Kathryn Edwards

RRSPs: *Now* is the Time!

"I will never wait until the last minute again!" That's the promise many of us make after leaving our RRSP contributions until the last possible minute, then scrambling with our investment advisors to ensure contributions are made "on time." Many of us fail to break this pattern, year after year. After all, it's only one day of suffering!

In fact, never waiting "until the last minute" is very good advice—and timely advice, too. Because *now* really is the time to take action on your RRSP strategy. Our "6-Point Plan," detailed below, can assist you in achieving this and other RRSP objectives.

Compare Monthly vs. Annual Contributions

Assume: *An annual rate of return of 8 percent with contributions made over a 20-year period.*

Contribution	Ending Value
$1,000 per month	$589,000
$12,000 at year end	$549,000

By simply altering the timing of your contributions, you can increase your retirement fund ***by $40,000*** *(given the above assumptions and ignoring the effects of inflation).*

THE "6-POINT PLAN"

1. **Start your 2002 contributions now,** and contribute on a monthly basis. When your money is compounded in a tax deferred vehicle such as an RRSP, the lifetime savings created by making monthly contributions can be significant. (See schedule below.) If you are lacking the self-discipline to make regular contributions, your investment advisor will gladly assist you in setting up a plan for which contributions are automatically made from your account.

2. **Consider spousal contributions.** It is generally good tax planning to equalize spouses' retirement incomes. As such, the higher income spouse, or the one having a richer retirement package, may consider making a "spousal contribution." The contributing (higher income) spouse still gets the tax deduction, but the money goes into the receiving spouse's RRSP plan, and provides for future income splitting.

3. **Invest outside your RRSP.** Where your available investment funds exceed your RRSP limit, start a nonregistered portfolio. Because current legislation provides for lower effective tax rates on certain types of income—e.g., capital gains—consider holding such investments outside your RRSP, and holding investments that attract a higher effective tax—e.g., interest-bearing investments—inside your RRSP.

4. **Maximize your foreign content.** Canada's economy is largely resource-based and can, therefore, be quite volatile. Canada Customs and Revenue Agency ("CCRA") allows 30 percent of your portfolio to be invested in foreign securities, so

take full advantage of the opportunity to diversify.

5. **Diversify and consolidate.**
   If you find you have several small RRSP accounts, consider consolidating them into one account. This can reduce total annual RRSP fees, allow you to ensure your foreign content is maximized, and help you diversify by giving your investment advisor a more accurate "picture" of your total portfolio. Appropriate diversification will help protect you from significant declines in value in your retirement fund.

6. **Consider your age and risk tolerance.**
   A higher proportion of equities may be appropriate for a young adult with a long term investment plan, as that person can "weather" the short term fluctuations in value that equities tend to experience. An individual who is close to retirement, however, generally requires more stability and would not wish to risk short-term fluctuations. In those circumstances, a higher proportion of fixed-return—interest-bearing—investments may be appropriate.

So take a few deep breaths after your recent "RRSP scramble," and start focusing now on your 2002 RRSP strategy.

Now really *is* the time! ▲

Kathryn Edwards, CA, is a partner with Pagnanini Edwards Lam Chartered Accountants.

Voice: 604 299-9274
Kathy@accountantsplus.ca