



The ABCs of RRSPs

Our experts demystify retirement savings options for every stage of your life. **by Kira Vermond illustrations by Jackie Besteman**

When it comes to Registered Retirement Savings Plans, or RRSPs, Judith Cane, a financial planner in Ottawa, walks her own talk. A proponent of investing early, last year she paid her 11-year-old son \$500 to stuff envelopes and help during local conferences. Not only did he come away with cash, but Cane filed a 2006 tax return for him, helping to build up \$90 worth of RRSP room for the day he turns 18 and can begin contributing.

"It's never too late to start investing – or too early," she says.

An RRSP is not actually an investment but a way to register your investments. Think of an RRSP as an umbrella sheltering your hard-earned money from taxes. As long as these stocks, bonds, guaranteed investment certificates (GICs)

or mutual funds are registered as an RRSP, they won't get hit – at least not until you turn 71 and are required by law to terminate your RRSPs and convert them into some form of retirement income. But at that point, you'll probably be in a lower tax bracket anyway.

Retirement planning is important for everyone, but particularly for women now that we are living longer than ever. Recent World Health Organization data suggests the average Canadian woman can expect to live until she's 83. The average man's life expectancy, however, is 78. So a typical Canadian woman who retires at 60 will need enough money to get her through 23 years, possibly without support. The good news? She's alive. The bad news? She could outlive her money.

Scared yet? Don't be. With the

end of February in sight – the cut-off date for contributing to your 2007 RRSPs – we asked four savvy financial planners to look at four fictional women's scenarios and shed light on smart RRSP investing strategies.

THE SET-UP: Karin is a 35-year-old mother of a baby daughter. She and her husband, an IT specialist, have a \$375,000 mortgage plus credit-card debt and car loans.

THE SOLUTION: Between daycare costs, kids' education savings and a mortgage, this is considered life's most expensive time. That's why the Toronto financial planner and educator Lynn Biscott recommends Karin shouldn't feel too bad if she has to cut back a little on the RRSP contributions for a few years.

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life today as well," she says.

Cane, however, suggests doing whatever it takes to max out RRSP contributions and stay invested in stocks, which, while riskier, are more likely to grow faster than a conservative pick, such as GICs. The trick is to make sure Karin's portfolio is diversified enough so if one stock tanks, it's just a drop in the bucket.

If maxing out an RRSP contribution sounds difficult, that's because it is. Cane says sometimes you just have to make tough decisions. Does Karin really need a monster home in the burbs if she has only one child? Does she have to drive an SUV? "You don't have to eat mac and cheese every night," says Cane, who herself drives a five-year-old economy-class car. "But you do have to sit down and make choices."

And don't think that just because her hubby has an RRSP, Karin doesn't need one, says Sherwood. With about 40 percent of today's marriages ending in divorce, it's prudent to have money set aside.

"As hard as it is, you've got to put yourself first," she says.

THE SET-UP: Helena is 51 years old and divorced, and she runs a doggie-boot business that's going gangbusters. Her two children are away at school, and she still doesn't have an RRSP.

THE SOLUTION: Even though it would have been ideal for Helena to invest when she was younger, she can still do a lot to prepare for retirement, says Duncan.

"At this stage, many women are in a position to catch up on unused RRSP room as other financial obligations lessen," she says. "An empty nest can mean a bigger nest egg."

Because Helena is self-employed, she should look into investing in creditor-proof RRSPs, or segregated funds, offered through insurance



companies, says Cane. If Helena's canine company goes to the dogs, creditors won't be able to get at her RRSP because it would be considered a protected insurance product.

Helena could also take out an RRSP loan to address her unused contribution limit. Say she has \$80,000 worth of RRSP space to fill. She could buy a low-interest RRSP loan for \$80,000, get a tax rebate of \$40,000 and pour that money back into the loan. In the next five years Helena pays off the remaining half, but in the meantime, her \$80,000 has been growing tax-free.

THE SET-UP: Rebecca is a 22-year-old university grad who just landed her first job. A \$30,000 student loan looms.

THE SOLUTION: Of course a massive student loan needs to be paid off, but that shouldn't keep Rebecca from saving for the future, says Heather Duncan, a certified financial planner based in Ottawa. Ideally she likes her clients to start saving for retirement at least 30 years in advance to take advantage of the accumulating interest.

"She'll also acquire the habit of making RRSP contributions," Duncan says.

Rhonda Sherwood, a Vancouver-based certified financial planner with ScotiaMcLeod, says there's another reason to invest in an RRSP: A tax rebate can be put toward any pesky higher-interest loans >