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Life Insurance/Wealth Management

If you are depositing to your Registered Retirement Savings Plan (RRSP), believe it or not there is a point when you may have too much in your RRSP.

Why too much? When you are withdrawing money in retirement the more you take out of the RRSP the more tax you pay. Once you reach age 69 you must transfer the RRSP to a Registered Retirement Income Fund (RRIF), which has minimum annual withdrawal requirements, and these requirements increase, as you get older. At certain points you may be withdrawing at a higher tax bracket, or at least equal, to what you deposited it at. Any deductibility at time of deposit is offset by tax upon withdrawal. The theory is you deposit at a higher marginal tax rate and withdraw at a lower marginal tax rate, gaining on the difference.

So what can you do about this? You have two options.

1. Start investing more money in non-registered savings vehicles
2. Try an RRSP Meltdown strategy

This month we will discuss the RRSP Meltdown strategy. Next month we will look at a non-registered investment option in the form of a tax-exempt life insurance policy.

The RRSP meltdown strategy is a concept that allows you to gradually filter your RRSP savings into non-registered savings and therefore a more tax-friendly environment during retirement. The main benefit is not being taxed at a high marginal tax rate in retirement on large withdrawals from your RRSP.

How is it done?

1. The first step is to take out a non-registered investment loan. The loan is for investment purposes and if set-up properly the interest cost on the loan should be tax-deductible.
2. You pay the interest costs by using funds from your RRSP. The resulting tax payable (because you have withdrawn money from your RRSP) is offset by the interest deductibility on the investment loan.
3. Gradually your RRSP is reduced and your non-registered investment grows to replace it.

Here’s an example:

1. $100,000 investment loan at 8% interest. The annual interest cost is deductible, $8000.
2. When you withdraw funds from your RRSP, the institution holding the assets will withhold some money to pay tax due. At a 10% withholding rate you withdraw approximately $9000 from your RRSP to pay the interest costs.
3. When you file your taxes the resulting interest deduction because you borrowed money to invest offsets the tax payable on the RRSP withdrawal. You have just begun to convert assets at your top marginal tax bracket into assets that are taxed much more favourably.

This is a very simple analysis of a complicated topic. It is not right for everyone. Consult an advisor familiar with this concept and the corresponding tax issues to discuss whether this may be an appropriate option for your portfolio.

Investors considering a leveraged purchase of mutual funds should be aware that a leveraged purchase involves greater risk than a purchase using personal cash resources only. The extent of that risk will vary depending on the circumstances of the investor and the type of mutual fund purchased. If you borrow money to purchase mutual funds, your responsibility to repay the loan and pay interest as required by the loan's terms remains the same even if the value of the mutual funds purchased declines.

Please forward this newsletter to a friend or relative that would benefit from this information. I would be happy to answer any questions they may have and add them to my regular distribution.

All material provided on this email is provided for informational and educational purposes only. Consult an advisor regarding the applicability of any opinions or recommendations with respect to your own financial situation.

If you would like additional information please contact:

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