The 5 most common RRSP questions

by Diana Cawfield

Okay, I assume that you're familiar with a Registered Retirement Savings Plan, a.k.a. an RRSP. If not, it's a cool way for many investors to grow investments that are tax sheltered and reduce income taxes at the same time. In a nutshell, an RRSP is just like it sounds – a tax-deductible savings plan that is 'registered' with the federal government. RRSPs are available through banks, trust companies and other financial institutions.

The 5 most common RRSP questions

1 **SHOULD I BORROW TO CONTRIBUTE TO AN RRSP?**
With low interest rates available, taking out a short-term loan for long-term gains makes a lot of sense for many investors. Whether a loan option is a good choice for you greatly depends on your income flow and your comfort level. Using borrowed money to fund the purchase of securities involves risk because the value of securities may decline. If you are eligible, loan applications are subject to meeting the financial institution's lending criteria.

All said, a loan can be a good wealth-building tool. To both boost your RRSP and reduce a loan, it can make good sense to use your income tax refund to pay off the RRSP loan early or pay down a line of credit.

2 **SHOULD I CONTRIBUTE TO MY RRSP OR PAY DOWN THE MORTGAGE?**
It's not necessarily a choice between one or the other. First off, consider the benefits of an either/or scenario. Paying down your mortgage can shave years off your amortization. Contributing to an RRSP provides immediate tax savings and the power of compounding returns over time. You may be able to do both. A good solution is to contribute to your RRSP, then pay down the mortgage with the tax refund it can provide you.

3 **WHAT INVESTMENTS ARE AVAILABLE FOR MY RRSP?**
The good news is that there is no shortage of investment vehicles for a self-directed RRSP. The not-so-good news is that the greater the choices, the more you need to understand what you're investing in.

Here are some of the investment choices:

- Cash, term deposits, GICs (Guaranteed Investment Certificates)
- Mutual funds
- Stocks and bonds
- Foreign shares and fixed income securities
- Mortgages

Other investments may be eligible for your RRSP. For details, you can check with your financial institution or Canada Revenue Agency district tax office.

Before you invest, it is important that you both understand and have the risk tolerance for your investment choices. Reputable online resources offer investors a wealth of information to help you understand the different investments. As well, when making your investment decisions, a professional advisor at your financial institution should be able to answer your questions and provide you with information.

* Presented by Intuit Canada.

If you are purchasing stocks or mutual funds, for example, you want to know the track record of the security or fund manager, and preferably over a five-year time frame. Don't chase last year's out-performer. From personal experience, last year's all-star is often this year's loser.

4 WHAT IS A SPOUSAL RRSP?

A spousal RRSP is registered in one spouse's name, while the contributing spouse takes a full tax deduction of contributions he or she makes to the spousal plan. The main function of a spousal RRSP is to reduce taxes during retirement years through income splitting. For example, a spousal RRSP is appropriate when one spouse has a relatively low income during retirement compared to the other spouse. A spousal RRSP should be registered in the lower-income spouse's name, while the spouse with the higher income is the contributor.

As with any retirement planning, your personal situation and goals are key to choosing the right route to meet your needs. To help you along, there are countless fun tools to help you calculate your costs in retirement. Establishing a plan, calculating your costs and seeking professional financial advice are your wisest steps to realizing your retirement dreams.

5 WHAT HAPPENS TO MY RRSP WHEN I RETIRE?

If you have an RRSP, by the end of the year you turn 69, you have to make one of three investment choices:

- Cash in your RRSP
- Convert your RRSP into a RRIF (registered retirement income fund)
- Buy an annuity

If you cash in your RRSP, you must claim it as income in the year that you cash it in. That means getting zinged with a whack of tax. If you convert your RRSP to a RRIF account, your funds remain tax sheltered, but you must withdraw a minimum amount of money each year.

If you choose an annuity product, you hand over your money to an institution, usually an insurance company, in return for fixed, regular monthly payments. Annuity payments are similar to receiving pension payments from a company.

The choice is a toss up between control over your investments or the comfort of steady income. But there are also options among the choices. When it comes to RRIFs and annuities, some retirees choose to do both. They can get the best of both worlds by maintaining control over their investments in a RRIF, while receiving regular annuity payments at the same time. It all depends on your invest knowledge, comfort level and income needs. Whatever your investment choice – a RRIF, an annuity, or both – to protect your investments, seek advice from a professional financial advisor.

Diana Cawfield is a financial writer whose publication credits include *2* magazine, *the Toronto Star, Chatelaine and Morningstar.ca*.