RRSP INFORMATION GUIDE

Make the most of your golden years
and a golden opportunity.

smart steps

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What is an RRSP?

The Registered Retirement Savings Plan (RRSP) program is designed to encourage Canadian taxpayers to save money for their retirement. RRSPs are the ideal way to save for tomorrow—and pay less tax today. Contributions, within allowed limits, are tax deductible at your marginal tax rate. In addition, all the income your RRSP earns is sheltered from tax until you withdraw the funds. And because your savings grow tax-sheltered, they increase much faster than they would outside an RRSP.

Why should you put money into an RRSP?

Saving in an RRSP can help you maintain a comfortable standard of living during your retirement by supplementing your government or private pension with additional retirement funds. Because of the tax sheltered compound earnings, an RRSP grows faster than a regular savings plan.

Assume, for instance, that you are able to put aside $50 of your income every week into an investment at 8% compounded annually. That $50 a week adds up to $2,600 a year. If you are in a 40% tax bracket, you'll pay $1,040 tax on the $2,600, leaving you with just $1,560 to invest. Additionally, the interest earned from investing the $1,560 is fully taxable. So after 40 years, you will accumulate $299,166. On the other hand, if you invest the same $50 a week into an RRSP at 8%, your contribution is tax deductible, so you can invest the whole $2,600 every year and each year's earnings are tax sheltered. After 40 years, your savings will be worth $702,931, more than twice as much as a regular savings plan!

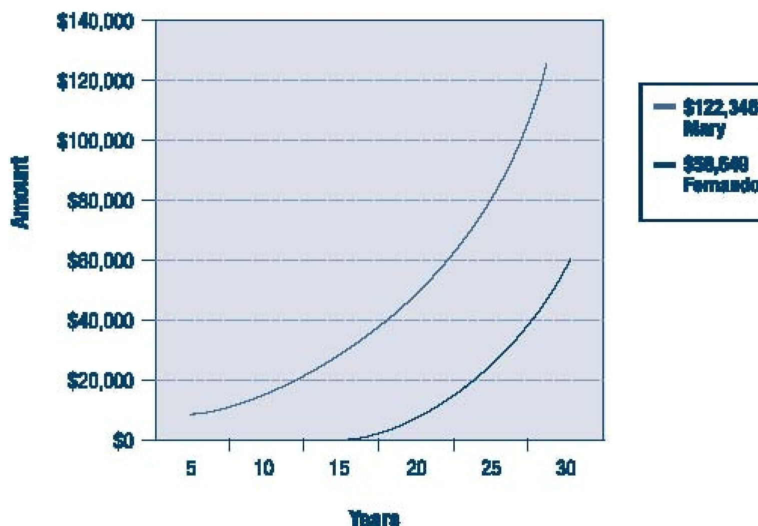
When should you start an RRSP?

Start Early – It Pays Off!

It is a good idea to start your RRSP as soon as you can. Investment earnings remain tax sheltered inside your RRSP. Therefore, taking a long-term approach is key. The longer your RRSP funds are tax sheltered and compounding will greatly increase your retirement nest egg!

Assume Mary started contributing at age 25 and contributed $1,000 each year for 30 years. Fernando started contributing at age 40 and contributed $2,000 each year for 15 years.

At age 55, Mary will have accumulated $122,346 and Fernando $58,649. Although the principal sums invested were $30,000 and both earned 8%, the benefit of starting early pays off as **Mary has $63,699 more saved**!



The convenience of regular RRSP deposits

Maximize your retirement nest egg by arranging for automatic RRSP contributions monthly. The interest earned is compounded, which means you'll be earning interest on the interest! In the long run, this can have a dramatic effect on your investment. Consider a monthly deposit of $100 over a 30-year period earning 8% compared to an annual investment of $1,200. While the principal sum invested is the same, the early bird gets rewarded with $140,855 in his/her RRSP compared to the annual contributor whose RRSP grows to only $135,940!

How much can you contribute?

Each year you can contribute up to your RRSP deduction limit. You can find this amount on the Notice of Assessment you received after you filed your last income tax return. Your RRSP deduction room for the current year was determined by calculating 18% of your previous year's income to a maximum of $23,820 for 2013. From this total, the pension adjustment showing on your T4 slip was deducted. The maximum RRSP deduction limit will increase to $24,270 for the 2014 tax year. Additionally, any unused RRSP room from previous years will be included in the total RRSP deduction room. If you are unable to locate your Notice of Assessment, T.I.P.S. automated phone service operated by Canada Revenue Agency (CRA) will confirm the total RRSP room available to you (1-800-267-6999). To obtain this information from T.I.P.S., you will need your Social Insurance Number, birth date and the total income entered on line 150 of your last year's tax return. Or if you prefer, go online to www.cra-arc.gc.ca/myaccount to get your personal details.

Age limits for contributing and holding an RRSP

The year you turn 71 is the last year that contributions can be made to your RRSP. If you are contributing to an RRSP for your spouse, your spouse must be 71 years or younger, even though you may no longer contribute to an RRSP for yourself. A child who has RRSP deduction room can also contribute to an RRSP.

What if you don't contribute as much as you are allowed?

If you don't contribute as much as you are allowed in the current year, you can carry the unused RRSP deduction limit forward for use in a future year. For example, assume you are eligible to make a $15,500 RRSP contribution this year, but can't right now. Under the carry forward rules, you can carry part or your entire RRSP deduction limit forward, to use as a deduction the next year or a later year.

You can contribute now and deduct it later

Less familiar is the fact that you can make your RRSP contribution now, but you don't have to claim the deduction on this year's tax return. If you expect your income to be taxed at a higher rate in the future, you can contribute now and claim the deduction in a future year. For example, a $10,000 RRSP contribution would generate $2,500 tax savings if you are in a 25% tax bracket, however the same contribution would generate a $4,000 tax savings if you were in a 40% tax bracket.

If you anticipate a fluctuation in income from one year to the next you may find this tax strategy would benefit you. This strategy is not penalized as an over-contribution, providing your unused receipts don't exceed your RRSP deduction room by more than $2,000.

Special Transfers

You can transfer lump sums directly from another RRSP or from a Registered Pension Plan (RPP), a Deferred Profit Sharing Plan (DPSP) or a Severance Pay/Retiring Allowance to your RRSP without tax consequences.

Pension or Deferred Profit Sharing Plan Transfers

If you have a company pension plan and cease to be an employee or your plan is being wound up, you may be able to directly transfer your Registered Pension Plan (RPP) to your own RRSP (not a spousal plan). In most cases the amount is not included in your income and is not tax deductible.

Funds that have been transferred from a pension plan are subject to pension legislation. If you have been in the pension plan two years or more, the funds may have to be transferred to a Locked-in RRSP (LRSP) or Locked-in Retirement Account (LIRA), depending on the type of the original pension plan.

Generally locked-in funds cannot be paid directly to you or be used for a home buyer's or lifelong learning plan withdrawal. In most instances you will be restricted to purchasing only Life Annuities, Life Income Funds (LIFs) or Locked-in Retirement Income Funds (LRIF) with these funds. Also, your former pension plan may stipulate a minimum age requirement for such purchases.

Severance Pay/Retiring Allowance Transfers

When you retire or are terminated from your job, you may receive severance pay (also called a retiring allowance). A severance pay is a lump sum or installments paid to you by your employer, at or after your termination in recognition of your loss of employment. Accumulated sick leave credits qualify under this definition, however payment for accumulated vacation days, death and pension benefits do not qualify.

Subject to limits, severance pay can be transferred directly into your personal RRSP (with no income tax deducted) or contributed in the year of receipt or within 60 days after that year. The transfer of a severance pay into an RRSP does not affect your RRSP deduction limit for that year.

The maximum severance pay amount you can transfer into your RRSP (not a spousal plan) is determined as follows:

$2,000 for each year or part year of service with your current employer prior to 1996, plus an additional $1,500 for each full or part year of service prior to 1989 with your current employer, in which you were not a member of the pension plan or deferred profit sharing plan, or for the years when your employer's contributions to such plans were not vested to you.

Example:

Samantha worked at the same company for 18 years from 1985 to 2003 and was a member of the pension plan for those years. Under the rules, her service counts from 1985-1995 at $2,000 per year for 11 years. If she received $22,000 in severance the entire amount could be transferred into her own RRSP.

Transfer of RRSP if you separate or divorce

All or part of the RRSPs can be transferred between the spouses without immediate income tax consequences, if they are included in property to be divided between spouses upon marriage breakdown. The transfer must be made under the direction of a divorce decree, court order or a written separation agreement. Canada Customs & Revenue Agency (CCRA) form T2220 is completed to document the transfer.

Transfer of RRIF Payments in Excess of Minimum Amount

Until the end of the calendar year in which you turn 71 you can transfer directly into an RRSP in your own name up to 100% of any payment from your RRIF that exceeds the minimum mandatory payment amount for the year.

Transfer of RESP Accumulated Investment Income

You can transfer up to $50,000 of the accumulated investment income in your Registered Education Savings Plan (RESP) directly to your own or spousal Registered Retirement Savings Plan (RRSP) without paying taxes. However, to qualify for the contribution, subscribers must meet all of the following conditions:

- RESP has been in existence for at least 10 years or subscribers/beneficiaries have died;
- All RESP beneficiaries are at least 31 years old;
- All RESP beneficiaries do not pursue higher education; and
- Subscribers have enough RRSP contribution room.

Spousal or common-law partner RRSP

An RRSP that you establish yourself that your spouse or common-law partner contributes to.

Income tax legislation defines the term "spouse" to be a person you are legally married to.

The term "common-law partner" is defined as two persons, regardless of sex, who cohabit in a conjugal relationship and who have cohabited throughout the 12 month period that ends at that time. This period can be less than 12 months if both partners are the natural or adoptive parents of the same child, or if one common-law partner has a child who is wholly dependent on the other for support and over whom the other has custody.

The term "common-law partner" does not apply if at the particular time the individuals were separated for 90 days or more due to a breakdown of the conjugal relationship.

What is the deadline for contributing?

You may contribute any time during the year. Contributions made during the first 60 days of any year may be deducted for the immediately preceding taxation year, the current year or a future year. If the 60th day falls on a Saturday, Sunday or a statutory holiday, the deadline will be the next business day. If you are contributing by mail, your application and/or deposit must be received by the credit union on or before the contribution deadline.

How do you claim your RRSP deduction?

After your RRSP contribution has been processed, you will receive an official receipt for the amounts contributed to the plan. If you contributed to your spouse's RRSPs, the receipt should show your spouse's name as the annuitant and your name as the contributor. Attach the receipt to your return to support the amount you contributed. If you are using EFILE, show the receipts to your tax filer and keep them in case Canada Customs & Revenue Agency asks to see them later.

Over-contributions

Over-contributions are deposits that exceed your available deduction room. While you cannot claim the excess on your tax return, you can leave it in your RRSP earning tax sheltered income, as long as your cumulative over-contribution never exceeds $2,000 and you are over 18 years of age. You can deduct this excess from income in a future taxation year.

If the cumulative excess exceeds $2,000 or the taxpayer is not over 18 years of age, Canada Customs & Revenue Agency (CCRA) charges a penalty tax of 1% for each month an excess contribution exceeding the above limitations remains in the RRSP.

Can you borrow for an RRSP?

Yes! Your RRSP contribution could be the most important investment you make. Even if you don't have the cash on hand now, it pays to borrow all or part of the amount you need for your maximum contribution. The tax savings you will get this year plus the investment return you'll earn in the long run will often outweigh the interest you pay on the loan.

Take advantage of a Credit Union RRSP Loan – we'll make it easy for you. If you choose to borrow, the Credit Union loan provides you with repayment terms to suit your needs.

What about a spousal or common-law partner RRSP?

You might consider a spousal RRSP in addition to your spouse having his or her own RRSP. A spousal RRSP lets you contribute to an RRSP in the name of your spouse (married or common-law partner) and claim that contribution as a deduction against your own taxable income.

You can also make a contribution to your own RRSP as long as the total contributions you make to your own and/or a spousal RRSP do not exceed your RRSP deduction limit. For example, if your RRSP deduction limit is $2,200 and you make a contribution of $1,000 to your own RRSP, you can also make and deduct a spousal contribution of $1,200.

The spousal RRSP is an especially important financial tool and has several advantages:

- If it is anticipated that one spouse will be in a higher tax bracket when the funds are withdrawn, as much of the RRSP funds as possible should be accumulated in the name of the spouse who will be in the lower tax bracket. The income eventually created from the funds will then be taxed at the spouse's lower tax rate.
- Even though you are over 71, you can still contribute to your spouse's RRSP until the end of your younger spouse's 71st year.
- Both spouses may qualify for the pension income tax credit available upon reaching age 65.
- Any amounts you contribute to spousal RRSPs are subject to a 3-year attribution period if withdrawn. See withdrawals from spousal RRSPs below.
- To set up a spousal RRSP, you must open a separate plan in your spouse's name even though he/she may not have any income. You are listed as the contributor. Although you make the contributions and take the tax deduction, the assets of the plan belong to your spouse.

Withdrawals from Spousal RRSPs

Special rules apply when withdrawing funds from spousal plans. Amounts withdrawn are subject to a 3-year attribution rule. For example, if your spouse withdraws funds this year, and you made a contribution to a spousal RRSP (at any financial institution) either this year or in the past two years, the amount your spouse withdraws, up to the total amount contributed to spousal plans during those three years, is added to the contributing spouse's taxable income. Otherwise, it will be taxed to the plan owner.

Example:

In May 2011, John started contributing to his wife Keri's RRSP. He made the following spousal contributions:

Year	Amount
2011	$2,000
2012	$2,000
2013	$1,000
	$5,000

In January 2014, Keri withdrew $4,000 from her spousal RRSP. John would have to add $3,000 of the amount withdrawn to his income since the amount contributed during the 3-year period (2014, 2013 and 2012) totaled $3,000. Keri would have to add $1,000 to her income.

This is commonly referred to as the 3-year rule since spousal contributions within these 3 years are deemed to be the first funds withdrawn.

The 3-year period terminates on the death or non-residency from Canada of either spouse, or upon the legal separation or divorce of the spouses.

Tax Tip:

If you want to ensure that as contributing spouse you do not have to add any funds withdrawn from a spousal RRSP to your income, wait until the third taxation year after the last contribution to any spousal plan. Otherwise, you (the contributor) will probably have to include in your income the funds your spouse withdraws.

Exceptions to this rule apply when the payment has been received after a marriage breakdown, if you are a non-resident or the contributor dies in the year of the payment.

Can you withdraw your funds?

All or part of your funds can be withdrawn from the plan, providing the investment is redeemable and the RRSP is not locked in. The proceeds are taxable income the year received. All plan issuers must withhold tax when you withdraw from your RRSP and the amount of tax withheld will be reported to you on a T4RSP. The amount of tax withheld will not necessarily cover the taxes payable due to the withdrawal. However, if your tax bracket is lower than the rate of tax withheld you may be entitled to a refund when you file your tax return.

Withholding tax rates

Up to $5,000	10%
$5,001 - $15,000	20%
Over $15,000	30%

If you are a non-resident when you withdraw funds, non-resident tax of up to 25% will be deducted depending on the tax treaty between Canada and your country of residence.

Can you transfer your RRSP?

Transfers between RRSPs are permitted, however, if your RRSP investments are for fixed periods, the issuer may restrict the transfer until the investment term expires. Written instructions to transfer are required and the transfer must be made directly from one issuer to the other.

What happens to your RRSP when you retire?

The first stage of an RRSP is to accumulate retirement savings. The next stage is to provide retirement income and you can choose when to begin receiving this. Your accumulated savings may be invested in a variety of options to provide a retirement income that can continue for life or to age 90. Your retirement option purchase must be made by December 31st of your 71st year. Only the retirement income payments are taxed each year as you receive them, thus spreading the taxation of your accumulated savings over your retirement years.

What happens to your RRSP when you die?

If you have named your spouse as beneficiary of your RRSP, your RRSP proceeds could be rolled into your spouse's RRSP, RRIF or annuity, in which case no tax will be payable until the funds are subsequently paid out. If your spouse is over 71, he or she can use all or a portion of the funds to purchase a RRIF or annuity.

If your beneficiary is a physically or mentally handicapped child or grandchild who was financially dependent on you, part or all of the value can be transferred, without taxation, to an RRSP, RRIF or annuity in the child's or grandchild's name or taxed in his or her name.

If you have not named a beneficiary, or if you have named a beneficiary other than your spouse or a financially dependent child or grandchild, the full value of your plan would normally be paid to your estate or to that beneficiary and included in your taxable income in the year of death. The result is the same as if you had withdrawn your RRSP immediately before your death.

If you have a child or grandchild under 18 years of age who is financially dependent on you (but not by reason of physical or mental disability), the funds from your RRSP can be rolled over to the dependent and be taxable to the child rather than to your estate. Depending on the age of the child, a special annuity can be purchased which allows payments and related taxes to be spread out over a period of years. For example, if the child were 12 years old the annuity would be amortized for 6 years (18 minus 12) and taxed to the child as the funds are received.

Contributions after death

After your death, your legal representative can make a contribution to your spouse's RRSP in the year of death or during the first 60 days after the end of that year. These amounts can be deducted from your final tax return. No contributions can be made to a deceased individual's RRSP after the date of death.

Locked-in RRSPs (LRSP and LIRA)

RRSP funds that have been transferred from a pension plan may be subject to pension legislation. The funds may be transferred into a special "locked-in RRSP (LRSP)" or "locked-in retirement account (LIRA)". You may be restricted to purchasing certain retirement income options such as life annuities, life income funds or locked-in retirement income funds.

How safe are RRSP investments?

Before you invest in any RRSP it is wise to ask about deposit insurance protection. The Deposit Insurance Corporation of Ontario (DICO) provides deposit insurance on member deposits. Member deposits are insured for a maximum of $100,000 for combined total of all deposits, plus all eligible deposits made to any registered savings plan, i.e. RSP, RIF, RESP & TFSA are fully insured with no maximum limit. Stocks, Bonds, Mutual Funds and other securities are not guaranteed or insured by DICO. For further information on deposit insurance coverage, ask for a brochure at the credit union, call DICO at 1-800-268-6653 or visit their website at www.dico.com.

Who sells RRSPs?

Credit unions, banks, trust companies, life insurance companies, investment dealers and mutual funds sales agents sell RRSPs. All RRSPs provide the same tax deduction yet all plans are not the same. Each plan issuer offers various ways to invest your money, with the rates of return, fees, and terms and conditions differing.

Don't worry; we'll help you choose your investments!

You can hold a variety of investments in your RRSP, including savings accounts, term deposits and mutual funds. If you have a Self-Directed RRSP you can hold some other investments as well.

Savings Accounts
An investment option that combines flexibility and ensures that your investment keeps pace with current interest trends. Interest rates are reviewed and adjusted regularly so you benefit from the most competitive rates. Contributions are easy to make and this is an ideal place for monthly or payday contributions.

Term Deposits
A term deposit investment provides the security of knowing your rate of return with interest rates guaranteed for your selected investment term. You can choose a short or long term investment period to suit your plans. Term deposits provide a guaranteed return that is important when you are looking to diversify your investment holdings.

Mutual Funds
More and more Canadians are discovering the versatility of mutual funds for RRSP investments. A mutual fund is a pool of many different investments that is divided up into units of equal value. When you purchase a unit of the fund, you own a portion of each investment in the fund. Depending on the mutual fund you choose, it can hold either high or low risk investments or a combination of both. Many investors hold more than one mutual fund to diversify their portfolios.

Self-Directed Plans
This option offers all the tax advantages of other registered plans plus the flexibility to pursue your own investment strategies. It's simply an RRSP managed by the plan holder. You can hold the full range of qualified investments in a single plan such as stocks, bonds, mutual funds, term deposits and treasury bills. All investments are shown on one statement simplifying your record-keeping and reducing administration costs.

* Mutual funds, other securities and securities related financial planning services are offered through Qtrade Advisor, a division of Credential Qtrade Securities In. Mutual funds are offered through Qtrade Asset Management Inc., Member MFDA.

What does an RRSP cost?

Not all RRSPs have fees, but many do. Always be sure to ask about fees when deciding on your RRSP.

Withdrawals under the Home Buyers' Plan (HBP)

If you qualify, the HBP lets you withdraw up to $25,000 from your RRSPs, without immediate taxation, to buy or build a qualifying home for yourself, a related disabled person, or to help such a person buy or build a qualifying home. Your spouse or another person purchasing the same home can also withdraw up to $25,000 from his or her RRSP providing he or she is qualified. You can withdraw a single amount or make a series of withdrawals throughout the same year, providing the total of your withdrawals is not more than $25,000.

Who qualifies as a first-time home buyer?

You are considered a first-time home buyer if you are a resident of Canada, and:

- you did not have an owner-occupied home in the year of the withdrawal and the four previous calendar years; and
- during the same period, your spouse or common-law partner did not have an owner-occupied home that you lived in together.

For example, if you sold the home you previously lived in on June 16, 2005, you may be able to participate in the HBP in 2010.

The first-time home buyer restrictions are waived for disabled individuals or for a relative supporting a disabled individual. The disabled individual must qualify for the disability tax credit. The purpose of the Home Buyers' Plan withdrawal must be to acquire a home that is more accessible to, or better suited for the care of, the disabled person.

What is a qualifying home?

A qualifying home is a housing unit located in Canada that:

- was not previously owned by you or your spouse or common-law partner;
- will be acquired by October 1 of the calendar year after the year of withdrawal
- is intended to be occupied as your principal residence no later than one year after it is acquired

Both existing and newly built homes are eligible. A qualifying home can be a detached or semi-detached house, a townhouse, condominium or mobile home, or a share in a co-operative housing corporation that entitles you to possession.

How do HBP withdrawals affect any new RRSP contributions?

If you withdraw an amount from an RRSP to which you made a contribution during the 89-day period just before your withdrawal, you will not be able to claim a tax deduction for it unless the amount contributed during this period is left in the plan. For this rule, all the contributions ever made to a particular RRSP are considered to be withdrawn on a first in and first out basis. For instance, if you have an RRSP worth $20,000 and you add $5,000 to it in the 89-day period before the withdrawal, you can withdraw up to $20,000 and still be allowed to claim your $2,000 RRSP deduction. Once 89 days have passed, you could then withdraw the other $5,000 contribution provided it is withdrawn in the same tax year and not more than 30 days after your house deal closes.

Other HBP Withdrawal Information

- you can withdraw from any number of RRSPs with different institutions as long as your total withdrawals do not exceed $25,000
- • all withdrawals must be made within the same calendar year • one or more additional withdrawals requested in the year may be received in January of the following year
- withdrawals can be made up to 30 days after your house deal closes
- withdrawals by your spouse from a spousal plan will not be subject to the 3-year attribution rule
- withdrawals from a spousal plan are paid back to a non-spousal RRSP
- it is your financial institution's decision whether it will allow early withdrawal of term deposit investments
- HBP withdrawals are not permitted from locked-in RRSPs or LIRAs

HBP Repayments

You are requested to repay (to any RRSP) the amount withdrawn, without interest, in equal installments over a 15-year period commencing in the second calendar year following the year of your withdrawal(s). Repayments made in the first 60 days following a

calendar year can be applied to the previous tax year. On your income tax return, you will designate what portion of your total RRSP deposits are repayments under the Plan, and therefore not deductible from income.

If you repay less than the specified amount owing in a year, you will be taxed in that year on the portion that you did not repay. If you repay more than the amount required, your repayment required in subsequent years will be reduced.

If you die or become a non-resident, the balance that has not been repaid will be taxed as a lump sum in that year. To provide relief from this lump sum taxation, upon your death your surviving spouse can take over your repayment.

How to apply for a HBP Withdrawal

You apply by completing Canada Customs & Revenue Agency (CCRA) form T1036 with your RRSP issuer. No withholding tax is deducted from a withdrawal and a T4RSP will be issued to you to report the withdrawal.
RRSP Withdrawals for Lifelong

Learning/Withdrawals for Education

Eligible individuals may make withdrawals from their RRSP, without immediate taxation, to finance full-time training or education for them self or their spouse or common-law partner. Tax-free withdrawals of up to $10,000 annually to a maximum of $20,000 over a four-year calendar period are permitted.

You are eligible if you are a Canadian resident and you or your spouse or common-law partner has enrolled (or the enrolment takes place before March of the year following the withdrawal) as a full-time student studying a minimum of 10 hours per week in a qualifying educational program. The program must run for a minimum of 3 months duration at an eligible educational institution.

LLP Repayments

Withdrawals must be repaid to your RRSP over a period of not more than 10 years. Usually, each year you have to repay 1/10 of the total amount you withdrew until the full amount is repaid. Any amount that you do not repay when it is due will be included in your income for that year. Your first repayment year is usually one of the following two years, whichever comes first:

- the second year after the last year the LLP student was entitled to claim the education amount on line 323 of the student's income tax return; or
- the fifth year after your first withdrawal under the LLP.

For example, if you make LLP withdrawals from 2005 to 2008 and you continue your education from 2005 to 2009, your repayment period is from 2010 to 2019, since 2010 is the fifth year after the year of your first LLP withdrawal. The due date for your first repayment is March 1, 2011, which is 60 days after the end of 2007, your first repayment year.