Do you have an exit strategy for your RRSP?

When is the best time to begin converting your Registered Retirement Savings Plan (RRSP) assets into retirement income? There simply is no right or wrong answer, but here are your options.

Age 69 at latest
You're not required to convert your RRSP into a source of income — usually a Registered Retirement Income Fund (RRIF) or annuity — until the end of the year in which you turn 69. Delaying until then allows your assets to grow and compound on a tax-deferred basis. Provided you have available contribution room, you can continue to add to your RRSP in the intervening years. And if your spouse is younger than you, you may be able to contribute to a spousal RRSP beyond the end of your 69th year.

The typical retirement age, however, is 65. That's when your Old Age Security (OAS) payments will kick in, providing you meet the eligibility requirements.

Before age 65
You might choose to retire before age 65, or circumstances (health issues, for example) might make converting sooner the best option because you need the income payments. You can then use your RRIF or annuity payments to supplement other income sources and fully enjoy your retirement lifestyle right from the start.

Your time
With professional advice, you can avoid the extremes — withdrawing too much money too soon and depleting the funds, or waiting too long and taking so little money that you don't enjoy your retirement. A sound retirement income plan, based on your unique needs, will allow you to make the most of your savings.
Does your RRSP need a new fund mix?

We all recognize that our needs evolve as we grow older. But change has a way of creeping up unnoticed. That’s why it’s important to review your Registered Retirement Savings Plan (RRSP) on a regular basis.

With another year behind us, and the RRSP contribution deadline just ahead, it’s an ideal time to schedule a review. A key question for mutual fund investors is: Are you holding the right mix of mutual funds in your RRSP? Is it time to begin making adjustments in preparation for the next stage of your investing life?

Risk-return tradeoff
First, remember that mutual funds are a way to invest in various asset categories — not an asset category on their own. An equity mutual fund invests in stocks. A fixed-income fund invests in bonds and similar holdings. A balanced fund invests in both stocks and bonds. The key point is that your fund’s performance depends largely on what it’s invested in. When Canadian stocks do well, Canadian equity funds do well too. The same goes for other asset classes.

Historically, equity funds have delivered superior returns over the long term — but with greater volatility. Money market funds and fixed-income funds help to offset that volatility.

Juggling variables
How do we decide whether you have the right proportion of equity, fixed-income, and cash-equivalent funds in your RRSP for your current stage of life? We’ll look at the following factors:

- Accumulation horizon. The farther from retirement, the longer you have to recover from a setback. As a result, young people can typically bear more risk than older people.

- Drawdown horizon. How long will your retirement run? This reflects your target retirement age and life expectancy. Worklife changes and health concerns for you and your spouse can easily affect your target retirement date. Health issues naturally affect your longevity projection. The longer your retirement, the more capital you will need. 

- Target retirement lifestyle. How much retirement income do you want? Your lifestyle today is probably different than 10 or 20 years ago. As we age, our wants and needs change.

- Required rate of return. If you have already accumulated a substantial amount, you may need only modest returns from your retirement savings in order to meet your future needs. On the other hand, if you’re behind in your savings, you may need to take on extra risk or consider adjusting your expectations.

- Other sources of income. Some retirees continue to work part time. Others may receive an income from a company pension plan. All of these factors are subject to change as you progress through life’s stages.

Do you have the right mix?
An old rule of thumb suggests setting your equity allocation by subtracting your age from 100. So you would be 70% in equity funds at age 30, 60% at 40, 50% at 50 and so on. But there’s no one-size-fits-all solution. Indeed, one of the most valuable benefits of working with a financial professional is gaining expert insight into the mutual fund mix that best matches your unique situation.

With professional assistance, you can make sure that the mutual fund mix in your RRSP stays in step with your life.

Does your RRSP need a new fund mix?

Your RRSP checklist

Deadline
March 1, 2006 is the last day to make a contribution that you can claim on your 2005 tax return.

Foreign content
The 2005 federal budget abolished the foreign content limit. You can hold as much of your RRSP in foreign assets as is appropriate, given your risk tolerance and investment objectives.

Contribution limit
You may contribute up to 18% of the income you earned in 2004 to a maximum of $16,500, less any pension plan contributions, plus your unused room from the past, if any.

Consider RRSP loans
You’ll get a tax deduction for your contribution, and in most cases, the long-term benefit of tax-deferred compound growth will outweigh the short-term interest cost. Professional advice can help you decide whether borrowing is an appropriate choice for you.
MONEY INSIGHTS

Consider these New Year’s resolutions

Keep your financial plan on track for 2006 and beyond with these five financial resolutions:

1. Set up automatic monthly RRSP contributions to help you reach your maximum in 2006.

2. Update your will, power of attorney for property, and power of attorney for medical decision-making.

3. Avoid credit card balances. If you can’t pay in full at the end of every month, consider using a lower-rate line of credit instead.

4. Protect yourself, your family, and your property with insurance.

5. Take care of yourself. Poor health is the biggest threat to your financial plan.

FINANCIAL PLANNING

Canadians turning to professionals

Increasingly, Canadians are recognizing the value of consulting a financial advisor, says an Environics poll. Overall, the survey found that 43% of Canadians have advisors. The figures ranged from 46% of those aged 30 to 44 to 48% of those aged 60 or older. The polling firm expressed surprise that so many younger people have sought professional help, but concluded that by age 30, many Canadians find that their financial situation is complex enough to benefit from expert insight.

INSURANCE

Do you have what you need?

When did you last review your insurance coverage? If you’re like the majority — 61% of Canadians in a recent Ipsos-Reid survey — it’s been more than a year. And that may not be sufficient. You should check your coverage at least annually and, more important, whenever there’s a major change in your life. That includes marriage, the birth of a child, a home purchase, or a big career move.

Time really is money

WHILE TAX DEDUCTION is attractive, the most powerful feature of a Registered Retirement Savings Plan (RRSP) is actually long-term, tax-sheltered compounding. That’s why it’s important to start contributing as soon as you can — and to keep contributing.

*Based on a 35-year-old investor contributing $5,000 at the beginning of each year, and earning 6% compounded annually, until age 60. For illustrative purposes only. Actual returns may vary.
Reinvent your marriage when you retire

Retirement involves big changes in your life as a couple. Not only are you likely to share more time and space at home, one spouse might look to the other to fill the void of social contact or intellectual stimulation once found at work. That’s an unrealistic expectation for anyone.

In fact, a Conference Board of Canada study found that about one-third of Canadians have trouble adjusting to retirement. The people who adapt best are those who take the time before retirement to plan for the emotional, as well as the financial, challenges of not working.

Now is the time for you and your spouse to discuss what both of you want out of this next phase of your life, and how to work together to find it.

Charting a common path

You and your spouse may have quite different expectations about what your life together will be like in retirement. Listing what is most important to each of you — relaxation, developing a new hobby, volunteering, or travel — will help both of you set priorities.

If your expectations don’t match, you’ll have an opportunity to work toward either a compromise or a way of complementing each other’s needs. Does one of you view retirement as a time to kick back and read that tall stack of novels, while the other envisions a three-month European tour? While you’ll both want to maintain your independence and individuality, you also will want to keep an eye on the financial, spending time discovering new passions and pursuits together may bring you even closer.

It’s important to be able to maintain your independence and individuality, while also making a priority of spending quality time together.

Working together

Planning together, discussing expectations openly, and sharing ideas about projects, activities, and the daily life you envision can help you look forward to this next phase of marriage as a new opportunity. It’s a time to reinvent your life together and see what works for you as a couple and as individuals.

Set the first year of your retirement as a time to experiment. After 30 or 40 years of an imposed working structure and the pressures of raising a family, you now have time to mould this next phase together as you’d like it, and rediscovers each other in the process.

Reaching out

There may be adjustments at first as you try on new routines and roles. To help make the transition smooth, establish a person, or a group, with whom you can discuss these adjustments — this can help you maintain perspective as you settle into your new life together.

While you’ll both want to maintain and develop independent interests and activities, spending time discovering new passions and pursuits together may bring you even closer.

4 ways to make your RRSP money last longer

Canadians today are living longer and enjoying a more active retirement than their parents or grandparents. If you retire at age 60, there’s a good chance either you or your spouse could live to age 90. This means that your retirement might last 30 years — a third of your life.

That’s great news. But to enjoy your lengthy retirement to the fullest, you’ll need to ensure that your Registered Retirement Savings Plan (RRSP) funds will last at least as long. Here are some strategies to help.

1. Build in regular contributions. Don’t wait until the deadline. If you make biweekly or monthly contributions part of your retirement savings an extra yearly boost.

2. Boost regular deposits. For the 2005 tax year, you may contribute 18% of 2004’s earned income to a maximum of $16,500, which will rise to $18,000 for 2006. Bumping up your contribution all at once may seem daunting, but adding just an extra $30 a week will amount to more than $1,500 over the year.

3. Reinvest your refund. By putting your income tax refund right back into your RRSP, you’ll be giving your retirement savings an extra yearly boost.

4. Go for some long-term growth. Strive for a diversified portfolio with enough growth potential — within your personal risk level and time horizon.

Professional advice can help ensure your RRSP funds have the longevity needed for a fulfilling retirement.