

RRSP KIT

2008

Making better RRSP choices

What's inside:

Should you invest in RRSPs?

Do spousal RRSPs still make sense?

Pros and Cons of RRSP loans

Managing your portfolio through volatility

RRSP Quick Reference Guide

Facts and Fun

Welcome to the 2008 RRSP Kit.

It's that time again when Canadians need to make last minute decisions about taxes, investments and their financial future. This package is designed to help you become a better RRSP investor. We hope you find this package interesting and enjoyable.

RRSP Kit 2008

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For information address:

Think Box Consulting

7505 - 104 Street

Edmonton AB T6E 4C1

Canada

www.WealthWebGurus.com

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Fun Facts and Figures

Best GIC Rates

Provided by FiscalAgents.com

Term	GIC	RRSP
1 Year	4.00%	4.50%
2 Year	4.20%	4.20%
3 Year	4.40%	4.40%
4 Year	4.55%	4.55%
5 Year	4.65%	4.65%

Rates as of January 31, 2008

Rates are subject to change daily



World Stock Market Performance

Data by MSCI Barra Indices

Performance as of Dec 31, 2007

Market	1 Yr
HONG KONG	37.83%
FINLAND	30.79%
GERMANY	19.53%
PACIFIC ex JAPAN	17.40%
GREECE	16.56%
SINGAPORE	16.25%
AUSTRALIA	12.22%
DENMARK	12.07%
NORWAY	12.00%
PORTUGAL	9.17%
SPAIN	8.83%
CANADA	8.19%
NETHERLANDS	6.00%
USA	4.09%
UNITED KINGDOM	2.96%
THE WORLD INDEX	2.83%
FRANCE	0.02%
PACIFIC	-3.35%
SWITZERLAND	-3.66%
NEW ZEALAND	-4.69%
SWEDEN	-6.83%
ITALY	-7.40%
AUSTRIA	-9.13%
JAPAN	-11.33%
BELGIUM	-14.56%
IRELAND	-29.53%



Should you invest in RRSPs?

Four things you need to know to determine if RRSPs make sense for you.

Every year at this time, I get a barrage of questions about whether it makes sense to still buy RRSPs? The first thing to understand is that the answer may be different for everyone. We all try to apply universal advice to our unique situations.

1. Know your marginal tax rate

When trying to determine whether RRSPs are advantageous, the first step is to know your marginal tax rate. Here in Alberta, the tax rates for 2002 (provincial and federal combined) were:

The reason this is the first step in the decision to buy RRSPs, is that your marginal tax rate determines the immediate benefit for the RRSP. For example, if I made \$25,000 last year, my wife made \$45,000, and you made \$75,000 and we each decided to invest \$1000 into the RRSP, I would save \$260, my wife would save \$320 and you would save \$360 in tax. Despite investing the same \$1000 we all get different tax benefits depending on our marginal tax rate.

2007	Tax rate	2008
\$9600 to \$37,178	25%	\$9600 to \$37,885
\$37,178 to \$74,357	32%	\$37,885 to \$75,769
\$74,357 to \$120,887	36%	\$75,769 to \$123,184
\$120,887 and up	39%	\$123,184 and up

2. Know what are you investing in?

To complicate things a little more, we need to determine what you are going to invest in. Different investments generate different types of investment income. Why is this important? These different types of investment incomes have different tax treatments. Interest income is fully taxed, dividends and capital gains are both tax preferred. Depending on your tax rate, if you are investing in equity investments that generate capital gains, you will not enjoy the benefits of tax deferred income as much as someone who invests in fixed income investments that generate interest income.

3. How long before you draw money out of an RRSP?

Next, you need to take a look at how long you will leave the money inside the RRSP before you start to take money out of the RRSP. Once again, the idea is to determine the value of tax deferred income inside the RRSP. The longer you plan to leave your money in the RRSP, the more likely you are to benefit from tax deferred growth inside the RRSP.

4. What will your marginal tax rate be when the money comes out?

The last thing to consider and one of the most difficult is to try to see what your marginal tax rate will be when it comes time to take the money out of the RRSP. Obviously, the ideal situation is to invest the money when you are in the highest marginal tax rate and then take the money out when you are in the lowest marginal tax rate. In this example, you would get a 39% tax benefit when the money goes in and then pay 26% when the money comes out. On the other hand, you would be doing yourself a disservice if you put money in while you are in the lowest tax bracket and then taking it out in a higher tax bracket. While this is rare, I do see it happen from time to time.

As you can see, you can complicate the decision as much as you want. Generally speaking most investors still benefit from the tremendous tax deduction at the time of contribution. The reality is that the outcome really depends on what assumptions you use: your marginal tax rate at the time of deposit, your marginal tax rate at the time of withdrawal, amount of capital gains realized annually, time horizon, investment selection outside the RRSP, rate of return assumptions, etc.

In order to properly assess the merits of RRSPs in your financial situation, it is important to use realistic assumptions about your financial future.



RRSP Quick Reference Guide

Who is Eligible?

- Anyone who has earned income, has a social insurance number and has filed a tax return can contribute to an RRSP up until December 31 of the year they turn 71. After this age, if you continue to have earned income, you can contribute to a spousal RRSP up until December 31 of the year your spouse turns 71.

Earned Income

- For most people, earned income for RRSP purposes is the amount in Box 14 of their T4 slips.
- Earned income also includes self-employed net income, CPP/QPP disability payments and net rental income.
- Income sources that do not qualify as earned income include investment income, pensions (including DPSP, RRIF, OAS, and CPP/QPP income), retiring allowances, death benefits, taxable capital gains and limited-partnership income.
- Revenue Canada's Form T1023 (Calculation of Earned Income) outlines all sources of earned income.

Contributing Securities

- You don't necessarily need cash to make an RRSP contribution. You can contribute (in kind) a security you already own outside your RRSP.
- The "in kind" contribution is equal to the fair market value of the security when contributed. Security is deemed to have been disposed of at time of contribution. Be aware that this can have tax consequences.

Maximum Contribution Limits

Your allowable RRSP contribution for the current year is the lower of:

- 18% of your earned income from the previous year, or;
- The maximum annual contribution limit for the taxation year, or;
- The remaining limit after any company sponsored pension plan contributions.

Tax Year	Income From	Maximum Limit
2007	2006	\$19,000
2008	2007	\$20,000
2009	2008	\$21,000

Notes

1. Pension Adjustment (PA) represents the value of any pension benefits accruing from participation in a registered pension plan or deferred profit sharing plan.
2. A Past Service Pension Adjustment (PSPA) arises in rare instances where a member of a pension plan has benefits for a post-1989 year of service upgraded retroactively.

Obtaining Your Contribution Limit

- After processing your tax return Revenue Canada sends a Notice of Assessment, which includes your next years contribution limit. This document also shows your unused contribution room.
- Or you can call your local Tax Information Phone Systems (TIPS) number, which is found in the blue pages of your phone book under Tax Services. Be sure to have your SIN and previous tax return ready.

Spousal RRSP

- All or a portion of your RRSP contribution can be made to an RRSP in your spouses name.
- As the contributor, you get the deduction, but your spouse is the owner of the plan. There can be tax implications when spousal funds are withdrawn.

Deadline to Receive a Tax Deduction

- The deadline for a RRSP tax contribution will be midnight Feb 29, 2008.
- Contributions made in the first 60 days of the year can be applied against the previous taxation year or in any subsequent year.
- If you are turning 71, this is the last year in which you may contribute to your RRSP. You must convert your RRSP by December 31 in the year you turn 71.

Unused/Carry Forward Contribution Room

- RRSP contribution room accumulated after 1990 can be carried forward to subsequent years. If you are unable to maximize your RRSP contribution this year, you are allowed to make up the difference in later years.

Over Contribution

- The \$2,000 lifetime over contribution allowance applies to those who have reached age 18 or older.
- Your over contribution can be used as a deduction in future years (\$2,000 over contribution in 2007 can be used as part of your deduction in 2008).
- Any amount in excess of \$2,000 will be charged a penalty of 1% per month.

First Time Home Buyer's Plan

- Allows qualified first time home buyers to borrow up to \$20,000 from their RRSP to buy or build a qualified home (Complete form T1036).
- If a contribution is made within 89 days of withdrawal, you may be denied the right to deduct that amount as an RRSP deduction for that year.
- Repayments can be made to any of your personal RRSPs at a minimum rate of 1/15 of the amount borrowed per year. You may repay more if desired. Repayments do not qualify for tax deductions for income tax purposes.
- When repaying the loan, complete Schedule 7 of your tax return to designate the portion of your contribution that is repayment.
- Minimum repayment amounts that are not repaid will be added to your taxable income in the year they are due.



Retiring Allowance Rollovers

- You may be eligible to rollover part of a retirement allowance into your RRSP. The eligible amount is \$2,000 for each full or partial year up to and including 1995, plus \$1,500 for each full or partial year of employment before 1989 where your employer did not contribute to a pension plan or Deferred Profit-Sharing Program (DPSP), or where employer contributions did not “vest” to you. This does not affect your contribution limit.
- Retiring allowance for employment after 1995 no longer qualifies for rollover to an RRSP.



Do Spousal RRSPs still make sense?

With the new pension splitting laws, will the spousal RRSP become obsolete?

Last year, the government introduced new pension splitting laws. One-third of Canadians are part of a formal pension plan. For the other two-thirds without pensions, the rules allow you to split your RRSP income but only after the age of 65. In other words, if you are over the age of 65, and you start to withdraw income from your RRSPs through a RRIF or annuity, you can give your spouse up to 50% of that income. This is incredible news for couples in retirement.

Prior to the new pension splitting rules, the only way retirees could do any sort of income splitting was through spousal RRSPs. Does this now mean that spousal RRSPs will become obsolete?

Should you contribute to spousal RRSPs?

According to Garry Keiller, Financial Advisor for Nakamun Financial Group, “While spousal RRSPs may have lost some of their allure due to the pension splitting, I suggest there are still situations where the spousal RRSP will provide a valuable benefit.”

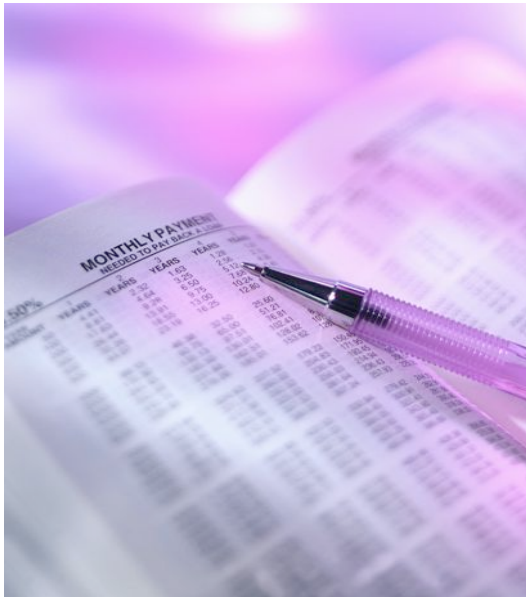
Keiller provides a hypothetical example. Ken is a member of a pension plan and still has the ability to make RRSP contributions. Ally, his wife, works but does not have an employer-sponsored pension plan. Ally plans to retire at age 55. If Ken continues to work past age 55, he won't be able to split any income unless he contributes to a spousal RRSP. Even if Ally plans to work longer, the spousal RRSP still gives the couple maximum flexibility.

At the end of the day, spousal RRSPs still have a place in retirement planning and income splitting. This example accentuates the importance of individual planning. Everyone has unique circumstances.

Pros and Cons of RRSP loans

It's RRSP time again and financial institutions start their continuous efforts get you to put money away into your RRSPs. After all, RRSPs are one of the best investment vehicles around because of the immediate tax deduction and the long term tax-free compounding on investment income.

If investing in RRSPs is so attractive, then why is it that only about 10% of the total RRSP contribution available is being used by Canadians? Why is it that 2/3rds of Canadians don't make an RRSP contribution at all?



With all this unused RRSP contribution room, one of the common questions is "Should people borrow to catch up on their RRSPs?".

Borrowing to Buy an RRSP.

In the short term, the math on borrowing to buy RRSPs suggests that it makes sense. Let's assume you are in a 25% marginal tax bracket and the interest cost of an RRSP loan is 6%. On a \$1000 contribution, you would get a \$250 tax refund and your interest on the 6% RRSP loan based on 12 monthly payments would cost only \$32. In the end, you would net a \$218 tax gain on a \$1000 investment.

Longer loan periods are not as attractive.

With more and more unused RRSP contributions, financial institutions are promoting RRSP catch up loans where people can borrow more money and stretch the amortization period over longer periods of time.

Although the math works just like in the example above, I often suggest that people should forgo the loan and just start making monthly RRSP contributions in the same amount of the payments they would have to make as if they borrowed the money. It's so important to develop a long term habit of forced savings. That being said, for undisciplined investors, sometimes the RRSP loan is the only way to stay disciplined. Just keep in mind the cost of borrowing eats into the immediate tax benefit of the RRSP.



Managing your RRSP portfolio through market volatility.

This RRSP season is likely to be a nervous one for most investors. Markets in 2008 have started on the wrong foot moving in the wrong direction. Many investors in turbulent times naturally worry about their retirement nest egg and wonder if they should be doing anything with their portfolio to react to this market downturn.

I think the answer lies in you and your time frame, risk tolerance and financial worth. Let's look at this in more detail.

Time frame

If you are younger with a long time horizon to retirement, then buying and/or holding is probably the best strategy. We all know that times like these cause emotions to fly high but if you think about it logically, market downturns are a time to buy low. Here's the reality. Market corrections are a natural occurrence of the market. Every time the market goes through any correction and especially severe ones, the market always reaches new highs. Investing in markets is the only business I know where when something goes on sale nobody buys. The problem with this logic is it is very hard to do.

Those that are older and nearing retirement or in retirement should be more concerned but not necessarily to the point of panic. It's common sense that the older you get, the more conservative you should be. If you have concerns, then this would be a good time to sit down with an advisor and assess the situation.

Risk tolerance

One of the basic problems with risk tolerance is that people's risk tolerance is not only subjective but also a moving benchmark. In other words, when times are good people naturally are willing to take a little more risk. When markets are down, people are naturally inclined to be more conservative. Success lies in figuring not how much risk you want but rather how much risk you need. The best way to determine how much risk you need is to get a sense of your financial worth.

Financial Worth

Far too often investors tend to look at their investments on a micro level instead of looking at the portfolio in relationship to the big picture. In the big picture, you should look at the end financial goal to help manage the details of the portfolio on a day-to-day, month to month or year-to-year basis. Consider someone who is 55 years old and has \$1,000,000 in investible assets and their goal in retirement (age 60) is to generate \$50,000 per year. Well, if this person could earn 5% on the \$1 million, they would generate \$50,000 per year. In this case, this person only needs to earn 5%, which could be achieved from a very conservative portfolio. He/she might want to take more risk for a better return but it is not necessary. The big picture can help a lot when it comes to making specific decisions about the portfolio.

At the end of the day, markets do what markets do. You can't predict it and you can't control it. Investors need to focus on things they can control instead of worrying about the direction and path of the markets.



Great Quotes from Great Investors

“Investing is an inexact science. It’s better to be approximately right than precisely wrong.”

George Hartman

“Investors always do the wrong things at the wrong time. They buy when they should sell and they sell when they should buy.”

Nick Murray

“This Time is different are among the four most costly words in history.”

Sir John Templeton

“Everyone has the brain power to invest in stocks. Not everyone has the stomach.”

Peter Lynch

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