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RSP Questions and Answers for the Un-initiated

The following are some of the basic questions and answers for new investors dealing with RSP's. What are they, how do they work, where do I go to get one set up, and etc.

What is an RSP?

You know what this is of course – it's that thing at the bank you put money into and it's for retirement, right? Many people's knowledge ends here. And even this little bit isn't actually right. The idea of an RSP is that you invest money, and the government doesn't charge you any tax on that money, so it grows bigger and better as a result and ends up being more capable of looking after you in retirement so the government doesn't have to. That's about it really. So in effect, you take some money, invest it somehow, and the RSP is sort of like an umbrella the government offers you to put over this investment money and protect it from tax. The RSP is, in effect, just the umbrella, not the money itself.

Where does my Money go?

The bank will often put your money into a term deposit or a Guaranteed Interest type deposit. Right now, the interest rates are so low that after inflation your earnings are close to negative – guaranteed. You may end up with a mutual fund investment. That can be better, but it depends on how much thought and effort your investment advisor puts into the investment plan for you. Your best option is to understand a little about this first, or find and advisor who will help get you up to speed before you make the decisions, and will help build your knowledge about all this as your go along.

How much can I put into an RSP?

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The rules from CRA state you can put in up to 18% of your income each year, with a maximum cap on that of $24,000 for 2014. For 2015 the maximum goes up again, as it does each year. If you don't use up all that room each year, the room remains there for you to use later on. And your government /CRA "Notice of Assesment" that you get back after you file your taxes will tell you how much room you have for the current year, and how much you have saved up from earlier years.

There is a Contribution Room Deadline

For 2014 for example, you can contribute money any time during that year, and in addition you're allowed to contribute for that year up to the end of February in the next year. This gives you a bit of extra time to find some money for the contribution each year.

Can I get my Money back from the RSP if I need to?

It's your money, so of course you can. But you need to remember that technically you never paid any tax on this when you put the money into an RSP. Your income that year was actually reduced by the amount you contributed to your RSP. So if you take money out, it's taxable in the year you withdraw it, and will of course add to your income level, and your tax payable in that year. The RSP holder, the Mutual Fund company for example, will be required to hold back some of the tax you will owe on the redemption, and send it as an advance tax payment to CRA on your behalf.

Are there any ways around the Withdrawal Rules?

Again the answer is yes. If you want to buy your first home, for example. The government will allow you to pull up to 20,000 from your RSP for the down payment. It's not taxable to you. Instead, they require you to pay it back in at least 15 years in equal payments. There are some rules around that and advisor can help you with so you get maximum advantage from the program. If you don't pay the money back in any given year, that amount is added to your taxable income because you missed the payment. So don't miss the payment.

The same program can be used for adult education purposes as well.

Where should my Money be Invested?

This depends on a variety of things, so you should really discuss this with an advisor. In general, shorter term needs, like '*I'm planning to buy a house in the next 2-3 years*' is a good reason to go more conservative. If this is strictly long-term money, and you don't foresee

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any need for it for a long time, a more aggressive plan might be appropriate, but only if you're comfortable with that. I like mutual funds for this, as they can do almost anything you need in terms of suiting your time-line and comfort levels, and they include the advice costs in most cases, so they end up being well priced for what you get. But make sure you get the advice part. That's as important as anything else.

Are there other Options for my Investment?

The variety of options available is really big. Most common are bank deposit type accounts, mutual fund investments, insurance type mutual funds (called Segregated Funds), ETF's, and stocks and bonds from a broker. And you can DIY as well on this.

Do I need to Change my Investments from time to time?

You do indeed, and your advisor should help you with that. He/she should respond to your questions about that fully and promptly, or hopefully they should bring the questions to you when they think it's something you should be aware of. Typically, near retirement, you may want to make sure the money is reliably there for you, so you don't want to take full up-and-down market risks at that time. Or, if markets have just gone down, you should expect a call from your advisor about possible opportunities while the risk is temporarily reduced.

What happens when I Retire?

Hopefully you have a whole bunch of money saved up in your RSP by then. So you start taking it out when you retire. Remember, you never paid any taxes on this so far, so now it's all going to be taxable. But in the mean time you made money on your money, and on the government's tax money that they didn't make you pay for all that time. So it's still a good deal. And there are a few ways around that too. So tell your retired friends and relatives that sometimes, the tax can be dealt with. They might appreciate the idea you bring them if it saves them taxes.