Portfolio advisor

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Allen Wealth Management

"Dum vivimus, vivamus" "While we live, let us enjoy life"

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RRSP/RRIF special issue

Smart strategies for tough markets

Between today's historically low interest rates and the subdued stock markets, it can feel like your retirement savings are caught between a rock and a hard place. While market conditions have improved since the economic downturn of 2007-2009, they remain challenging. Opportunities can be found, but they're scarce, with very little "easy money" to be made. That makes it much more important to make the most of your opportunities. And smart planning strategies to optimize your financial resources, reduce your taxes and enhance your retirement plan can make all the difference.

In this issue of *Portfolio Advisor*, we highlight smart planning strategies that can help you maximize your retirement savings and after-tax retirement income in today's tough markets.

Smart retirement planning strategies

It's often the simple things that make the most difference – but they're often the easiest things to overlook. Revisit your retirement plan to make sure you're taking full advantage of these tried-and-true strategies.

UPDATE YOUR FINANCIAL PLAN TO MAKE SURE YOU HAVE "ENOUGH"

So how much money is "enough" for your retirement? There's no pat answer. Pension plans often use 60% or 70% of your pre-retirement income as a benchmark. Some experts suggest a cool million. But many retirees get by on less – depending on their lifestyle expenses, anticipated lifespan and estate planning goals (among other things).

An updated financial plan will take all these factors into account and help you determine if you're saving enough (if retirement is ahead of you) or spending too much (if you're already retired). If you haven't had one done for a few years, it's a good idea since you may need to make some adjustments due to the economic downturn.

MAXIMIZE TAX-DEFERRED GROWTH

Your registered plans offer some key tax advantages, including tax-deferred compound growth. The longer you leave your investments in your registered plans, the more you benefit from this. If you have a Registered Retirement Savings Plan (RRSP), contribute the maximum each year. Also try to contribute earlier in the year, so your assets have more time to grow on a tax-deferred basis. If you've fallen behind over the last few years, try to catch up as soon as possible – all your unused RRSP contribution room carries forward.

DELAY CONVERTING YOUR RRSP FOR MORE TAX-DEFERRED GROWTH

If it makes sense in your situation, wait until the deadline before converting your RRSP into a Registered Retirement Income Fund (RRIF) – December 31 of the year in which you turn 71. Once you convert to a RRIF, try to withdraw just the required minimum amount each year, leaving more assets inside the plan to continue growing on a tax-deferred basis.

MAXIMIZE THE TAX DEDUCTIONS

As you probably know, you can claim any contribution you make to your RRSP up to your contribution limit as a tax deduction on your annual income tax return, which can result in a tax refund. But you don't have to claim a deduction in the same year you make a contribution. And if you expect to have higher taxable income in a future year, it can make sense to wait to claim the deduction, as you may receive greater tax savings.

Contact us for assistance with your RRSP. Remember that you can contribute to your RBC Dominion Securities RRSP online. Simply log in to your DS Online homepage, click on "My Accounts" then choose "Transfer Funds". If you haven't signed up for DS Online yet, please go to www.rbcds.com, click on "DS Online Login", then "First Time Sign In" to gain access to this complimentary service for clients.

RRSP DEADLINES / CONTRIBUTION LIMITS

You can contribute up to 18% of your earned income to the maximums outlined below, minus any pension adjustments, but plus any unused contribution room from previous years. Check your latest Notice of Assessment, Notice of Reassessment, T1028 form, or log in to your Canada Revenue Agency account at www.cra-arc.gc.ca/myaccount.

Tax year	Contribution Limit	Deadline
2009	$21,000	March 1, 2010
2010	$22,000	March 1, 2011
2011	$22,450	February 29, 2012
2012	$22,970	March 1, 2013

Smarter retirement planning strategies

It's important to make the most of the RRSP/RRIF fundamentals especially in today's tough markets. But there are other retirement planning strategies that can help, including many that don't actually involve RRSPs or RRIFs.

WITHDRAW RETIREMENT FUNDS IN A TAX-EFFICIENT ORDER

Generally, if you're in a high tax bracket, it makes sense to withdraw assets attracting the least tax first. If your spouse has a significantly lower tax rate, consider withdrawing their taxable assets before yours (and your non-taxable assets before your spouse's). You should consult with your tax professional to confirm the best withdrawal strategy for your situation. However, the following can be used as a rule of thumb:

Tax-efficient retirement asset withdrawal hierarchy
1. Capital dividends from your private corporation
2. Repayment of shareholder loans owed to you by your private corporation
3. Tax-Free Savings Account withdrawals
4. Non-registered assets, beginning with investments with the lowest accrued capital gains
5. Taxable dividends from your private corporation
6. Payments from locked-in registered plans, above mandatory minimum
7. Lump sum RRSP withdrawals / RRIF or LIF payments above mandatory minimum

BOLSTER YOUR RRSP/RRIF WITH A TFSA

Introduced in 2009, the TFSA enables you to contribute $5,000 annually and earn tax-free investment income. You can also make tax-free withdrawals, for any reason, and the amount is added back to your available contribution room the following year. Any Canadian 18+ receives contribution room even if they have no earned income, and, if unused, it accumulates (starting from 2009).

Consider this TFSA strategy: If you're a higher-income earner, give money to each of your lower-income adult family members to fund their own TFSAs. This way, you can transfer more assets that would otherwise be exposed to your high tax rate to a tax-sheltered environment. As of January 1, 2011, a family of four adults could already have as much as $60,000 sheltered in TFSAs.

Here's another TFSA strategy: If you're withdrawing the minimum amount from your RRIF, but don't need it, consider putting it into your TFSA to continue growing tax-free (if you have TFSA contribution room).

Please contact us for assistance setting up TFSAs for you and your family.

SPLIT INCOME TO REDUCE COMBINED TAXES

Because of Canada's progressive tax rates, the higher your income, the higher your tax rate. As a result, a couple earning similar retirement incomes generally pays less tax than a couple with unequal retirement incomes (assuming both couples earn the same combined income). Fortunately, starting at age 65, you can now split "eligible pension income" (such as RRIF income) up to 50/50 with your spouse to even out your retirement incomes. You simply report the split amount as your spouse's on both of your tax returns – it's that easy.

But what if you don't think splitting pension income alone will completely even out your retirement income with your spouse? Consider a spousal RRSP. You can make up to 100% of your RRSP contributions to a spousal plan. You get the tax deductions, and your spouse draws the income in retirement to help further even out your incomes.

Remember that you can continue contributing to a spousal RRSP even after you've converted your own RRSP to an RRIF – so long as you have RRSP contribution room and your spouse is 71 or younger on December 31 of the year you make the contribution.

SUPER-SIZE YOUR RETIREMENT BENEFITS

If you're a higher-earning executive, you may face a "pension gap" due to the hard limit on pension/RRSP contributions ($22,000 for the 2010 tax year). To fill this gap, your employer can create a Retirement Compensation Arrangement (RCA) to top-up your retirement benefits above and beyond the normal hard limits.

Another special retirement plan is the Individual Pension Plan (IPP). The IPP is ideal for incorporated professionals like doctors, dentists, vets, etc., as well as business owner/managers. Generally, if you're aged 40+, earn $120,000 or more annually, you can contribute more to an IPP than you can to a regular RRSP – plus the contributions are tax-deductible to your corporation.

To learn more about RCAs/IPPs, please contact us.

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ENSURE YOUR RETIREMENT BY INSURING YOUR RETIREMENT

It's still a little-known fact that you can deposit additional amounts to a life insurance policy, invest them in a variety of ways, and earn tax-deferred investment income just like an RRSP. Normally, life insurance doesn't pay out until after you die. But what if you need income to help fund your retirement? You can take out tax-free bank loans using the policy as collateral, which you can spend as needed. Then, when your estate is settled, the policy proceeds pay back the loans, and any remainder goes to your beneficiaries along with a tax-free death benefit.

We can help you assess the cost/benefit of tax-exempt insurance in your situation. Please contact us to learn more.

ALLOCATE INVESTMENTS TAX-EFFICIENTLY BETWEEN YOUR REGISTERED AND NON-REGISTERED ACCOUNTS

For many retirees, an RRSP/RRIF represents just a portion of their retirement savings. They also have a non-registered account, which is a regular taxable account. Despite this, there are some things you can do to make your regular taxable account a more tax-efficient account.

One way is to allocate your investments between your registered and non-registered accounts in a tax-efficient manner. In a taxable account, different types of investment income are taxed in different ways. Interest income is 100% taxable at your marginal rate. On the other hand, dividend income paid by a Canadian corporation receives a Dividend Tax Credit and only half of any capital gain is taxable at your marginal rate. To reduce taxes, allocate more of your fully taxable interest-bearing investments to your RRSP/RRIF, where they are sheltered from taxes. Then, allocate more of your Canadian dividend-paying stocks to your taxable account, as they are already tax-efficient investments.

REDUCE CURRENCY CONVERSION COSTS WITH A U.S. DOLLAR REGISTERED PLAN

When trading U.S. securities in an RRSP, RRIF or TFSA, you normally have to pay currency conversion charges automatically. To give you control over when you convert between Canadian and U.S. dollars, we recently introduced Canada's first full-service U.S./Canadian dollar registered plan. This feature is available now for new and existing registered plans – all you have to do is ask.

Market and economic outlook

Up to half-speed

- The U.S. remains in the midst of a half-speed recovery hampered by high unemployment, excess industrial capacity, and a sagging housing market. The recent improvement in investor sentiment has been driven by the prospects of large liquidity injections from the Federal Reserve through a second round of quantitative easing (QE) measures.
- Following the recent rally, equity markets appear to have largely discounted the prospects of some form of quantitative easing already. The size of the program and the extent of the Fed's commitment to keeping longer-term rates at very low levels will be key determinants of market sentiment in the short term. Beyond that, evidence that the measures are proving successful in boosting consumer sentiment and stimulating economic growth will likely be needed to sustain the current rally. This may prove challenging.
- We continue to believe that government bond yields are pricing in a very downbeat scenario, leaving scant protection from an upside surprise in growth or inflation. While the market has priced in some sort of quantitative easing, the actual reaction to such an announcement is still up in the air – note that the March 2009 commencement of QE actually marked a near-term bottom for bond yields.

For a more detailed discussion of our outlook for the Canadian, U.S. and global markets, please ask us for a copy of our latest *Portfolio Strategy Quarterly* or *Mid-Quarter Update*.

Listen to a webcast from our chief investment strategist, Jim Allworth, at **www.rbcds.com/market_outlook.**

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