RRSP FACTS

The final stretch: Make your contribution by March 1

The deadline for making a contribution to a registered retirement savings plan for the 2010 tax year is Tues., March 1, 2011. RRSP contributions are calculated as 18% of the prior year's earned income to a maximum of $22,000 for 2010, plus unused contribution room from prior years. Those in employer pension will contribute less than 18%, as indicated by the pension adjustment on T4s. The RRSP deduction limit is shown on your 2009 Notice of Assessment from the Canada Revenue Agency or check online at cra-arc.gc.ca/myaccount. There is a penalty of 1% per month on RRSP contributions exceeding the lifetime over-contribution limit of $2,000. *Jonathan Chevreau, Financial Post*

THE NEW RETIREMENT

TFSA or RRSP? Well, that depends on your situation

By Alexandra Lopez-Pacheco

Part of good retirement savings planning includes strategic tax management that optimizes the various retirement and tax saving vehicles available to Canadians, including the two top ones, the registered retirement savings plan (RRSP) and the tax-free savings account (TFSA). That's because effective tax management through one's working years can help compound savings and leave more cash in one's pocket rather than in the government's coffers after one retires.

Introduced on Jan. 1, 2009, TFSAs allow Canadian residents who are 18 years or older to contribute up to $5,000 annually to a TFSA. Although contributions to a TFSA are not tax-deductible, investment income earned in a TFSA — including capital gains — are tax-free.

"Both TFSAs and RRSPs are great tax-advantaged vehicles Canadians can use to help accelerate their savings," says Brian Taylor, vice-president, individual wealth, at Sun Life Financial Canada. "The TFSA and RRSPs are registration types that generally can be wrapped around a number of different investment vehicles such as mutual funds, segregated funds, GICs, accumulation annuities or even just daily interest savings accounts."

With a TFSA, you can take your money out with no penalty, use it for whatever you need and then reinvest into the TFSA. In an RRSP, if you take money out, it's fully taxable and the contribution room is gone for good.

Ideally, Canadians should maximize both — but the reality for many is that there's only so much money left over from living in the present to put away for the future.

"There's a bit of tax planning that can go into what your tax rate is going to be at the time of contribution compared to what your tax rate is going to be at your time of withdrawal," Mr. Taylor says. "If you're saving to use that money for some interim need, such as home renovations, an advantage of the TFSA is that although you don't get the tax deduction when you put the money in, the money earned on it is not taxable when you withdraw it."

There are times when a person's marginal tax rate is higher at the point they're making a contribution than when they anticipate they'll be withdrawing funds. Such scenarios can include a woman planning to take an extended maternity leave. In this case, says Steve Nyvik, a portfolio manager with Vancouver-based Lycos Asset Management Inc., it's preferable to make an RRSP contribution and get that tax deduction.

"If you're not overburdened with debt and are in a high tax bracket," Mr. Nyvik says, "you'll want to contribute to an RRSP. You're essentially getting an interest-free loan from the government of 30% or 40%, depending on what your marginal tax rate is, so you're basically investing the government's money for the next 20 years. It's saving which makes great sense. If you're in a low tax bracket, it may make more sense to contribute to a TFSA if you can't do both."

If you have a significant amount of personal debt, with non-deductible interest, repaying the debt would top the priority list, even if it means forgoing contributions to your RRSP or TFSA, Mr. Nyvik says.

"Keep in mind that any extra cash you have that you put down on your mortgage [without penalty] is making a guaranteed investment."

Mr. Nyvik says people should save 10% of their gross income every year. "If you don't make an effort to save now, life goes by too quickly. You lose what little time you have to work and save."

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Brian Taylor

PHOTO BY KEN GRIST

Retired teacher and camel rider Mahara Sinclaire and her partner have visited 43 countries.

COMMENT

Smiling all the way to retirement

Jonathan Chevreau
Wealthy Boomer

When she turned 58, Vancouver educator Mahara Sinclaire decided she had worked long enough and decided to travel the world.

Today, at 60, she and her partner have visited 43 countries, including much of Latin and North America, Europe, India, China, Morocco and Australia.

In a telephone interview from her current sojourn in Buenos Aires, Sinclaire reels off stories of fellow Baby Boomers she has met on the road: "grey nomads" who often settle in expatriate communities.

All found a way to make it happen, whether or not conventional financial planners thought they had enough money to travel in style. She believes you need to do this while your health is still robust and that those who linger too long in the workplace may miss out.

To pull it off, Sinclaire sold her Vancouver home, living on the proceeds, a modest teaching pension and investing. She scoffs at the notion you need millions to do this, citing couples she has met who have done it on less than $500,000.

The Laughing Boomer, the title of her new self-published book and website, is available now as an e-book and will be out as a printed book in March. A companion workbook serves as a "how-to" retirement manual for her generation, making a strong case for ending decades of work and starting a "30-year grand finale" of really living.

> Successful retirement is 'state of mind, not a state of money'

Money isn't addressed until the eighth chapter, which she downplays with the title, "It's only money, honey." Successful retirement is "a state of mind, not a state of money," she says.

The book tackles the practical issues and need to plan, preferably five years ahead if there are major business and real estate assets. This process consists of exploring options and making numerous decisions before acting. During this tentative stage, you may recognize you can't have it all.

Sinclaire took the better part of a year to set her own plans in motion. The audience Sinclaire is keen to address are the vibrant "Go-Goes" still in their 50s and 60s: healthy, financially independent Boomers with many plans and projects on the go.

The beauty of being a Go-Go is that time is still on your side. "You may decide to work again, but when you want and doing what you want." Laughing Boomers have figured out what brings them joy, then create the circumstances to manifest their dreams. For Sinclaire, this consists of travelling the world. For others it may mean starting businesses, embarking on spiritual quests, volunteering, philanthropy or whatever stirs the soul.

Sinclaire devotes a chapter to the vexing question of home and stuff. She stores her furniture and unneeded possessions in British Columbia but others keep their home base but live in the basement when at home, letting the kids or tenants live in the main part of the house. Others conduct home swaps with people halfway around the world.

Sinclaire is content to rent wherever she goes, as the weekly cost of long-term travel is less than the short luxurious vacations. Currently, she rents furnished accommodation in Buenos Aries for $1,000 a month, including utilities, TV and weekly maid service. Except for occasional cruises, "we don't travel like tourists. If you can make $50,000 or $60,000 a year and stay in cheap places six months and expensive ones for a few months, you can travel for a long time."

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Spousal RRSP still has role to play in income splitting

By Mary Teresa Bitti

Has the spousal RRSP had its day? Up until 2007 when the federal government legislated it was OK for couples to income-split their pensions, spousal RRSPs were one of the only ways for salaried couples, married or common-law, to split income and thereby minimize the household's overall tax bill in retirement.

"The legislation put a new spin on things, raising the question does a spousal RRSP still make sense?" says Barbara Garbens, a registered financial planner and president of Toronto-based BL Garbens Associates.

As the name suggests, a spousal RRSP is just that: an RRSP for your spouse. The concept behind a spousal RRSP is simple: Spouses earning higher incomes contribute to a spousal RRSP in the name of their lower-income spouse. Contributors benefit immediately by claiming the deduction on their tax returns, and the lower-income spouses benefit because they are building an asset base for retirement they might not otherwise have.

In effect, by equalizing or evening out income in retirement, the spousal RRSP makes the most of our graduated income tax system by sharing the wealth and keeping both spouses in a lower tax bracket and minimizing their combined tax bill.

As well, income splitting might help you avoid any potential clawback or repayment of the Old Age Security benefit by keeping your respective incomes below the prescribed $53,215 in retirement.

All good. And, as noted, for decades the spousal RRSP had little competition when it came to income splitting. "So a lot of people who had a stay-at-home spouse or a partner who was earning considerably less took advantage of this twist on the RRSP," Ms. Garbens says. It allowed the individual contributing to the plan to claim a tax deduction for the amount of the contribution and it did not impact their ability to make their own contribution if they had the room." In other words, it was win-win for many couples.

Now, with the ability to income-split pensions and the arrival of the tax-free savings account, spousal RRSPs are less attractive. So why might you still want to contribute to a spousal RRSP? For one thing, there is no guarantee the government won't rescind its recent pension-splitting measure. More important: There is no downside to creating a spousal RRSP, particularly if your goal is to help your lower-earning spouse create an asset base. "You can still split it whether it's in your own name or your spouse's name down the road," Ms. Garbens says. "If you will be coming into an inheritance or you have a very high income you've been stockpiling, the spousal RRSP just gives you the ability to move some money legitimately to a lower-income spouse's name."

Another reason couples might want to establish a spousal RRSP is if there is a significant age difference and the older spouse is the lower-income spouse. "The younger spouse can put money into the older spouse's name as long as they are younger than 71 so that the older spouse has income in retirement. They don't necessarily need to split it because the younger spouse is still working and earning a good buck," Ms. Garbens says.

A spousal RRSP can also serve as a liquidation strategy — so long as you pay attention to the three-year income- attribution rule. The rule means that income attribution will apply if withdrawals to a spousal RRSP were made in the same calendar year as the contribution or during the two preceding years. In other words, the amount withdrawn will be included in the contributing spouse's income rather than the annuitant's.

Ouch. If, you leave the money in the plan for the required amount of time, you can withdraw without having the money attributing back to the high-income contributor and triggering a tax penalty.

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