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Your 2014 Guide to Registered Retirement Savings Plans (RRSPs)

SIMPLY PUT

Brought you by Sun Life Financial

Seven simple things you need to know about RRSPs:

1. What is an RRSP?
2. How much can you contribute?
3. What's the difference between an RRSP and a TFSA?
4. Should you join a group plan?
5. What is a spousal RRSP?
6. Why it pays to diversify your investments
7. Next steps

1 What is an RRSP?

Simply put, a Registered Retirement Savings Plan, or RRSP, is a special type of account that helps Canadians save for their retirement.

Contributions you make to an RRSP are tax-deferred, meaning the money is only taxed when you withdraw it.

Any money put into an RRSP up to the annual limit – which is a percentage of your earned income plus unused room from earlier years – reduces your taxable income for that year.

Did you know?

You can hold a variety of investments in your RRSP, including:

- Stocks
- GICs
- Bonds
- Mutual funds

Because income earned inside an RRSP isn't subject to tax until it's withdrawn, RRSPs are an especially powerful way to save for your retirement.

2 How much can you contribute?

For 2013, you're allowed to contribute the lesser of $23,820 or 18% of your earned income for the previous year. But there are a few important things to keep in mind:

a. Unused contribution room

If you haven't contributed the maximum in previous years, you could have unused RRSP contribution room to carry forward. This will bump up the amount you're allowed to contribute.

Don't forget

The RRSP deadline is March 3, 2014
The Canada Revenue Agency (CRA) allows contributions for the previous year for up to 60 days after year-end. This year's deadline is March 3, as March 1 is a Saturday.

Do you have unused RRSP contribution room?

An advisor can help you make the most of your plan.

Talk to an advisor

You will find your unused RRSP room listed on the notice of assessment the CRA sent you last year after processing your tax return.

b. Contributions to a pension plan

If you're a member of a pension plan at work, then you have to subtract your "pension adjustment" (PA). Once again, the CRA does this for you on your notice of assessment. There's no need to worry about this the first year you join a pension plan, as your PA for one year reduces your RRSP deduction limit for the following year.

c. Over-contributions

You're allowed to over-contribute up to $2,000 to an RRSP without penalty (although you won't receive a tax deduction for the excess amount). But if you go over that, you can be charged 1% per month on the excess amount. (Although, if you withdraw the extra funds right away and send a letter to the CRA explaining that it was a legitimate mistake, you may be able to obtain a waiver of the excess contribution tax.)

Learn more

Should I take out a loan to contribute to my RRSP?

Find out if the interest on an RRSP loan will be more than the tax refund and tax-free investment growth within you RRSP.

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Let us help

Brighter Life can help you find out if you would be better off paying down your mortgage or contributing to your RRSP.

CALCULATE NOW

Do you wait until the deadline to contribute to your RRSP?

An advisor can help you find a better way.

Talk to an advisor

3 What's the difference between an RRSP and a TFSA?

Confused about the best savings option for your needs? You're not alone. Ever since the federal government introduced the Tax-Free Savings Account (TFSA) in 2008, there's been debate about whether a TFSA or an RRSP is the best place to stash your cash.

Both provide tax advantages – there's no tax payable on investment growth on funds held inside either account. However, each has its own set of rules.

Are you on track to meet your financial and retirement planning goals?

It's never too early or too late to start!
For a FREE review of your financial plan:

Talk to an advisor

The main things to consider are when and how you want to use the funds. It's also important to understand a few of the key differences between the two options:

RRSP

- Your contribution limit is based on a percentage of your annual income, up to a specified maximum.
- Contributions are tax-deductible.
- There is no tax payable on investment growth.
- Withdrawals are subject to income tax.
- Withdrawals may only be re-deposited if you have sufficient additional contribution room (once withdrawn, you never get the contribution room back).

TFSA

- You may contribute $5,500 in 2013 and 2014.
- Contributions are not tax-deductible.
- There is no tax payable on investment growth.
- Withdrawals are not subject to income tax.
- Any withdrawals may be re-deposited in subsequent calendar years.

TFSA or RRSP?

An advisor can help you decide which is right for you.

Talk to an advisor

What's the difference between an RRSP and a TFSA?

When it comes to saving for retirement, RRSPs are pretty hard to beat. Your contributions reduce your annual income tax. And, assuming you'll be in a lower tax bracket when you draw the money out, you'll save substantially on the overall amount of tax you pay.

They are usually not a good option for short-term savings, however, as money withdrawn from an RRSP will increase your annual income and may result in your having to pay more taxes.

TFSAs were designed to supplement RRSPs. If you've maxed out your RRSP, they provide you with another great way to shelter a portion of your investment earnings from income tax.

RRSP withdrawal calculator

Calculate the potential impact of making an RRSP withdrawal.

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Because withdrawals are not subject to tax, they are also a good option for saving for shorter-term goals such as the down payment on a home, a vacation or an emergency fund.

Simply Put.

If you have adequate savings, it's usually advisable to contribute to both an RRSP and a TFSA. To help determine the best savings strategy for your needs, consider:

1. Your savings goals
2. When you expect to withdraw the funds
3. How likely you are to need to withdraw the funds sooner for other needs

Do you know how much you need to save for retirement?

An advisor can help you crunch the numbers.

Talk to an advisor

4 Should you join a group plan?

If your employer offers one, signing up for a group RRSP can provide significant advantages.

Starting is easy. A small contribution is usually all you need to begin investing. And if your plan allows it, you can make lump-sum contributions or transfer money from another financial institution at any time. If your employer offers automatic payroll deduction, consider signing up. It can increase your likelihood of investing regularly.

Retirement Income calculator

Get an idea of how much income your savings could generate at retirement.

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RRSPs, pensions, group plans...

An advisor can help you make them work together.

Talk to an advisor

Tax breaks

Contributions to your RRSP reduce the income tax you pay. And if you can contribute through payroll deductions, your contributions are invested before tax is deducted. This allows you to realize the savings on the spot.

For example, assuming you are in a 40% tax bracket, a $25 contribution will cost you only $15 net because of the effect of the tax break when you make your contribution. Income tax on investment earnings in your group RRSP, like those in an individual RRSP, will be deferred until you withdraw them, which will presumably be after you retire and are in a lower tax bracket.

It can also cost less to manage your funds in a group RRSP. When you buy in bulk, you get a better deal. The same concept applies to a group RRSP. When a large group of plan members choose from the same list of funds, your company can negotiate competitive fund management fees.

Other benefits

If you have more than one RRSP and don't want to manage multiple accounts, consider consolidating. Many plans allow you to move over other registered savings into your group RRSP at any time. This can help you manage all of your investments in one place and keep your management fees low.

Simply Put.

A group plan can help force you to save for retirement, provide a welcome tax break and cost less than a non-group plan.

5 What is a spousal RRSP?

Contributing to your common-law or married spouse's RRSP can help build your partner's retirement nest egg. At the same time, you can lower the amount of tax that you pay collectively.

A tax break now

When you contribute on behalf of your spouse, you get the tax deduction. So if you earn significantly more than your spouse, you will get a bigger tax break by contributing to a spousal RRSP, than your spouse would by contributing to his or her own RRSP.

Whether you contribute to your own or to a spousal RRSP, your contribution counts against your own RRSP deduction limit – the maximum RRSP contribution you can claim as a deduction on your income tax return for the current year. Your spouse's contribution limit is not affected, however, by your contribution to a spousal RRSP.

Are you and your spouse on the same page financially?

An advisor can help you harmonize your plans.

Talk to an advisor

Simply Put.

Here's how a spousal RRSP could result in an income tax reduction for your family in total:

	Total income tax
You withdraw the entire $5,000 per month x 12 = $60,000, taxed at 26%	**$15,600**
You withdraw $4,000 per month x 12 = $48,000, taxed at 26%	$12,480
Your spouse withdraws $1,000 per month x 12 = $12,000, taxed at 15%	+1,800
* This is only an example; consult a tax specialist to see how it can best work for you.	**$14,280***

A tax break later

There can also be a tax break down the road, during retirement. Let's assume once again that you are the spouse with the significantly higher income and – as an example – that you've decided that you need to withdraw a total of $5,000 a month, as a couple, from your RRSPs. Thanks to the additional funds you have contributed, your spouse will be able to withdraw a bigger share of that $5,000 from his or her RRSP, which will allow you to withdraw less from yours.

Spousal RRSPs are subject to a number of rules. After you've made a spousal RRSP contribution:

- The money belongs to your spouse. He or she controls the account and when the money is withdrawn, it's taxed as his or her income as long as certain conditions are met.
- You can contribute to an RRSP until December 31 of the year the RRSP owner turns 71. So, if you are over 71 and can no longer contribute to your own RRSP, but your spouse is younger, you can both still benefit. If you still have earned income and RRSP contribution room, you can keep putting money in a spousal RRSP and defer your taxes while your spouse's RRSP grows, until he or she turns 71.

When you're considering a spousal RRSP, it's important to look at your and your spouse's current financial circumstances, and project what they might look like at retirement. As everyone's financial circumstances are different, it's always a good idea to consult a financial professional.

Are you on track to meet your financial and retirement planning goals?

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6 Why it pays to diversify your investments

Diversification is a strategy that spreads your risk over different types of investments, so you balance both the overall risk and your potential returns. You can diversify by investment type (fund class) and by levels of risk within investment types, such as by choosing investments in different regions or with different management styles.

If you hold just one type of investment and it performs badly, you could lose a lot of money. But if you hold many different kinds of investments, the theory is that it's unlikely all your investments will perform badly at the same time. The return you get on the investments that perform well could balance out some of the losses on those that don't do so well.

What's your retirement savings strategy?

An advisor can help you see the big picture.

Talk to an advisor

Diversify for life stage

- **Just beginning your career?** With retirement decades away, you have time on your side. You can increase your portfolio's long-term investment risk and set yourself up for higher potential returns.
- **Midway through your career?** Retirement is still years away, so you can make the most of the time you have to grow your investments with a moderate increase in the long-term investment portion of your portfolio.
- **Getting close to retirement?** With retirement only a few years away, it makes sense to align your portfolio with your retirement income goals by diminishing investment risk and potentially providing higher returns. A diversified portfolio can help ensure you're closer to your dreams.

Simply Put.

Diversifying your investments helps protect your savings from the market's ups and downs, since different types of investments, such as stocks and bonds, often move in different directions.

Diversification by investment type

Different investment types, or types of funds, have different purposes and varying levels of risk and potential return:

- **Lower risk:** Cash equivalents, such as money market funds, provide low-risk returns and generally include investments such as guaranteed funds and short-term deposits that pay you interest. While the risk is low, many cash equivalents also have low rates of return.

- **Medium risk:** Fixed-income investments, such as bonds, are generally higher risk than cash equivalents, but offer potentially higher returns. When you invest in bond funds, you lend money to the company or government issuing the bond. Over a specified time period, that company or government repays the amount of the loan plus interest. Bond fund values go down when interest rates go up, and vice-versa.

CPP/QPP Calculator

Determine the best time for you to start receiving Canada Pension Plan / Quebec Pension Plan income benefits.

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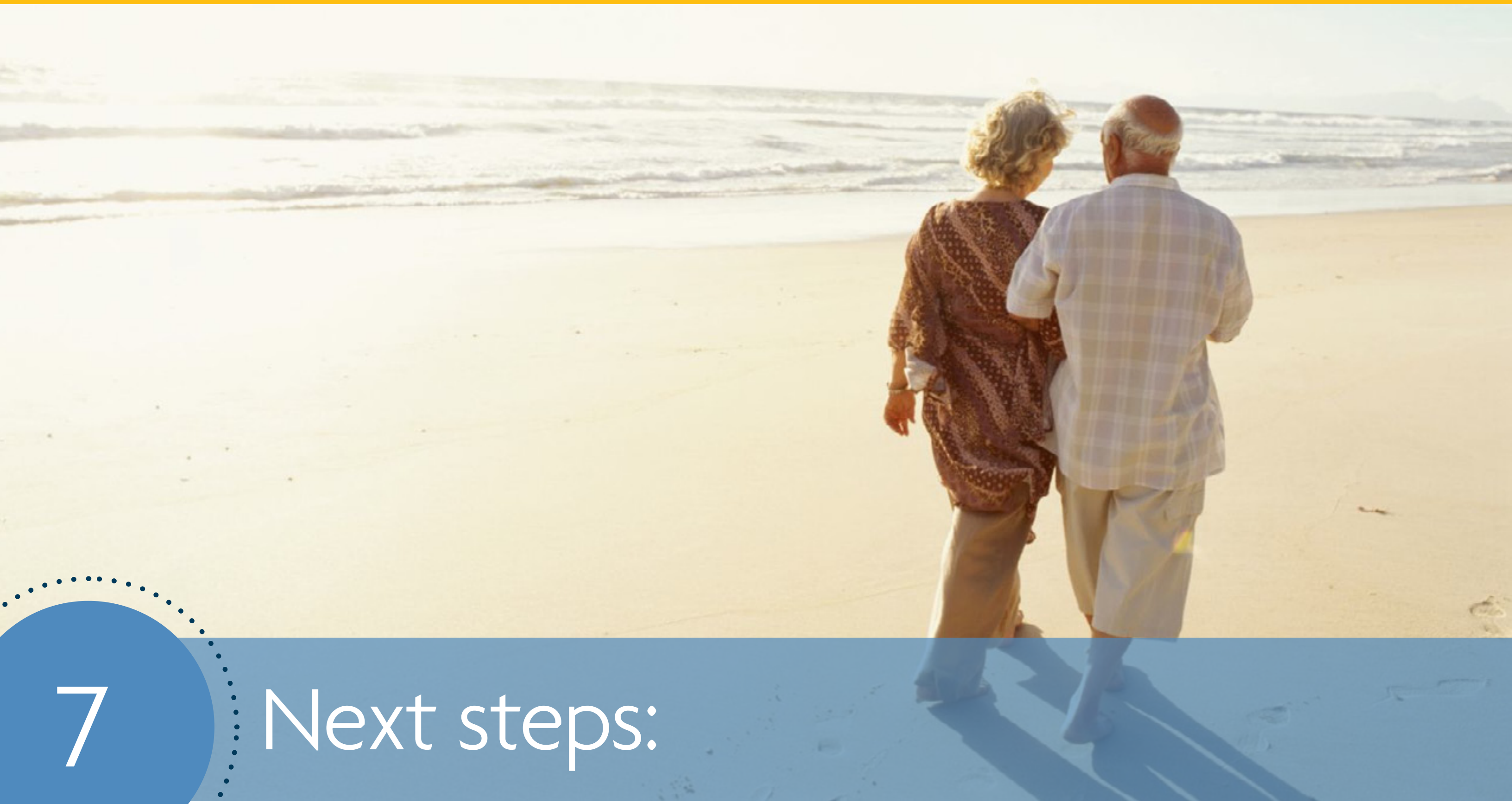
- **Higher risk:** Equity funds are made up of stocks, which are considered to be of higher risk than cash equivalents or fixed-income investments. But with higher risk comes a higher potential for long-term growth. Equity funds give you an ownership interest (a share) in the issuing companies. An increase in the value of a company translates into investment gains.

How comfortable are you with risk?

An advisor can help you develop a savings plan that fits your risk profile.

Talk to an advisor



7 Next steps:

Calculate if your retirement savings are on track

Will you have enough money set aside at retirement to make ends meet?

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