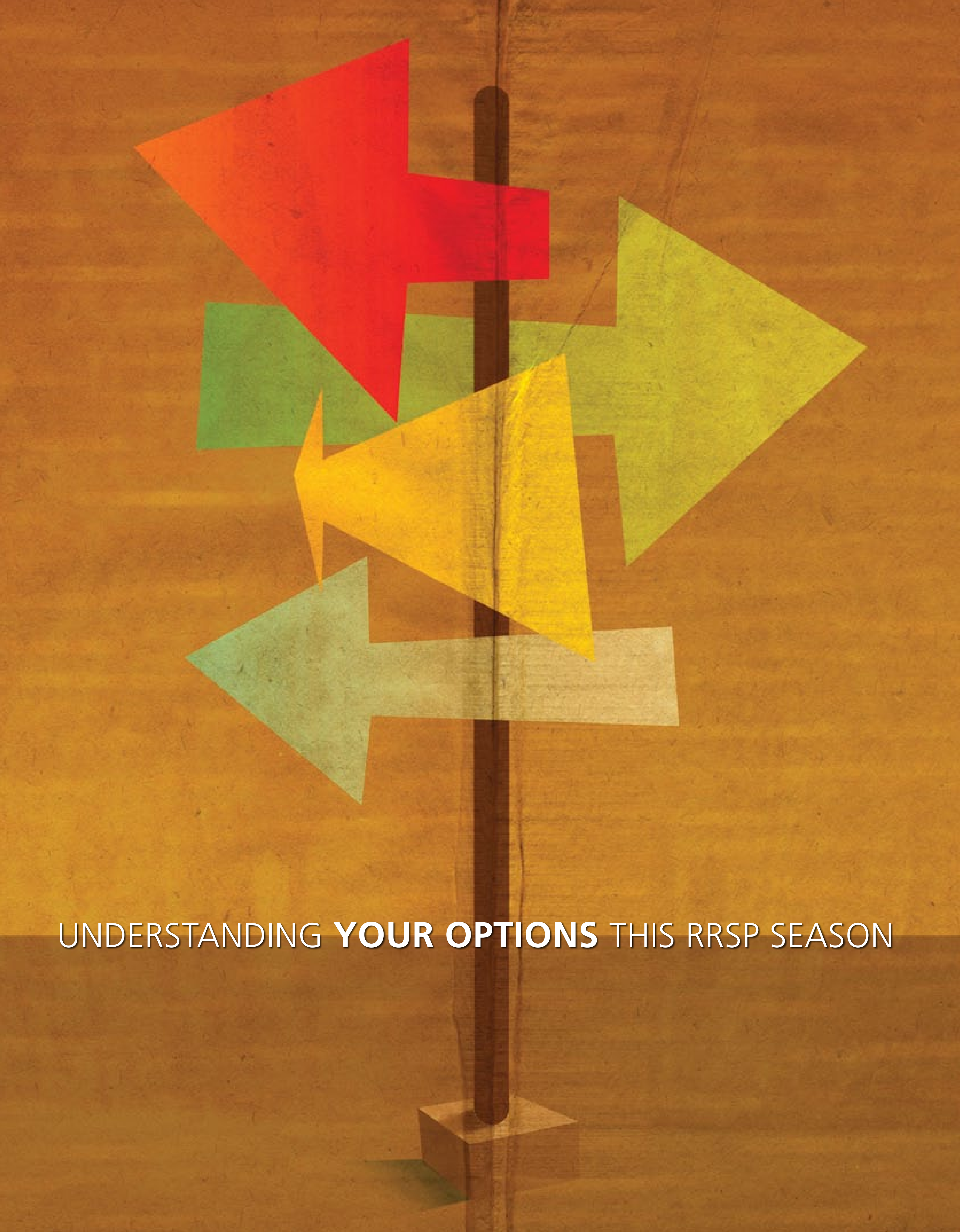


UNDERSTANDING **YOUR OPTIONS** THIS RRSP SEASON

CONSIDER MUTUAL FUNDS AND SEGREGATED FUND CONTRACTS

You've likely heard it before: you should regularly contribute to a Registered Retirement Savings Plan (RRSP) to prepare for retirement. And perhaps you do. However, out of almost 93 per cent of Canadian tax filers who were eligible to contribute to an RRSP for the 2010 tax year, only 26 per cent actually made contributions.[1]

So maybe you're among the majority that did not contribute? If this is the case, keep reading to learn why it's so important to contribute to an RRSP, and what some of your options are.

What is an RRSP?

An RRSP is a retirement plan registered with the Canada Revenue Agency (CRA) and that you or your spouse[2] makes monetary contributions to. These contributions, up to your personal limit, are deductible from your income, meaning that they can be used to reduce the total tax you pay in a given year. As well, any growth in an RRSP is exempt from tax while your money remains inside the plan. These are incentives the CRA uses to help ensure Canadians take an active role in preparing for their retirement.

HOW AN RRSP CAN HELP YOU

1. The deduction available on your contributions will lower your tax bill.
2. It offers tax-deferred growth on investments in the plan.

What happens if you need to access the money in an RRSP before retirement?

An RRSP can be completely cashed out before retirement and the proceeds paid to you. You may also take partial withdrawals without terminating the plan. However,

[1] As reported on the Statistics Canada website, published Friday, December 2, 2011, in "The Daily" report.

[2] Includes a spouse or common-law partner as defined by the *Income Tax Act* (Canada).

either of these scenarios will result in the withdrawals being taxed at your marginal tax rate in that same calendar year. And when you withdraw money from an RRSP, you'll have that much less saved for retirement. If you can, it's best not to touch your RRSP until you retire.

An important part of your savings plan

The following chart highlights how important RRSPs can be to your retirement savings. Just look at the after-tax value of the savings of someone who did not invest in an RRSP, versus someone who did.

RRSPs are available from financial institutions, including banks, trust companies, mutual fund companies, life insurance companies and stock brokerages. A number of investment options are available, such as GICs,[3] stocks, bonds, annuities, mutual funds and segregated fund contracts. Specifically, mutual funds and segregated fund contracts can provide important advantages when accumulating wealth for retirement, especially when held in RRSPs, which can enhance their inherent benefits.

Let's look at the options of holding mutual funds and segregated fund contracts as part of an RRSP in more detail.

The basics of mutual funds

When you invest in mutual funds, your money is pooled together with other investors' money. You own units, which represent your portion of the holdings in the fund. Mutual funds invest in a broad range of securities and are typically managed by a team of investment professionals. Mutual funds range from being very conservative to aggressive, offering different levels of growth potential and associated risk, so it's important to understand the characteristics of the mutual funds in which you invest.

Your investment in a mutual fund can grow:

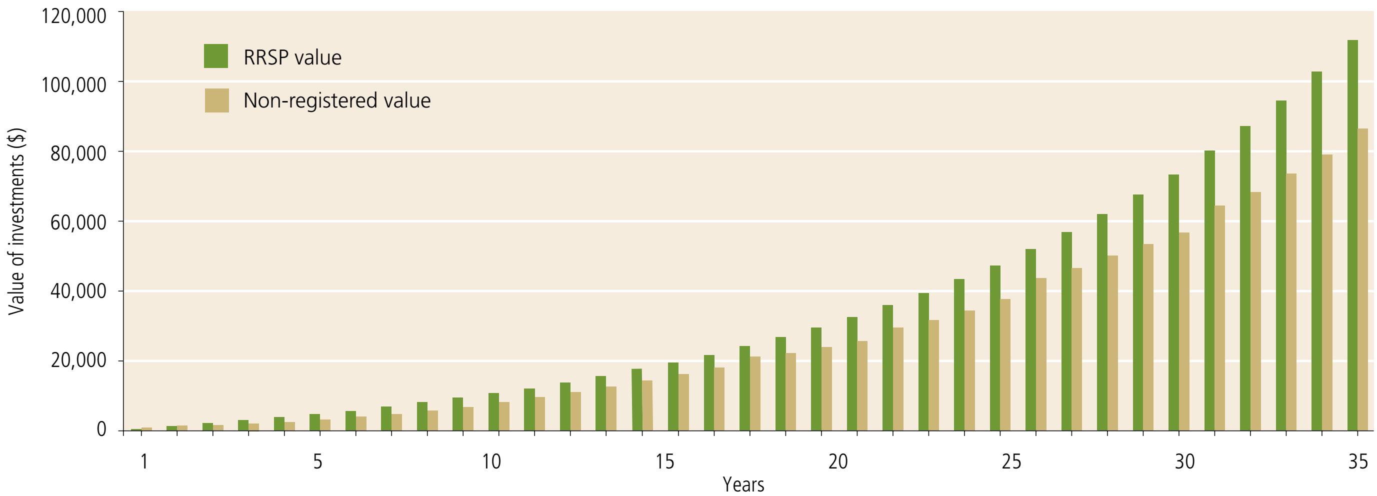
1. When the fund earns income, such as dividends on stocks and interest on bonds.
2. When the fund's securities experience market growth.

The advantages of investing in mutual funds

Diversification: When you're diversified by investing in a large number of assets, as is the case when you invest in mutual funds, a loss in any particular investment can potentially be minimized by gains in others.

How your savings can grow

After-tax value of registered vs. non-registered savings*



* Based on annual contributions of $1,000 at the beginning of each year, an eight per cent annual rate of return and a marginal tax rate of 40 per cent. Assumes 25 per cent of investment income is taxed annually at 28 per cent and paid from the account for the non-registered plan. For illustration purposes only. Rates of return will fluctuate and are not guaranteed. Past performance histories are not indicative of future performance.

[3] GICs can refer to Guaranteed Interest Contracts offered by insurance companies and Guaranteed Investment Certificates offered by banks and other financial institutions.

Professional management: Investors purchase mutual funds because they do not have the time or the expertise to manage their own portfolios. The portfolio fund managers make all of the decisions and do the monitoring for you.

Liquidity: You can redeem your funds at any time. However, if your mutual fund is held in an RRSP, you may want to consider obtaining the money you need from another source as you will be taxed on the withdrawal and certain fees and charges may apply.

Simplicity: Most companies offer pre-authorized chequing plans so that money can be invested automatically on a monthly basis.

Economies of scale: Mutual fund managers buy and sell large volumes of securities at a time; therefore, you have the opportunity to access a fully diversified portfolio at a significantly lower cost, versus constructing your own portfolio, security by security.

The basics of segregated fund contracts

A segregated fund is a pool of assets held by a life insurance company, but the pool or fund is "segregated," or kept separate from the general assets of the insurer. The fund may comprise stocks, bonds, mutual funds or a combination of these and other assets.

You invest in a segregated fund through the purchase of a segregated fund contract. The contract offers investment management and growth potential, just as mutual funds do, but there are also protective guarantees provided by the insurer. There are many types of segregated fund contracts that vary in complexity and features, but all offer death benefit and maturity guarantees.

The advantages of investing in segregated fund contracts (in addition to many of those offered by mutual funds)

Death benefit guarantee: In the event of death, your named beneficiaries are guaranteed to receive the greater of the market value of the contract or the death benefit guarantee, which is a minimum of 75 per cent of all deposits made into the investment, less any withdrawals on a proportionate basis.

Maturity guarantee: Segregated fund contracts also offer a maturity guarantee. On the maturity date of your contract, typically December 31 of your 100th year,[4] you are guaranteed to receive a minimum of 75 per cent of all the deposits you have made (reduced proportionately by withdrawals), even if market downturns have reduced the value of your contract to a value less than the 75 per cent.

With all of the advantages of holding mutual funds and segregated fund contracts in an RRSP, both can be powerful options to help accumulate wealth for your retirement years.

What happens to your RRSP when you turn 71?

You don't necessarily have to cash out an RRSP immediately upon retirement. Rather, the CRA has mandated that RRSPs must mature before the end of the year in which you turn age 71. At this time, you can take a lump-sum payment, on which you would have to pay tax at your marginal rate. However, a better alternative is to convert the RRSP to a Registered Retirement Income Fund (RRIF) or a registered annuity, either of which provides you with a series of payments over time and is therefore more tax-efficient.

SOMETHING ELSE TO CONSIDER — THE SPOUSAL RRSP

A spousal RRSP is a plan opened in your spouse's[2] name to which you make contributions. The advantage of a spousal RRSP is that it can provide you with opportunities to split income with your spouse before and after retirement to generate tax savings. Tax savings can be realized when the spouse who is in a lower tax bracket takes income from the spousal plan. The net effect is that, collectively, you and your spouse could pay less tax than you would have if only the spouse in the higher tax bracket had taken income.

Additional benefits of RRSPs and RRIFs

Creditor protection: Federal provisions provide creditor protection to all RRSPs and RRIFs, except to contributions made in the last 12 months. This means that, in the event of bankruptcy, these assets are protected, ensuring that retirement savings remain intact. Federal legislation does not override provincial laws dealing with creditor protection, such as the provincial *Insurance Acts* or where full provincial protection is already available.

Estate planning: Settling an estate can be a lengthy and expensive process. If there is a named beneficiary other than the estate, RRSP and RRIF assets are not subject to many of the delays, fees and other costs often associated with estate settlement. Instead, the assets can pass privately and directly to the named beneficiaries.[5]

Choosing what's right for you

This article touches briefly on two sound investment options that may be good choices for an RRSP. Many other options are also available. Speak to your advisor about the RRSP choices that could work best for you and your unique situation. ●

[4] The maturity date may be earlier where legislation requires.

[5] In Saskatchewan, jointly held property and insurance policies with a named beneficiary are included on the application for probate, despite the fact that these assets do not flow through the estate and are not subject to probate fees. Probate is not applicable in Quebec.

Solutions

Boris Guzman
Proactive Financial Results Inc.
168 Queen St. South, Suite 201
Streetsville, ON, L5M 1K8
905-812-3199 x211
boris@proactivefinancial.ca

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