



JANUARY 2006

# RRSP Resource Guide

## ECU WEALTH MANAGEMENT TEAM

The Education Credit Union has everything you'll need to put your RRSP financial plan in order. From sound investment advice, to chartered accountants, to legal assistance, your credit union is proud to offer a well-rounded array of services to suit your every need. A summary of our services is included below, however, more detail can be found under the Wealth Management Section of our website at [www.ecusolutions.com](http://www.ecusolutions.com).

### Services:

- Financial Planning
- Investment Planning
- Estate Planning
- Life and Disability Insurance
- Trusts
- Legal
- Accounting/Tax

### Your Team:

#### Eva Englehutt - Credential Securities Inc. Investment Advisor

Eva joined the Credit Union in November of 2005. She has 11 years of related experience at 2 national brokerage institutions. Eva graduated from the University of Calgary and completed the Canadian Securities Course (CSC), the Conduct and Practice Handbook (CPH), and the Professional Financial Planning Course (PFP).

#### Stewart Duckworth - Credential Financial Strategies Inc. Financial Planner

Stewart offers over 10 years of experience in the life insurance and financial services industries. He is a graduate of the University of Guelph with an Hons B.A. and has obtained his Certified Financial Planner designation (CFP), in addition to his Elder Planning Counselor designation (EPC). Stewart has successfully completed his Canadian Securities Course, and holds a level II Life Insurance and Accident and Sickness license.

#### Lisa Kersey - Credential Securities Inc. Investment Advisor

Lisa completed her Business Administration Accounting diploma at Conestoga College. She has completed the Canadian Securities Course (CSC), the Conduct and Practice Handbook (CPH), the 90-Day IDA Training course, and the Professional Financial Planning (PFP) course. (On maternity leave until September 2006)

#### Jo-Ann Spicer - Credential Financial Strategies Inc. Representative

Jo-Ann is the newest member of the ECU Wealth Management Team. She has over 20 years experience in the financial services industry, with an extensive background in retirement and investment planning. Jo-Ann has completed the Canadian Securities Course (CSC) and the Professional Financial Planning Course (PFP) in addition to the Canadian Investment Funds course.

### Chartered Accountants:

#### Brian Hanna C.A., Collins Barrow

#### Alan Wintrip C.A.

The ECU Wealth Management program includes professional Chartered Accountants who provide a suite of services to members, on personal and commercial levels. Through our long-term association with two Chartered Accounting firms, each specializing in a specific area of expertise, we offer tax, accounting and advisory services to individuals and businesses.

### Solicitors:

#### Russell Norman Lawson

#### Stephen P. Haller

An important part of the ECU Wealth Management program is access to legal services through Kruse, Lawson & Haller, a local firm of solicitors who can provide professional services such as Wills, Powers of Attorney and Living Wills and Real Estate consultation.

**Credential Financial Strategies Inc. is a member company under Credential Financial Inc., offering financial planning, life insurance and investments to members of credit unions and their communities.**

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**EDUCATION  
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## TAX PREPARATION SERVICE

Available March 6 to April 21, 2006

Why not have your income tax professionally prepared - conveniently, efficiently, and at reasonable rates? Alan Wintrip, Chartered Accountant, will operate a tax preparation service on-site at the Education Credit Union during tax season. Alan operates a full-time accounting practice in Kitchener.

Tax preparation rates (plus GST):

- \$50.00 base rate plus \$1.70 per slip
- \$35.00 base rate for child/student plus \$1.70 per slip (if processed with parents)

Contact your branch for a package to get you started.

## A NEW YEAR

Got your new year's resolutions ready? January's a great time to document your net worth, as year-end account statements arrive.

What about your financial goals? Do you have a coherent strategy for eliminating high-interest debt and optimizing your tax-deferred savings for retirement and your children's education? Now's also a good time to gather all your documents for your 2005 tax return and look for ways to reduce taxes for next year's return.

Have you reviewed your beneficiary designations in light of changes to your marital or family status? Review your will and power of attorney at the same time. Professional advice can help you get your financial plan on track for the new year.

## SADLY MISSED

The staff and board of directors at the credit union was greatly saddened when we heard of **Bob Wall's** passing on December 10, 2005. Bob was one of the founding members of the Education Credit Union when we opened our doors in March 1972. Bob also served on the first Board of Directors as Secretary, where he held a position for 7 terms. Bob was a great supporter of the credit union, and a frequent visitor to the office. We always looked forward to his colourful stories and jokes. We will miss him.

## BE A MILLIONAIRE

The beauty of compounded interest is that it doesn't require any additional work on your part. You just sit back and watch your investment grow. The only thing compound interest requires is time - the more time you give it, the more it benefits you!

What exactly is compounding? It refers to earning income on your income. For example, on fixed income investments that pay interest over time at periodic intervals, compounding means making interest on your initial investment plus the interest as it builds up. This means you are earning interest on your interest!

### How does compounding affect RRSPs?

It pays to start your RRSP now. The sooner you start, the more you can have when you retire. If you invest \$250 a month for 40 years starting today, you can accumulate more than twice as much as the person who waits 20 years, and then invests \$500 a month for 20 years. The total amount invested is the same, but look at the difference in results. Here's how the math works:

#### Scenario 1

**TOTAL AMOUNT DEPOSITED**  
**\$120,000**

Total RRSP balance after  
**40 years of \$250 monthly**  
contributions equals **\$1,062,412.**

#### Scenario 2

**TOTAL AMOUNT DEPOSITED -**  
**\$120,000**

Total RRSP balance after  
**20 years of \$500 monthly**  
contributions equals **\$321,728.**

This example is based on a constant 9% rate of return in order to illustrate the advantages of tax-deferred savings and compounded returns. Because actual interest rates fluctuate, the amounts shown do not necessarily represent the value you would actually accumulate in an RRSP.

### The waiting game

Investing in RRSPs to take advantage of compounding interest is an excellent choice of savings as you are in it for the long run. The longer you have to let your investment accumulate compound interest, the more money you will make. It also means that you can invest less with the same, or better, results. Not a bad deal!

## BORROW IT

What do you do if the RRSP deadline is fast approaching and you don't have the money to make a contribution? Simple. **Borrow it.**

Your RRSP contribution is an important part of ensuring a secure financial future. While it's preferable to use existing savings to contribute to an RRSP, it's better to borrow than not to make a contribution at all. If you skip just one \$5,000 contribution, you could reduce the value of your RRSP by almost \$34,000 over 25 years assuming an 8% average rate of return.

Even if money is tight, borrowing to make an RRSP contribution makes good financial sense - provided you pay down the loan quickly.

Keep in mind that interest on RRSP loans is not tax deductible. However, RRSPs have enough tax advantages to make carrying short-term debt worthwhile. In most cases the immediate tax saving, plus the tax-deferred growth inside an RRSP will far outweigh the short-term interest costs of the loan.

In addition, you can use any tax refund you get on your 2005 taxes to help pay off your RRSP loan or to make an early RRSP contribution for the 2006 tax year. However, it may be prudent to pay off higher interest-bearing debts, such as an outstanding credit card balance, before you pay down your loan.

Talk to the professionals at the Education Credit Union about an RRSP loan or apply online today.



## ALL IN THE FAMILY

With many couples, one partner, generally the one with the higher income, tends to invest more money into a retirement plan, to defer taxes and build a retirement nest egg. At retirement, this could consequently put this partner in a higher tax bracket while their partner ends up with little or no retirement savings and income.

A spousal RRSP is one tax-smart strategy that many couples can use to equalize their income. The higher income partner applies some of their RRSP contributions to the lower-income partner's RRSP and claims the tax deduction on the contributions. When the lower-income partner, who is the legal owner of the plan, withdraws that money (as long as it's three years since the last contribution was made to the spousal account), the money qualifies as income for the lower-income partner and will be taxed at a lower rate.

Consider a retired couple where one partner has retirement income of \$50,000 and the other has \$10,000 (for a total of \$60,000). Their total tax bill will be \$20,600 (assuming a 26% tax rate on the \$10,000 and 36% on the \$50,000). However, if the partners split their income, so they each have \$30,000 in retirement income, and are now both in the lower tax bracket, their combined tax bill will be \$15,600 (assuming a 26% tax rate). **That's a family tax savings of \$5,000!**



A spousal RRSP could also help you at retirement to reduce the clawback of your Old Age Security (OAS) benefits. This tax year, the "clawback" is 15% of net income in excess of \$59,790, and 100% if net income reaches \$96,788 (per individual, not family). By splitting retirement income, the net income for each person will be less, thus reducing the chance of a "clawback" of government benefits.

To be eligible for spousal contributions, the spouse must be legally married to the contributor or have a common-law relationship as defined under the Income Tax Act.

Take a close look at your combined retirement income or future retirement income today, and set up a spousal RRSP while you still can.

## AVOID THESE COMMON RRSP ERRORS:

1. **Failing to take full advantage of the RRSP contribution room available to you each year.**

Even if you plan on making up for lost time for missed contributions, you may not realize the implications of the delay. Missing a single \$1,000 RRSP contribution at age 29 reduces the value of the RRSP at age 69 by \$15,000, assuming an average annual compound return of 7% for those 40 years.

2. **Not deferring an RRSP deduction until a later year, when your earned income is expected to be higher.**

You don't have to claim an RRSP deduction in the year that it is made. Contribute this year to get your money working for you immediately, but hold off on the deduction until a year you expect a higher income.

3. **Not understanding the full benefits of spousal RRSPs.**

Spousal plans are a useful tool for tax planning a couples' retirement income. If one partner is expecting a good pension, RRSP assets can be accumulated in the hands of the other partner. This will help to equalize a couple's income and lower income taxes in their retirement years.

## MORTGAGE OR RRSP?

It's a common dilemma: should you pay down your mortgage or contribute to your RRSP? The question arises for good reason. Contributing to your RRSP and paying down a mortgage on your primary residence are both good choices.

Consider your situation carefully before deciding what to do.



### Consider RRSP contribution when:

- your employment situation is not stable
- you are in a higher marginal tax rate
- you are younger
- you have a lower mortgage rate
- your mortgage has a shorter amortization

### Consider paying down your mortgage when:

- your employment situation is stable
- you are in a lower marginal tax rate
- you are older
- you have a higher mortgage rate
- your mortgage has a longer amortization

**It's possible, however, to have the best of both worlds.** You can do that by contributing the maximum to your RRSP and using your tax refund to pay down your mortgage. That way, you will continue to build long-term retirement savings while lowering your current debt-servicing costs. Smart thinking.

Having a financial plan is key to making the right choice. Speak with one of our experts for help deciding what's best for you.

## Interesting RRSP Facts

Source: Statistics Canada, 2004

- **Total RRSP contributions: \$28.8 billion**
- **Percentage of eligible RRSP room used: 8%**
- **Number of Canadians contributing to an RRSP: 6 million**
- **Percentage of eligible tax filers who contribute: 30%**
- **Allowable annual contribution for 2005: up to \$16,500**

# PRIME YOUR RRSP

If you and your spouse are getting close to retirement, it's important to review your asset mix and planned contributions in relation to your specific retirement objectives. What steps do you need to take now in order to meet your Registered Retirement Savings Plan (RRSP) targets in the homestretch?

1. If you are very close to retirement, you may want to begin shifting the emphasis in your RRSP from long-term growth to more conservative investments.
2. If you haven't already done so, this may also be the time to start consolidating multiple RRSPs you may have into a single plan, which will simplify things when you are required to close out.
3. If you're not quite where you wanted to be in relation to your savings target, a few timely adjustments will help you get your RRSP back on track. If you haven't been maximizing contributions, take action now to boost current and future contributions. Use the years remaining before retirement to catch up on unused contribution room.
4. Depending on your risk tolerance and time horizon (that is, the number of years left before retirement), you may also want to consider increasing the level of growth-oriented equities in your plan, to boost potential performance.
5. This is also the time to make sure you are taking full advantage of spousal RRSPs. If you and your spouse expect to have very different incomes in retirement, consider starting or adding to a spousal RRSP to help equalize your incomes and reduce taxes after you retire.

Professional advice can help you make the most of these next few years of retirement savings.



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