

# REGISTERED RETIREMENT SAVINGS PLANS

Your

## most effective tool *when saving for retirement*

**OVER 40 YEARS AGO, the federal government made an important realization: Canadians needed an incentive to save for their retirement. To help with this goal, they created the Registered Retirement Savings Plan (RRSP).**

### What is an RRSP?

An RRSP is a registered account that lets you put money away without having to pay tax on it until withdrawn.

Subject to certain limits, each dollar you contribute to the plan lowers your taxable income by the amount you invest.

Once you have contributed investment capital to an RRSP, it can grow tax-free until withdrawn.

### HOW CAN YOU CONTRIBUTE? WHAT'S THE BEST WAY TO UTILIZE AN RRSP?

Any adult Canadian with earned income can contribute to an RRSP up to the age of 69. The current maximum contribution you can make to an RRSP is the lesser of \$13,500 or 18% of your previous years earned income. Also, if you have earned income in the past and haven't contributed the maximum you are eligible to an RRSP, you can take advantage of the RRSP carryforward provision. This convenient rule allows people who haven't contributed their maximum allowed since 1991, to catch up by making up the difference in any given year. To find out your total current RRSP contribution limit, refer to your "Notice of Assessment" which you receive sometime after filing your annual tax return.

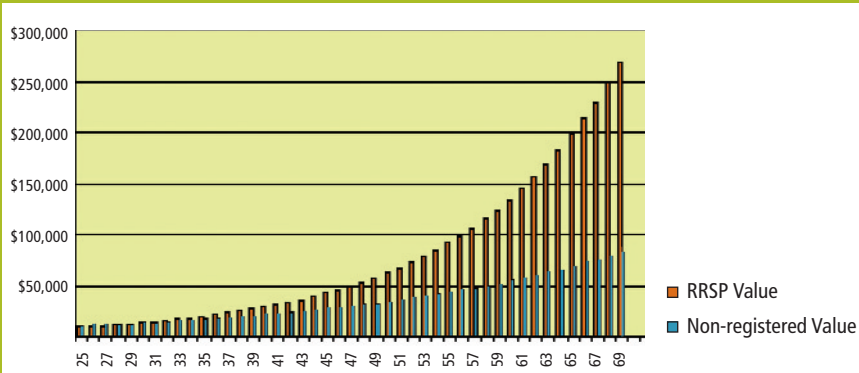
RRSPs differ from simple savings accounts because you can purchase many different types of investments and shelter any profits from immediate taxation. And while there are some restrictions on the types of investment you can put within your RRSP, generally stocks, bonds, mutual funds and money market securities are eligible. Some financial institutions offer different RRSP accounts that may limit your investment options. To ensure that your RRSP account is as flexible as possible, it's important that you take the time to compare the different options that are available to you.

### CAN I EASILY ACCESS MY SAVINGS?

Since the main purpose of an RRSP is to eventually provide you with an independent retirement-income stream, the Canada Customs and Revenue Agency stipulates that you must begin to withdraw fully taxable retirement income after December 31st of the year you turn 69. However, this does not mean that you cannot access your savings before this time. If you need to withdraw funds, say, for an emergency, you can do so through a simple request, and paying the applicable withholding tax.

### WHEN'S THE BEST TIME TO START INVESTING?

To take full advantage of the taxable benefits associated with an RRSP, the sooner you start investing the better. As the following graph illustrates, the longer your savings have to grow, the more you can benefit from the tax-sheltered compound investment returns that RRSPs provide. As a means of comparison, the growth of the same investment held within a non-registered account is illustrated to show how tax deferral can work to your advantage over time.



The above chart makes the following assumptions:

- The RRSP investor starts at age 25, contributes \$14,000 per year, receives an average 8% annual rate of return on the investment, and is subject to a tax rate of 40%. The final contribution is made at age 69.
- The non-registered investor starts at age 25, contributes \$10,000 per year, receives the same 8% return on investment, and is subject to a tax rate of 40%. Again, the final contribution is made at age 69.

The end result is that by taking advantage of the tax deferred benefits of a registered account, the value of the plan increased to \$268,132 at age 69. This compares to the non-registered account whose value is a mere \$82,463.

**The difference: \$185,669.**

## What's the best way to contribute?

Many Canadians struggle to make a large lump-sum contribution each year before the RRSP deadline. The problem with this approach is that it can be difficult to come up with enough money to make an effective contribution. Some investors contribute regularly by using a Pre-Authorized Chequing (PAC) plan. By making frequent contributions throughout the year, they avoid the stress of having to make large lump-sum payments that can temporarily strain their finances.

## RRSP Tips

There are a number of strategies you can use to make the most of your RRSP. Here are some ideas you can discuss further with your financial advisor:

- Maximize your contribution each year to make the most of tax-free compound investment returns
- If you have unused contribution room available, consider borrowing to invest. Many financial institutions offer RRSP loans at very attractive rates
- Make the most of the foreign content allowance in your RRSP to help reduce risk and potentially increase your returns
- Consider a "self-directed" RRSP to maximize your choice of eligible investments
- Find out if your employer has set up a group RRSP program. With a group plan, savings are automatic and you receive your RRSP tax refund immediately, instead of waiting until after your tax return
- If your spouse's income is expected to be lower in retirement, consider directing your contributions to a spousal RRSP

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

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