

Restricted RRSPs

Locked-in RRSPs, locked-in retirement accounts, and restricted locked-in savings plans are special plans that contain funds transferred from registered pension plans. Withdrawals from such plans are not normally permitted.

End of Your RRSP

By December 31 of the year you turn 71, you must shift your RRSP into a retirement income option that will pay you income but reduce your tax bill, or withdraw all the funds, which means they will be treated as income that year.

What Happens When You Die?

If your spouse is the beneficiary of your RRSP, or inherits it under your will, the proceeds can be transferred to a RRSP, RRIF, or annuity for them. They will not have to pay tax until money is withdrawn.

In all other circumstances, your RRSP funds are taxed on your final tax return as income.

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