RRSP Checklist

- The RRSP deadline is March 1, 2011.

- To qualify as a 2010 deduction, contributions to your personal or spousal RRSP must be made on or before March 1, 2011.

- Determine your RRSP contribution limit for 2010 by referring to your previous year's *Notice of Assessment* from the Canada Revenue Agency (CRA), or visit the CRA website at www.cra-arc.gc.ca.

- Determine how much, if any, you have already contributed to your RRSP for 2010.

- You can take advantage of any unused 2010 RRSP room up to your contribution limit. You will receive a 2010 tax deduction for this amount as long as the contribution is made by the March 1, 2011 deadline.

RRSP Tip 1 of 10
How do I set up an RRSP?
“Setting up an RRSP can be as simple as opening up a bank account,” explains Chartered Accountant Carmelo Linardi, Carmelo Linardi Professional Corporation in Aurora.

“RRSPs are special tax-deferred savings plans that must be administered by qualified financial institutions such as banks, trust companies and insurance companies. These financial institutions are responsible for ensuring these tax-deferred plans meet and maintain very specific guidelines.”

Certain information is required – your Social Insurance Number (SIN), the type of plan you want to set up, and the beneficiary of the plan should something happen to you before you have withdrawn your funds on retirement.

“The type of plan you choose can be as simple or as complicated as you like,” explains Linardi. “While an RRSP generally provides the same investment choices as a non-registered plan, you can start out by making a straightforward investment such as a GIC or basic interest account.”

Many employers offer group RRSP plans. Certain amounts are typically withdrawn periodically from your pay and contributed to the group RRSP – making saving and contributing easier. The main difference between a group RRSP and one you set up yourself is that, in many cases, a group RRSP has a set number of investment plans. If you set up your own RRSP, you can tailor your plan to your own needs and goals.

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RRSP Tip 2 of 10
Save for an RRSP
An RRSP is one of the best savings and tax-deferral programs available to average Canadian taxpayers. But coming up with the money to contribute can be a challenge, especially in a tough economy.

“People who learn to save when they’re young are better off financially as adults,” says Shailendra Jain, a Chartered Accountant in Etobicoke. “And when it comes to RRSPs, any contribution is better than no contribution.

“One of the best strategies for saving is setting up an automatic withdrawal system at your bank,” Jain suggests. “Have a fixed amount of money transferred from your bank account to your RRSP every payday, before you have a chance to spend it.”

Whether it’s shoes, CDs or some other kind of indulgence, we all have a “latté factor” – some secret way of spoiling ourselves and a likely place where we can cut spending and start saving.

“Remember that even small acorns can grow mighty oak trees, and the amount you save is not as important as getting into the habit of saving,” says Jain. “Borrow books and magazines from the library instead of buying them. Bring your lunch to work, entertain friends at home and take the kids on a nature walk instead of to a movie.”

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RRSP Tip 3 of 10
How much should I contribute to my RRSP?
It all depends.

"The amount that each of us **can** contribute is a function of both our income in prior years and any unused contribution room we've accumulated," explains Chartered Accountant Alexandra Spinner, Senior Tax Manager at Soberman LLP in Toronto.

"In 2010, that amount — which can be contributed to either our personal or spousal RRSP — is generally equal to 18 per cent of our 2009 earned income to a maximum of $22,000, less our 2009 pension adjustment (if any), plus any room carried forward." Your 2009 *Notice of Assessment* from the Canada Revenue Agency will give you the exact figure, as will the *My Account* or the *Quick Access* version on the CRA website.

To arrive at your "earned income" amount for the year, the CRA adds your employment earnings, self-employment earnings and certain other types of income (such as royalties, research grants or rental income) and then subtracts specific employment expenses and business or rental losses.

Strictly from a tax-deferral standpoint, Spinner says it's usually advisable to contribute the maximum to your RRSP each year, if you can. She points out that if you don't need the tax deduction now, you can still make the contribution and defer it to sometime in the future when you do need it. In the meanwhile, you will still benefit from the tax-free growth in the plan.

But know when to call it quits. "For some people who perhaps don't earn a lot, an RRSP deduction may not result in a significant saving," says Spinner. "And post-retirement, if the withdrawal amount is significant enough, you could lose your income-tested benefits."

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RRSP Tip 4 of 10
Remember the taxman when cashing out RRSPs
RRSP savings can be withdrawn at any time. But don't forget that any amount you take out will count as taxable income for that year. So, is it prudent to leave a certain amount behind in the bank to pay the taxes?

"There are many variables that determine the amount of income tax you'll have to pay when you withdraw funds from an RRSP," says Chartered Accountant Gordon Jessup, a Partner with Fuller Landau LLP in Toronto.

"The withholding tax on withdrawals is usually very low," he explains. "On a lump sum of up to $5,000, it's 10 per cent; on amounts over $5,000 up to $15,000, it's 20 per cent; and it's 30 per cent on amounts over $15,000."

But if you have other sources of income, these amounts may not be sufficient to cover the amount of taxes you will owe. And retirees who withdraw minimum amounts from RRIFs often have little or no withholdings on those funds, adding even more to the amount of taxes they owe.

"You may have to pay quarterly tax instalments," Jessup continues. "The first time, many people are surprised at the amounts." But sometimes, there are options or strategies that can reduce what you owe.

Jessup recommends that you consult a Chartered Accountant who will assess your personal situation and help you find the best plan to suit your needs.

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RRSP Tip 5 of 10
When should I start saving for retirement?
To paraphrase an old saying: If you have to ask, you probably should have started already.

“The earlier you start, the earlier your money can start compounding and the longer you’ll have it working for you,” says Chartered Accountant Gregory R. Clarke, Partner with SB Partners LLP in Burlington. “Investment income is tax-free in an RRSP. But it **is** taxed when you take it out.”

To start a Registered Retirement Savings Plan, you must have a social insurance number (SIN) and “earned income”. The amount of your previous year’s income is used to determine your contribution room for the next tax year. In 2010, each taxpayer’s contribution room is 18 per cent of last year’s earned income, to a maximum of $22,000, less any required pension adjustments. Any unused contribution room from previous years is carried forward.

“The best reason to start an RRSP early is that it gets young people into the habit of saving,” explains Clarke. “Even if it’s a couple hundred dollars a year, it helps create a mindset that saving is important.”

When an idea like that gets transformed into steady, continuous action, a secure financial future can’t be far behind.

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RRSP Tip 6 of 10
What size RRSP do I need to retire?
Determining how much you need to retire can be baffling. Where do you start?

“Assess your financial situation and personal needs,” advises Chartered Accountant David Trahair author of *Enough Bull: How to Retire Well Without the Stock Market, Mutual Funds or Even an Investment Advisor.*

“The general rule is that you need 70 per cent of your pre-retirement income, but each situation is different. Figure out your expected retirement income and expenses. Do you own your own home, or will you have rental or mortgage payments? Do you have other outstanding debt or financial responsibilities, such as supporting an aging parent?

“Also consider your RRSP investments. Do you know what your annualized Personal Rate of Return (PRR) has been since you opened your RRSP? Many brokerage firms don’t provide this information on their monthly statements,” advises Trahair.

“Get rid of any debt at a higher interest rate. For example, if your PRR has been two per cent a year on average since you started your RRSP and your mortgage is at six per cent, then simple analysis shows that paying off the mortgage leaves you further ahead.

“Remember that your RRSP is supplemented by the Canada Pension Plan (CPP) and Old Age Security (OAS). If your RRSP is projected to provide enough income during retirement, you may want to optimize its size so it doesn’t spit out too much income and cause a clawback of Old Age Security.

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RRSP Tip 7 of 10
RRSPs and your benefits package
As you begin your new job, retirement may be the last thing on your mind. However, it can be beneficial to negotiate an RRSP contribution as part of your new remuneration package.

“Even if your new employer does not offer an RRSP matching program, having your employer direct your RRSP contribution to your financial institution will help your cash flow,” advises Chartered Accountant Jim Lockhart, Tax Partner, BDO Canada LLP in Kenora.

“This is because contributions made directly by the employer are not subject to income tax withholding. Let’s assume that you intend to make an RRSP contribution of $5,000. Because your employer is obligated to remit source deductions on your earnings, if you are in the top tax bracket you would have to earn approximately $9,330 in order to have $5,000 left to make the RRSP contribution.”

By having your employer make the contribution directly, your cash flow is increased as you are, in effect, receiving the tax savings up front. This extra cash flow could be used to further increase your RRSP contributions.

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RRSP Tip 8 of 10
The real costs of RRSPs
Registered Retirement Savings Plans are a terrific way to save for retirement and defer taxes. But choose your investment vehicles carefully. Many institutions charge substantial fees to both set up and operate those vehicles.

“The costs to administer RRSPs or other investment plans vary widely, depending on the nature of the plan and the level of service you receive,” says Chartered Accountant François Ménard, an investment advisor with RBC Investments in Gloucester.

Some of the least expensive options are **managed mutual fund portfolios**. These plans are usually set up with a licensed representative who invests your money in a number of different mutual funds held in your RRSP account. Your representative provides some monitoring and advice, and in return takes a small percentage — usually around 1.5 per cent — of your total investment as a fee.

But check carefully and ask questions. Sometimes, these plans also include commission charged at the purchase or sale of the funds, and/or fees to transfer-in, transfer-out, and administer the fund.

At the higher end, professional fees can be about 2.5 per cent of the total value of your account, with an annual administration fee of perhaps $150, and transaction costs of two per cent or more for any trades that you make.

But there are lower-cost options, too. “There’s a lot you can do yourself,” advises Ménard. “Plenty of information exists for self-managing your RRSPs and investments.”

Many Canadian banks, insurance companies and other financial institutions have help available on their websites. Independent sources like Canadian Diversified Investor (www.canadiandiversifiedinvestor.com) and Efficient Market Canada (http://www.efficientmarket.ca) also offer a broad range of tools, tips and advice concerning RRSPs, investments, plans and costs.

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RRSP Tip 9 of 10
RRSP – not just for retirement
Don’t let the word “retirement” — as in Registered Retirement Savings Plan — throw you. The amount you invest in an RRSP is yours to have any time you need it.

“You can draw on your RRSP any time your earnings are low,” says Chartered Accountant Frederic Gregoris in Mississauga. “If you lose your job, become ill or injured and unable to work, the money is there. But remember, when you withdraw it — it becomes taxable income.”

In 2010, the first $40,970 you earned (that’s “net” or “taxable income”) was taxed at the lowest rate: about 15 per cent federally, and about five per cent for Ontario, where the upper limit of the lowest tax bracket was $37,106. Any tax savings from refundable tax credits (i.e. charitable donations, basic exemptions, etc.) would have reduced those rates even more. On an income of about $41,000, Gregoris estimates that the income tax payable could have been as low as about 16 per cent — a little over $6,800 — when everything is considered.

Add in RRSP money, and your income and tax rate both increase.

“The idea is to contribute to your RRSP when you’re making more money, and to take it out when you’re making less — preferably a **lot** less,” says Gregoris. “If you’re laid off, in debt and not making much money, it can make sense to draw on your RRSP savings. If you or your spouse wants to go back to school, you can take out $20,000 over a period of four years under the government’s Lifelong Learning Plan. The amount will have to be repaid to your RRSP over a period of ten years.”

Look at last year’s tax return and income to get a picture of your financial situation. If in any doubt about how to proceed, get advice from a Chartered Accountant in your home community.

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RRSP Tip 10 of 10
How long can I contribute to an RRSP?
“You can contribute to an RRSP up to and including the year you turn 71,” says Chartered Accountant Carmelo Linardi, Carmelo Linardi Professional Corporation in Aurora.

However, you must have enough contribution room, generated from employment, self-employment and other eligible sources of income earned in the year prior to the year you will make the contribution. At the end of the year you turn 71, the RRSP must be converted into a Registered Retirement Income Fund or an annuity.

“Remember, even if your age prevents you from contributing to your own RRSP, you can still contribute to a spousal RRSP, as long as you continue to generate RRSP contribution room and your spouse is 71 or under (at the end of the year) in the year you make the contribution,” advises Linardi.

If you make a spousal contribution, your spouse can still make a contribution too, as long as he or she has his/her own contribution room. You also get to deduct the amount that you contribute to a spousal RRSP from your income, while spouses get to deduct the amount of their RRSP contribution from their income.

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