

RETIREMENT FUNDS--FOR SAVING AND GIVING

An RRSP is the best way to accumulate funds for retirement. Not only is the amount invested each year sheltered from taxation, but also earnings on assets in the fund are not subject to tax. Thus, it is advantageous to contribute as much as possible as early as possible each year to an RRSP.

Compare, for example, growth of funds in an RRSP and in a fully-taxable investment. The combined marginal tax rate is assumed to be 50 percent.

<u>Investment</u>	<u>Year 1</u>	<u>Year 10</u>	<u>Year 20</u>
\$10,000 in RRSP	\$10,000	\$25,938	\$67,274
\$5,000 in taxable investment	5,000	8,144	13,266
(Half of the \$10,000 would have been consumed by taxes.)			

RRSP funds are taxable when withdrawn, but even if they were withdrawn in a lump sum at the end of twenty years and taxed at 50 percent, the after-tax dollars (\$33,637) would still be considerably more than the accumulations in an investment where earnings have been taxed along the way.

Because the tax sheltering is so attractive and because sizeable contributions can be made, billions of dollars are invested in RRSPs. Since 2003, the RRSP maximum limit has increased from \$13,500 in 2002; to \$14,500 in 2003; to \$15,500 in 2004; to \$16,500 in 2005; and to \$18,000 in 2006. This means that you can earn up to \$100,000 in 2006 before you will maximize your RRSP contribution at \$18,000.

Some individuals start taking distributions from their pension plans immediately upon retirement. Others, not needing the money now, defer payments as long as possible. They like to continue taking advantage of the income tax deferral growth accorded such funds. Further, they may defer payments because they regard a pension account as a financial reserve, to be tapped only when needed.

Distributions, however, cannot be delayed beyond age 69. By that time you must elect either a retirement annuity or an RRIF (Registered Retirement Income Fund.) The annuity offers the advantages of guaranteed payments and freedom from worry about how funds should be invested. The RRIF, however, is more flexible. You can control how the money is invested, and you can withdraw any amount each year so long as you withdraw at least the minimum. Because of this flexibility more people convert their RRSPs to RRIFs than to retirement annuities.

Charitable Gifts With Retirement Funds

If a spouse survives you, he or she would ordinarily be the beneficiary of your retirement funds. If you had an RRSP, your surviving spouse could keep the funds in a tax-deferred plan. If you had already converted to a RRIF, your surviving spouse could continue to receive payments, and they would be taxed only as received. If you had opted for a joint-and-survivor annuity for you and your spouse, he or she will receive payments for the balance of his or her life. In the event underage children survive you, the retirement funds can be rolled tax-free into an annuity paying them installments until age 18. If the dependant is handicapped, a tax-free rollover to an RRSP, annuity or RRIF is permitted.

Possibly, however, you will not be survived by a spouse and have already made arrangements for the children. In that case, leftover retirement funds make an excellent charitable gift because the charitable tax credit will offset the tax on the distribution. Leaving the funds to a beneficiary, who is not a spouse or dependant child or grandchild, generally would cause the full value of the funds to be taxed in the year of your death, but with the charitable gift you preserve the funds intact for a charity whose work you want to support.

The recommended procedure is to designate the charity as beneficiary of all or a portion of your RRSP and RRIF funds.

Example: Barbara T, a single woman, dies at age 75 and leaves \$30,000 of her RRIF funds to charity.

<i>Tax on RRIF funds (48% combined rate)</i>	<i>\$14,400</i>
<i>Tax credit (Combined credit is 48% of gift and entire bequest is creditable.)</i>	<i><u>14,400</u></i>
<i>Net tax on distribution</i>	<i>0</i>

Tax rates and tax credits vary by province but generally the tax credit will offset any taxes payable.

The tax credit will entirely offset the tax on the distributions. That is because the creditable amount of a charitable bequest is 100 percent of net income. Thus, if you choose to leave your leftover retirement funds for charity, no part of them will be consumed by taxation.

A charitable gift is one method of assuring that all or most of the funds you spent a lifetime accumulating are used for the purposes you choose.