

INVESTMENT PLANNING COUNSEL'S

Intelligent Investor



Live your dream.

Avoid a Big RRSP Mistake

The global financial crisis has receded, stock markets are recovering, and there is even talk that the economy is reviving.

Yet early indications are that Canadian investors are still *too traumatized* by events to invest in RRSPs. Their fear of the markets has impaired their focus on the need to save for retirement. We will all eventually retire. Of the many definitions of retirement, we are referring to the time when there is no employment income coming in to meet our living expenses and other needs. And it is for those days that *a retirement plan must be created*.

We are too cautious

Far too many people are getting caught up in short-term market events and not staying with their retirement plan. The market fall caused some investors to abandon their well-set-out retirement plans and switch from well thought-out portfolios into low-interest (less than 1%) but guaranteed savings vehicles such as GICs. The consulting firm McVay & Associates has indicated that retail deposits held by banks increased by 27% in the 12 months ending November 30, 2009, compared to normal annual growth of 4% to 7% associated with these products.

“Sadly, as a whole, Canadians are still under-saving for their retirement.”

And while this massive push to low-interest savings accounts was taking place, the markets rallied. Angus Reid recently delved into the question of how much investors had benefited from the recovery. The poll results suggested that about 87% of investors flat out missed the recovery. And for all of those who moved

out of their retirement program to the safety of 1% GICs, it may take well over a century to recover!

Another poll conducted for the Royal Bank of Canada in late October of last year found that 32% of Canadians have yet to begin tucking away funds for retirement (compared with 24% the year before). The same survey found that a mere 35% of Canadians had contributed or planned to contribute to an RRSP for the 2009 tax year—the lowest number in more than a decade. Sadly, as a whole, Canadians are still under saving for their retirement.

We should take advantage

Canada has one of the best retirement savings programs in the world. Our RRSPs are generous when compared to the features and benefits of programs in other countries. Yet many investors have not used them wisely—considering them to be short-term trading accounts instead of the long-term retirement programs. When we contribute to an RRSP, the government offers us the reward of refunding some of the taxes we pay during the year.

This is money that would otherwise have been lost to us; it is therefore reasonable to consider it as part of our retirement program.

A good tactic

With the introduction of the Tax-Free Savings Account (TFSA), your retirement strategy can be significantly enhanced. The TFSA allows you to invest money, have it compound tax-free, and remove it without a penalty. In our view, it should have been called a Tax-Free Investment Account (TFIA), because it can be used for all types of investments to fund your goals.

Here's a great idea for using TFSAs and RRSPs together to enhance your retirement program. You make a contribution to your RRSP and obtain the tax refund. The average individual who contributes \$10,000 to an RRSP and has a 30% marginal tax rate would receive a refund of approximately \$3,000. This money can then be put into a TFSA, where the funds will grow tax-free throughout the year. At the

end of the year, the funds are taken out and made as next year's RRSP contribution. This process can be continued year after year.

The result is that you have received money from the government in the form of your RRSP refund, used the TFSA to avoid paying tax on capital gains or interest during the year, and then used growing TFSA funds to make another RRSP contribution and earn another refund.

So what is the biggest RRSP mistake?

Not taking advantage of the program. And the next biggest mistake is letting your emotions, the markets, and the media divert you from your retirement program. The less you contribute in your earning years, the less control you will have over your lifestyle in the future. Our job as financial professionals is to provide you with the best advice to achieve your long-term goals, and that means sticking to your retirement plan in all types of market conditions.

If you have yet to make your annual RRSP contribution, please contact our offices to learn about this year's options.



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