



Pat Soulliere



Mark Stonefish

# Financial Matters

## Back to basics—RRSP's

January 2008

Volume 13, Issue 1

### Soulliere Financial Group

1500 Ouellette Avenue  
4th Floor  
Windsor, Ontario  
N8X 1K7

info@soulliere.com  
www.soulliere.com

p. 519.258.7676  
519.258.RRSP  
800.501.0806  
f. 519.258.1617

### Don't keep us a secret!

If you know someone who could benefit from our services and would be interested in receiving our newsletter, let us know.  
E-mail: info@soulliere.com

When it comes to investing for your retirement, registered retirement savings plans (RRSPs) are the best place to start. The combined benefits of reducing taxable income in the present and the expectation of tax-sheltered compound investment returns over the long term provide a compelling reason for investors to make the most of these savings plans.

There are a number of tactics you can use that will help you realize the full wealth-building potential that these plans can provide. What follows are a few tips on how to make the most of every dollar you invest.

#### 1 Start as early as you can

You've likely seen numbers there before, but they are worth repeating: to take full advantage of the taxable benefits associated with an RRSP, the sooner you start investing the better. The longer your savings have to compound tax free, the more you benefit from the tax-sheltered investment returns that RRSPs provide.

The RRSP investor starts at age 25, contributes \$1,000 per year, receives an average 8 per cent annual rate of return on the investment, and is subject to a tax rate of 40 per cent. The final contribution is made at age 71.

The non-registered investor starts at age 25, also wants to contribute \$1,000 but has to pay tax on this amount first, leaving only \$600 to invest per year, receives the same 8 per cent return on investment, and is subject to a tax rate of 40 per cent. Again, the final contribution is made at age 71.

The end result is that by taking advantage of the tax-deferred benefits of a registered account, the value of the RRSP increased to \$417,426 at age 71. This compares to the non-registered account whose value is a mere \$214,182.

**The difference: \$203,244\***

#### 2 Maximize your contributions

Maximize your contributions each year to make the most of tax-deferred compound investment returns. Consider an RRSP loan if you don't have the cash, and then pay it down when you receive your refund each year.

If you have unused contribution room available, consider borrowing enough money to help you catch up. Many financial institutions offer RRSP loans at very attractive rates.

#### 3 Reinvest your refund

To get more retirement benefits from your RRSP, you can reinvest all of your refund back into your RRSP (if you have contribution room available). For example, if your marginal tax rate is 50 per cent and you invest \$1,000, you would generate a \$500 refund. If you spend the refund, your true after-tax commitment to your retirement goal is only \$500. But if you invest that tax refund, you increase your RRSP by 50 per cent. Your RRSP investment now becomes \$1,500, which represents a significant increase to your overall financial plan.

#### 4 Pay yourself first

Consider contributing to your retirement through convenient, automatic withdrawals from your chequing account. If you are a mutual fund investor, a pre-authorized contribution (PAC) plan will allow to contribute as little as \$50 either weekly, bi-weekly, monthly, quarterly or semiannually into a mutual fund that's right for you. A PAC plan lets you take advantage of dollar-cost-averaging, a strategy that can help lower investment risk. Dollar-cost-averaging can lower investment risk since you will be automatically buying fewer units when prices are high and more units when prices are low.

#### 5 Consolidate your investments

If you are the type of investor who doesn't want to spend a great deal of time managing multiple investment accounts, then you should consider consolidating your holdings with one advisor. By consolidating all of your RRSP holdings into a single account, you can still invest in many different types of investments and it will make it easier to adjust your investment strategy as your financial situation changes over the years. In addition, you won't have to pay extra RRSP administration fees that can cost as much as \$100 per year for each account.

#### 6 Seek professional advice

To make the most of your retirement savings, it's important that you consider seeking professional advice. Research shows that investors who seek professional help tend to do better over time. Financial Research Corp., a financial services research and consulting firm based in the United States, studied U.S. mutual fund investor habits from 1990 through to the peak of the equity markets in March 2000. Its research provides strong evidence that suggests professional advice is key to obtaining better investment returns.

If you are like most Canadians who hold the bulk of their retirement savings in their RRSP, seeking the advice of a professional advisor can help you avoid making these costly mistakes. Not only will your advisor help you build a well-diversified investment portfolio that can help reduce risk, they can continue to counsel you on the best ways to respond to changes in the financial markets over time.



Content courtesy of WealthStyles from Manulife Investments

Did you know - we able to do Travel Insurance

# Cross-border investment planning

There are significant investment tax-saving opportunities for Canadians who take up residence in the United States. In order to benefit, it's important for individuals to properly structure their investment portfolios before they leave. When an individual is leaving Canada, questions often arise about whether their investments can continue "as is", and what the tax implications are for their portfolio. This article offers some investment strategies for individuals planning to reside in the United States.

## REGISTERED INVESTMENTS

For U.S. tax purposes, only the income portion of withdrawals from an Registered Retirement Savings Plan (RRSP) is taxable - the capital portion is tax exempt. The capital portion is deemed to be the "original contributions" to the plan and by increasing this amount an individual can reduce the taxable portion of their withdrawals and enjoy significant tax savings. Individuals should consider transferring their RRSPs to a new plan before leaving Canada, as the capital portion will now equal the amount transferred into the new plan. A fund switch will not accomplish the "bump up" as it would not change the amount contributed to the plan - it would only increase the adjusted cost base (ACB). The Internal Revenue Service is only concerned with the amount contributed to a plan and not the ACB.

## MAKING IT WORK

Sandra's RRSP has grown to a market value of \$350,000. She transfers to a new RRSP just before leaving Canada to increase the capital portion for U.S. tax purposes to \$350,000.

If Sandra cashes in her RRSP immediately after her move, the withdrawal would equal the capital portion and be exempt from U.S. tax\*. The full value of her RRSP would be subject to a 25 per cent withholding tax in Canada, but these taxes (\$87,500) can be used as a foreign tax credit in the U.S. Compare this to cashing in the RRSP before leaving Canada - If Sandra is in a 45 per cent tax bracket, \$157,500 of her RRSP is lost to taxes.

## GIC INCOME

Unlike interest income from a traditional bank Guaranteed Interest Contract (GIC), interest from GICs issued by insurance companies (considered annuity income) is not reported to a non-resident. Because of the tax-deferred growth while outside Canada, it may be advantageous to transfer existing GICs to insurance company issued GICs, before leaving Canada.

## TRUST INCOME AND CAPITAL GAINS

Taxable trust income (interest, dividends and foreign income) from mutual funds and segregated funds is reported to non-residents each year as it occurs. Tax withholding on interest and dividend income in the amount of 15 per cent is generally paid by surrendering units from the funds. Taxes are not withheld on capital gains. However, there is a deemed disposition on these types of investments upon leaving Canada, making any gains or losses subject to Canadian tax laws. Because of this, the decision to hold or sell before leaving Canada is not usually based on tax considerations.

## TRANSACTION RESTRICTIONS FROM WITHIN THE U.S.

Due to securities regulations, U.S. residents are generally limited to redemptions and otherwise prohibited from managing their Canadian investments from U.S. soil. Certain states allow brokers or dealers to apply for exemptions on registered accounts but no exemptions exist on non-registered accounts. Therefore, it is important that individuals who are leaving Canada realign their portfolios for the long term unless they plan to return to Canada on a regular basis.

## IDEAL CANDIDATES

Individuals planning to take up residence in the U.S., and who hold the following investments:

- RRSPs or locked-in RRSPs
- Non-registered GICs not issued from an insurance company
- Non-registered mutual funds or segregated funds

## TAKE ACTION

To maximize the tax-efficiency of their portfolio, investors should:

- Transfer their RRSP assets to a new plan before leaving
- Ensure their non-registered GICs are held with an insurance company before leaving
- Ensure their portfolio has been structured for a long-term holding period, if they plan to keep their current mutual funds and segregated funds

\*An election (Revenue Procedure 2002-23) to defer U.S. tax on the undistributed income of a retirement plan until the funds are actually distributed must be attached to the individual's U.S. tax return annually.  
Content courtesy of WealthStyles from Manulife Investments

The different tax treatment of RRSP withdrawals from within Canada and the U.S. provides an opportunity to reduce taxes with proper planning.

## Travel Tips

1. Always get travel insurance. For about the same cost as a coffee a day, forget the stress of worrying about missed flights, lost luggage or health care coverage. Also note that provincial medical coverage does not cover you if you visit other provinces in Canada.
2. Make sure your travel documents are appropriate and current. Many countries require a passport that is valid for six months after you return home.
3. Ensure that you are aware of the luggage limits for the airlines you'll be traveling with. If you need to carry extra items, look into the extra bag fee as it is usually cheaper to divide your items into two bags rather than pay one overweight bag charge.
4. Decorate your luggage with bright stickers or ribbons for easy identification at the baggage carousels.
5. Give your airline your contact number at your destination in case there is a change to your flight times and be sure to confirm your flight 24 hours prior to departure.
6. When flying with small children, try to book the bulkhead seats, which are the first row in economy class. Not only do these offer more leg room, but many airlines provide a bassinet that can be attached to the wall in front.
7. Keep a spare credit card and copies of your important documents (including your airline ticket, your passport's identification page and your travel insurance policy) separate from the originals in case they are lost or stolen.
8. Protect your health while you travel. If you have food allergies, learn the names of those foods in the language used in the country you will be visiting. In addition, ask your doctor about the recommended vaccinations for your destination.



## Manulife Securities

Manulife and the block design are registered trademarks of The Manufacturers Life Insurance Company and are used by it and its affiliates, including Manulife Securities

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the fund's simplified prospectus before investing. Mutual fund securities are not guaranteed, their values change frequently and past performance may not be repeated.

The information contained in this newsletter provides general information and is not intended to be comprehensive investment, medical, financial or legal advice to any individual or business. We strongly recommend that any queries be directed to an appropriate professional advisor. If you have any questions or issues that have arisen from reading this material, please call our office. We would be pleased to assist you.



## Local Events

January 26/27

Windsor Symphony Orchestra  
Peanut butter & Jam  
www.windsorsymphony.com

January 31

Windsor Canadian Music  
Festival  
University of Windsor

February 2

Chinese New Year  
Caboto Club  
www.cagw.net/english

Feb 3

Winter Festival  
Ojibway Nature Centre

Feb 9

Annual Owl Prowl  
Point Pelee National Park  
www.pc.gc.ca/pointpelee

Feb 15

Black Tie Bingo  
Ciocaro Club  
Windsor Roseland Rotary

Feb 23

Big Brothers Big Sisters  
Bowl for Kids Sake

Mar 9

Maple—First Taste of Spring  
John R Park Homestead  
www.erca.org

Mar 21—24

Easter Extravaganza  
Colasanti's Tropical  
Gardens, Ruthven

Mar 28

Jazz Ensemble  
Spring Cabaret  
St. Clair Centre for the Arts

March 29

Savour the Sea  
Hospice of Windsor  
Caboto Club

For more information on the above events, or to find out about more exciting events, visit:  
[www.citywindsor.ca](http://www.citywindsor.ca)