Manulife Investment Management

Tax, Retirement, & Estate Planning Services

Registered retirement savings plan (RRSP)—the facts

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Everything you need to know about RRSPs

If you're like most Canadians, chances are you could use some help when it comes to saving for your retirement. When used to its full advantage, a registered retirement savings plan (RRSP) can be a powerful tool that can save you money on your annual tax return while helping your savings grow. RRSPs can work well if you contribute while you're in a high tax bracket (while you're working) and withdraw when in a lower tax bracket (when you're retired). For low-income Canadians, a tax-free savings account (TFSA) may be more beneficial. See "**Tax-free savings accounts (TFSAs): the facts**" for more information.

Manulife Investment Management has written this guide to provide you with the information you'll need to make the most of your retirement plan. The guide describes RRSPs and how the tax-deductible contributions you make to an RRSP will provide current tax savings. It also reviews how you can use your RRSP to create a sound retirement plan.

What's an RRSP?

An RRSP is a retirement account that's registered with the Canada Revenue Agency (CRA) and that you or your spouse[1] make contributions to. Because deductible contributions can be used to reduce your tax and because income or growth earned in the plan is usually exempt from tax while the funds remain in the plan, an RRSP acts like a tax shelter that provides you with a powerful incentive to save money for your retirement years. You can open an RRSP at many financial institutions, including banks, trust companies, life insurance companies, credit unions, caisses populaires, mutual fund companies, and stock brokerage firms. An RRSP is designed to hold a number of qualified investments, such as stocks, bonds, and other popular securities including mutual funds, segregated fund contracts, and GICs.[2]

RRSP contribution room is generally available to you if you've earned income. Once you contribute funds into an RRSP, any growth or income earned on the underlying investment won't be taxed until you withdraw that money. In addition, you can claim tax deductions for contributions you make to your RRSP. Since you received a tax deduction when you contributed funds to the RRSP and the funds accumulated on a tax-free basis, when withdrawing those funds prior to the plan's maturity, it'll be regarded as taxable income by the government and will be subject to tax in the calendar year you receive it.

When you hold the RRSP until the plan matures, the money you've saved can be withdrawn as a lump sum. But if you decide to go this route, the money you withdraw will be regarded as income and taxed in the calendar year you receive it. This could trigger a large tax bill. There are alternatives, however. By using your accumulated savings to purchase a retirement annuity or open a registered retirement income fund (RRIF), you can delay the receipt of your funds, and consequently, continue to defer paying tax on the savings remaining in the plan.

[1] Spouse includes a common-law partner as these terms are defined in the Income Tax Act (Canada).

[2] Includes guaranteed interest contracts offered by an insurance company and guaranteed investment certificates offered by other financial institutions.

Why should I contribute to an RRSP?

There are **two important reasons** why you would want to make regular contributions to an RRSP:

- to lower the amount of tax you pay now
- to provide financial security for you and your family during retirement

Tax savings

Contributing to an RRSP can help you save tax. When you contribute to an RRSP, the amount you contribute is tax-deductible, thus lowering your taxable income. In addition, the investment growth earned on assets held within an RRSP will not be taxed as long as they remain in a registered plan.

This is very significant since the value of your savings has the opportunity to compound tax free, which means it could grow much faster than it would if you had to pay tax on your profits on an annual basis.

Effects of taxation on your savings

Taxation can have a very unfavourable effect on your savings. For example, a 10% rate of return on an investment may sound good, but if the return is fully taxable at a 45% marginal tax rate, you've actually only earned 5.5%.

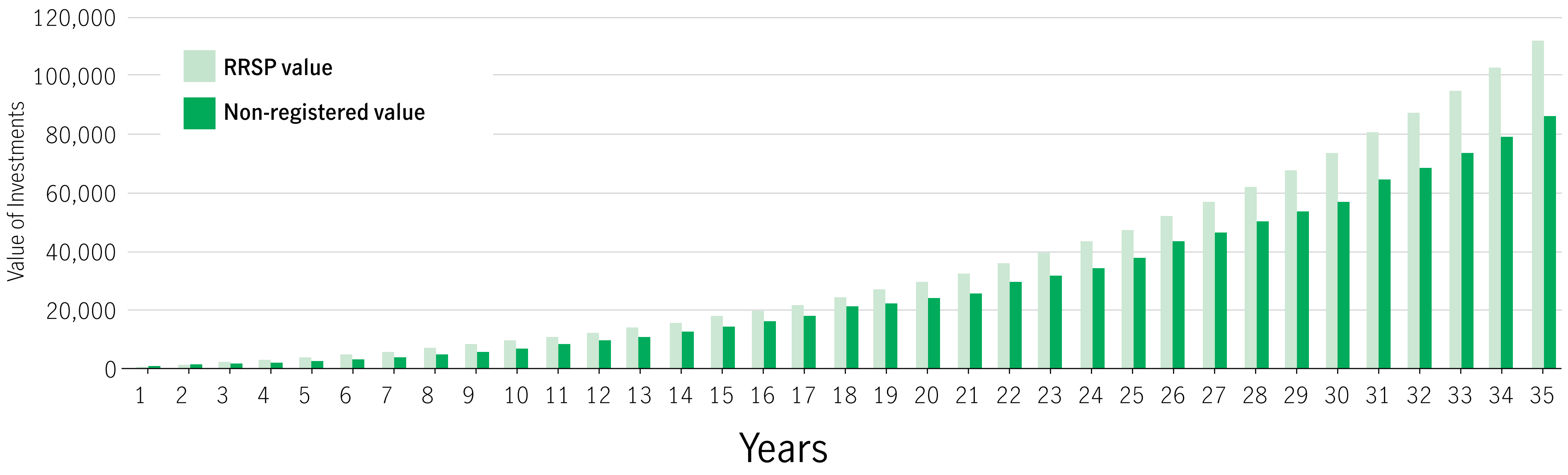
The chart below illustrates how much faster savings can accumulate when the growth of an investment remains within a tax shelter.

In the example, we compare two scenarios. The first assumes that you contribute $1,000 at the beginning of each year, your annual rate of return is 8%, and your marginal tax rate is 40%. In this scenario, your RRSP would accumulate to $186,000 after 35 years. If you withdrew the entire amount in that year, you would have $111,600 after paying taxes.

The second scenario assumes you invest $1,000 annually outside an RRSP for 35 years with the same tax rate. But since this investment doesn't grow tax-deferred, you would only accumulate $85,700.

How your savings can grow

After-tax value of registered vs non-registered investments[3]



What this example demonstrates is that even though your RRSP savings are subject to taxes when you withdraw them from the plan, you will still benefit by deferring taxes until that time.

[3] Based on annual contributions of $1,000 at the beginning of each year, an 8% annual rate of return and a marginal tax rate of 40%. Assumes 25% of investment income is taxed annually at 28% and the tax is paid from the account for the non-registered plan. For illustration purposes only. Rates of return will fluctuate and aren't guaranteed.

Early contributions—a good habit to get into

As you can see from the previous example, making regular contributions to an RRSP can greatly increase your retirement savings.

But the problem is that many of us delay making our RRSP contribution until February of the following year. This is unfortunate because by leaving the contribution to the last minute, we lose out on some of the benefits that time can provide when investing in an RRSP. For example, making a contribution in January of the current year will provide the opportunity for the return on your investment to compound tax deferred over an additional 14 months.

If making a large lump-sum contribution is too difficult for you, consider a Pre-Authorized Chequing Plan (PAC). With a PAC, you authorize regular withdrawals from your chequing account with the proceeds going into your RRSP. Under this arrangement, your contribution is automatic and you can budget for it in advance.

If you belong to your employer's Registered Pension Plan (RPP), the amount of contributions that you can make to an RRSP will be less. However, you should still consider contributing to an RRSP to the fullest extent possible to supplement your pension benefits.

Early contributions add up

Making regular RRSP contributions early in your career can help you take advantage of the tax-deferred compounding of investment returns. The following example helps illustrate the benefits of this practice.

Bill and Mary, both age 25, each contribute $2,000 a year to an RRSP. Bill starts now and contributes for 10 years for a total of $20,000. Mary waits 10 years to start contributions and then contributes $60,000 over 30 years. Although Bill has contributed $40,000 less than Mary, Bill has earned over $70,000 more than Mary by age 65—a convincing case for starting your RRSP contributions early.

	Bill	Mary
Starts contributing	Now (age 25)	After 10 years (age 35)
Contributes for	10 years	30 years
Annual contribution	$2,000	$2,000
Rate of return	8%	8%
RRSP value at age		
35	$31,291	$0
45	$67,555	$31,291
55	$145,846	$98,846
65	$314,870	$244,692
Difference	**$70,178**	
Total contribution	$20,000	$60,000

For illustration purposes only.

When can I contribute?

You can contribute to an RRSP at any time. However, for contributions to be tax deductible for any given year, they must be made on or before the 60th day of the next calendar year. This date typically falls on or about March 1.

How much can I contribute?

Your annual deduction limit

Annual contributions to an RRSP are generally deductible within the limits outlined in the table below.

RRSP dollar limits	
2020	$27,230
2021	$27,830
2022	$29,210
2023	$30,780[4]
2024	$31,560
2025	$32,490

[4] Note: After 2022, the RRSP dollar limit's indexed in line with the increase of the average industrial wage in Canada.

Calculating your deduction limit

In any given calendar year, your RRSP deduction limit's equal to:

- any unused RRSP deduction room left over from prior years (see chart)
- **plus** the lesser of 18% of your earned income for the prior year or the RRSP dollar limit for the current year
- **minus** the Pension Adjustment (PA) reported on your prior year's T4 (to reflect the value of the benefits provided by your employer's pension plan)
- **minus** any Past Service Pension Adjustment (PSPA) reported in the current year, if appropriate
- **plus** any Pension Adjustment Reversal (PAR) reported, if applicable.

Remember that the earned income used in this calculation is for the prior calendar year, not the current calendar year. This allows you to calculate your RRSP deduction limit in advance.

As an example, John has never contributed to an RRSP even though he'd earned income in prior years. He now has $5,000 of unused contribution room. He earned $40,000 last year and was a member of his employer's pension plan. His pension adjustment from last year was $3,000. John's RRSP deduction limit for the current year is calculated as follows:

Unused contribution room	$5,000
Add lesser of 18% of $40,000 ($7,200) and the current year dollar limit	$7,200
Subtotal	$12,200
Less pension adjustment	-$3,200
Total available contribution room	**$9,200**

Can I carry forward my tax deduction?

Contributions you make to your RRSP can be carried forward and deducted in future years. This only applies to contributions made in 1991 or later. You may want to postpone claiming a deduction if your income is lower this year than it will be in a future year—if your marginal tax rate is higher in a subsequent year, claiming the deduction later will result in a higher tax refund.

Postponed deductions are permitted even after age 71. Investors may want to consider maximizing their contributions in the year they turn 71. They can then carry forward the deduction(s) to lower their taxable income during retirement.

What is unused RRSP deduction room?

Unused deduction room is the cumulative difference between your RRSP deduction limit and the contributions that you've actually made. Since 1991, unused RRSP deduction room can be carried forward indefinitely. If you miss making all or part of your contribution in any year, you can carry forward the unused amount and make this contribution in future years.

Although the provision for a carry-forward of RRSP deduction room gives you more flexibility in making contributions, it also requires more careful record keeping of your RRSP deduction limits, and the contributions you've made and deducted each year.

You're not required to claim all the contributions that you make to an RRSP in the calendar year that you make them. However, if you make a contribution but don't deduct it, you must report the unclaimed contribution on Schedule 7 of your income tax return.

You can determine your RRSP deduction limit in a number of ways:

1. Add the amount of your unused RRSP deduction room on your Income Tax Notice of Assessment for the prior calendar year.
2. Access your account on the Canada Revenue Agency (CRA) website.
3. Call CRA directly. The TIPS (Tax Information Phone Service) line is +1 800 267 6999 and the general information line is +1 800 959 8281.

Retiring allowances

Retiring allowances are amounts paid by your employer on retirement or loss of employment. The eligible amount of a Retiring Allowance, including payments received from a Retirement Compensation Arrangement, that can be transferred to your RRSP is calculated as follows:

- $2,000 for each year before 1996 during which you were employed with that employer, plus
- $1,500 for each year of employment during which you were not a vested member of the Registered Pension Plan (RPP) or Deferred Profit Sharing Plan (DPSP) prior to 1989

Can I make extra contributions to my RRSP?

Certain income may be transferred to your RRSP in any year or within 60 days of the next calendar year. These contributions are in addition to your annual RRSP deduction limit. Such income includes:

- lump-sum amounts from non-registered pension plans for services rendered by you while you weren't a resident of Canada
- retiring allowances received from your employer, or under a retirement compensation arrangement, on retirement or for loss of office, within certain limits (see "Retiring allowances" in this section)
- refund of premiums from an RRSP on the death of your spouse, or if you're a financially dependent child or grandchild because of physical or mental infirmity, on the death of a parent or grandparent
- lump-sum amounts from an RPP received because of your spouse's death

What happens if I contribute too much?

The *Income Tax Act* imposes a penalty of 1% per month on a taxpayer's "cumulative excess amount." Generally, if you have more than $2,000 of contributions over your maximum RRSP deduction limit, you may be subject to the penalty of 1% per month on the excess amount at the end of every month that amount remains in your RRSP.

What happens if I try to withdraw an excess contribution?

Contributions you have made to your RRSP that exceed the amount prescribed can be withdrawn tax free during the same year that the excess contribution is made, during the year the income tax assessment is completed, or in the following year. You'll need Form T3012A certified by CRA to withdraw the excess contribution tax free, or you can make the withdrawal with taxes withheld and attach Form T746 to your tax return to have the taxes reimbursed.

How do I know what my pension adjustment is?

Your employer is responsible for calculating your Pension Adjustment and reporting it on your T4 tax form. Since the RRSP deduction limit uses the prior year's Pension Adjustment figure, you can refer to your prior year's T4 (usually issued in February of the current year) to calculate your current year's RRSP limit.

Employer-based retirement savings plans

If you're a member of your employer's registered pension plan (RPP) or deferred profit sharing plan (DPSP), you'll receive a pension adjustment (PA) or a past service pension adjustment (PSPA). These amounts will reduce your RRSP deduction limit.

Pension adjustments for defined contribution plans

If your RPP is a defined contribution plan (i.e., the contribution is based on a percentage of current earnings and the pension amount is based on the funds available when you retire), the PA represents the total contributions made to the RPP by both you and your employer in the year, but doesn't include any investment earnings on those contributions.

Pension adjustments for defined benefit plans

If your RPP is a defined benefit plan (the maximum pension amount is normally determined by level of earnings and years of service, while the contribution is actuarially determined to fund the pension amount), the PA is calculated by a formula. This formula is generally nine times the benefit entitlement earned under your registered pension plan in the year, less $600.

Deferred profit-sharing plans

If you belong to a deferred profit-sharing plan, the pension adjustment reflects the contributions made to the plan by your employer.

What is earned income?

The 18% maximum contribution limit calculation is based on the amount of income you earned during the previous year.

What can I put into my RRSP?

You can hold investments such as common shares of corporations (stocks), bonds, exchange-traded funds (ETFs), mutual funds, or segregated fund contracts in your plan. Generally, if you want to hold stocks, bonds and other types of alternative investments, you will need to open what's commonly referred to as a self-directed RRSP.

Earned income is the total of:

- your income from employment, including all taxable benefits, and payments from employee profit-sharing plans, employee benefit plans, and salary deferral arrangements, less all employment-related deductions such as traveling expenses, professional membership dues, and salary reimbursements
- any income from royalties if you're an author or inventor
- any income from the carrying on of a business, either alone or as a partner actively engaged in the business
- net rental income
- amounts received from supplemental Employment Insurance benefits (this doesn't refer to employment benefits)
- net research grants
- spousal support and maintenance receipts (or similar allowances relating to former common-law relationships) included in your income
- any Canada Pension Plan (CPP)/Quebec Pension Plan (QPP) disability pension amounts you received while a resident of Canada minus the sum of:
  - losses from the carrying on of a business, either alone or as a partner actively engaged in the business
  - net rental losses
  - spousal support and maintenance payments (or similar allowances relating to former common-law relationships) deductible in computing your income

Can I have more than one plan?

You may have as many RRSP plans as you wish. You may prefer to have separate plans to take advantage of different investment options or financial institutions. However, if you have more than one plan, you may pay more in administration fees and you will need to spend more time keeping track of your various plans.

A self-directed RRSP (or a managed RRSP fund) that holds mutual funds and segregated fund contracts will likely provide you with the diversity that you require.

What type of RRSP should I choose?

RRSPs are generally classified into two categories: direct and self-directed. The general features of each type of RRSP don't change. What does change is the characteristic of the investment that can be held within each type of plan.

Direct plans

Financial institutions such as insurance companies, banks, trust companies, credit unions, loan companies, and certain corporations authorized to sell investment contracts will accept cash or assets from other RRSPs.

The issuer of the plan purchases qualified investments such as GICs, bonds, mortgages, equities, segregated fund contracts, or mutual funds as directed by you.

The plan may require that all contributions be invested in a specific type of investment (like a GIC) or it may contain several investment choices.

Can I transfer money between plans?

You may transfer your RRSP funds from one plan to another without tax consequences, provided the funds go directly to the new plan without having been available for your use. Fees may apply.

Self-directed plans

With a self-directed RRSP, a trustee holds and administers the RRSP investments but you direct the trustee on how to invest the funds. The trust deed may permit investment in a variety of qualified investments or it may restrict investment, for example, to units of a specified family of mutual funds.

A self-directed RRSP offers you more flexibility and control over your investments and will require more direct involvement when managing your investments.

What's a spousal RRSP?

A spousal RRSP is a plan that's opened in your spouse's name to which you make contributions. With a spousal RRSP, the contributor claims the tax deduction but the contributor's benefit stops there. Your spouse is the legal owner of the plan and, as such, will make all the investment decisions and withdrawals. The total contributions you make to both your plan and a spousal RRSP may not exceed your deduction limit. In addition, any contribution you make to a spousal RRSP doesn't affect your spouse's deduction limit for the year.

The advantage of a spousal RRSP is that it can provide you with opportunities to split income before and after retirement. Tax savings are realized when the spouse residing in the lower tax bracket takes income from the plan. The net effect is that the couple will pay less tax overall.

Withdrawals from a spousal RRSP will be taxed in your spouse's hands provided the contributor hasn't invested any amount in any spousal plan in the current or preceding two calendar years. If the spouse makes a withdrawal before maturity and the contributor has deposited cash or other assets to any spousal RRSP in the current or preceding two calendar years, the amount withdrawn (up to the amount of the contributor's deposit) will be included in the contributor's income for that year.

Provided you have sufficient earned income, contributions can be made to a spousal RRSP until the end of the year in which your spouse turns 71.

Income splitting can save you tax

The following table helps illustrate how income splitting can work. In this example, a couple withdrawing the same amount of income are able to save $2,280 annually by using this strategy.

Retirement plan	Income at retirement	Marginal tax rate paid on annuity income	Annual tax cost
Individual RRSP	15-year annuity at $12,000 per year	45% income tax paid by individual	$5,400
Spousal RRSP	15-year annuity at $12,000 per year	26% income tax paid by individual	$3,120
		Annual tax savings	**$2,280**

For illustration purposes only.

Home Buyers' Plan and Lifelong Learning Plan

The Home Buyers' Plan and the Lifelong Learning Plan allow you to withdraw funds out of your RRSP for specific purposes. The funds aren't taxed when withdrawn as long as certain conditions are met. These plans require that the funds be paid back into the RRSP at prescribed amounts over an extended period of time.

Home Buyers' Plan

This plan allows an individual to borrow money from their RRSP for the purpose of purchasing a home as a first-time home buyer. To qualify as a first-time home buyer, you can't have lived in a home that either you or your spouse owned in the previous five years. In addition, any money you may have borrowed from your RRSP under the Home Buyers' Plan to purchase a home in the past must have been repaid. If you have a spouse, it's possible that only one of you will be considered a first-time home buyer. There are exceptions for disabled individuals.

The maximum amount that can be withdrawn is $35,000 per person. The funds are repaid over a 15-year period that starts in the second calendar year following the year of withdrawal. If in any year a scheduled repayment isn't made, that amount is included in your income for that calendar year.

For more detailed information, visit the **Home Buyers' Plan** section of CRA's website.

Lifelong Learning Plan

This plan is similar to the Home Buyer's Plan except that it allows you to withdraw funds for your education or for your spouse's education. The Lifelong Learning Plan student must either be enrolled or have an offer to enroll in a qualifying educational program at a designated educational institution as a full-time student. There are exceptions if the student meets certain disability criteria.

The maximum amount that can be withdrawn is $20,000 for the program. A maximum of $10,000 can be withdrawn in a calendar year. The program can be used more than once as long as there's no outstanding Lifelong Learning Plan balance. The funds are repaid over a 10-year period. The repayment period varies; however, the latest year the repayments can start is the fifth year after the first Lifelong Learning Plan withdrawal. A missed repayment is included in your income for the calendar year.

For more detailed information, visit the **Lifelong Learning Plan** section of CRA's website.

How long can I contribute to my RRSP?

Because an RRSP is essentially a retirement savings vehicle, it has been designed to mature when you turn 71.

When you turn 71, you must make your annual RRSP contribution by December 31 of that year. You must also collapse your RRSP by December 31 of that year. If you're over age 71, you may still contribute to your spouse's RRSP as long as your spouse is under age 71.

Since age 71 marks the last year that you can make a contribution to your own RRSP, it's advantageous for you to make your last eligible contribution before you close your plan. If you haven't claimed a deduction for all contributions made up to the end of the year in which you turned 71, you can still claim them in future years (i.e., there's no age limit for claiming a deduction as long as the contribution was made in or before the year you turned 71).

What if I need the funds before I retire?

An RRSP may be terminated at any time prior to maturity and the proceeds distributed to you. However, the amounts withdrawn before maturity will be taxed in that same year. You may take partial withdrawals without terminating the plan. The gross amount of any withdrawal must be included in your income when calculating your annual tax bill.

[6] This strategy doesn't apply in Quebec since the total cumulative withdrawals for the year are used for Quebec withholding purposes.

When you withdraw money from your RRSP, your financial institution will withhold tax from the withdrawal amount. The tax withheld may be claimed as a credit on your income tax return as income tax paid during that year.

The amount of tax withheld by your financial institution will be based upon the amount withdrawn.

How to minimize the withholding tax

The amount of tax that's withheld by your financial institution for RRSP withdrawals can be minimized by making sure each withdrawal is $5,000 or less and each withdrawal is a separate request. Canada Revenue Agency requires that one request for a series of withdrawals be totaled and considered as one withdrawal for tax withholding purposes.[6]

Amount withdrawn	Tax rate (%)	Tax rate in Quebec[5] (%)
$5,000 or less	10	19
$5,000.01 to $15,000	20	24
Over $15,000	30	29

[5] Combined federal and Quebec withholding rates

Registered retirement income funds (RRIFs):

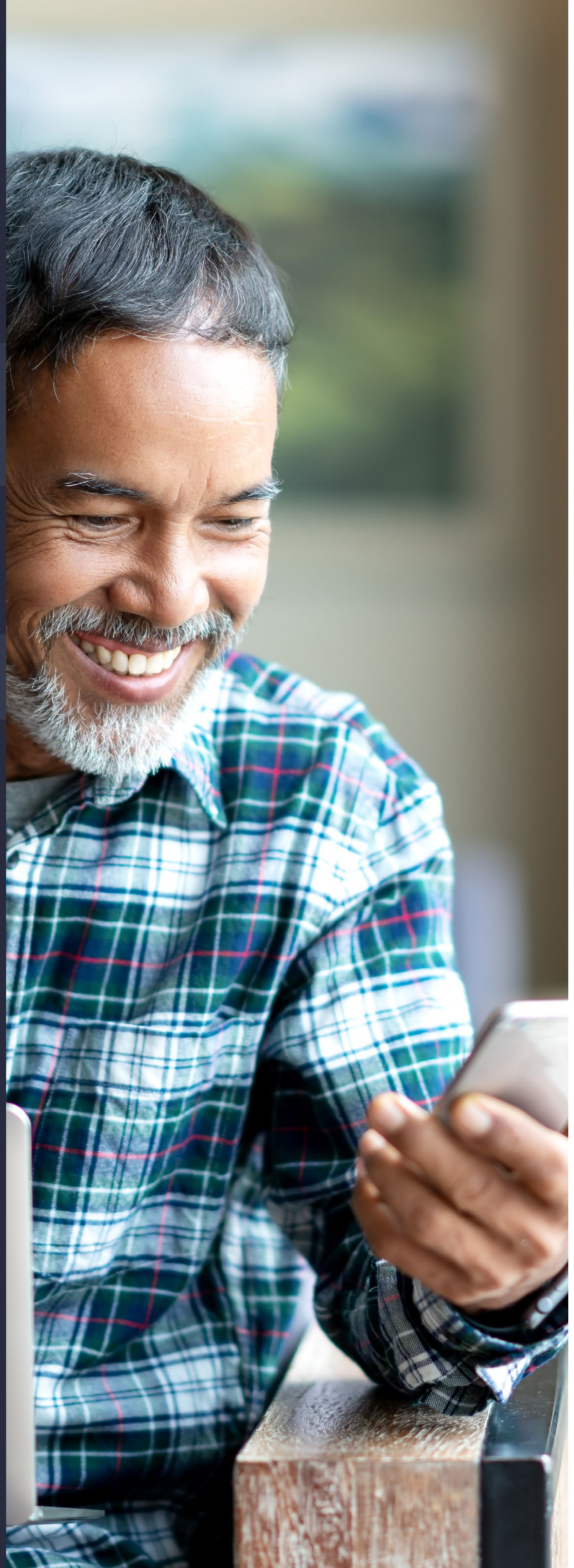
- provide flexible withdrawal options and allow for a variety of investments similar to RRSPs
- allow for an easy transfer of your RRSP investments while providing the opportunity for investments to continue growing tax deferred
- require certain minimum amounts of your savings to be withdrawn each year
- have the potential to provide income for life

Fixed-term annuities:

- offer a guaranteed source of income until age 90, or until your spouse turns age 90, depending on the option you select
- provide a fixed rate of income or income payments that can be indexed over time

Life annuities:

- provide benefits during your life, or during the lives of you and your spouse
- allow you to select a term option that guarantees a set number of payments



What happens to my RRSP when I retire?

Although your RRSP must mature before the end of the year in which you turn 71, you don't have to wait until then to withdraw income from your RRSP. Most plans can mature at any time, allowing you to take early retirement, if you wish.

What are my options?

At maturity, all of your accumulated funds must be withdrawn from your RRSP. You can take a lump-sum payment, where you would pay tax at your marginal rate at the time of withdrawal. Perhaps a better alternative would be to purchase one or a combination of RRSP maturity options. RRSP maturity options provide you with retirement income in varying amounts over varying periods of time. In addition, tax is deferred until you actually receive your retirement income, which allows more of your money to remain invested on a tax-deferred basis over longer periods of time.

The following list highlights three RRSP maturity options that are popular choices for many Canadians. For a more detailed description, see **"Registered retirement income—the facts."**

What happens to my RRSP when I die?

If you die before your RRSP has matured, the proceeds are paid out in a lump sum to either the beneficiary you named in the plan or to your estate.

The general rule is that the deceased is taxed on the value of the registered plan on the date of death. However, there are circumstances where the tax can be deferred if the proceeds are transferred to a qualified individual.

Payment of proceeds to a spouse

If the beneficiary of the RRSP is your spouse, it's possible to transfer the assets directly to your spouse's RRSP, RRIF, or eligible annuity as a tax-deferred rollover. For this to occur, your spouse must transfer the proceeds of the RRSP to an RRSP, RRIF, or a qualifying annuity in the year your spouse receives your RRSP or within 60 days after the end of the year.

If this is done, the value of your RRSP will need to be reported on your spouse's tax return for the year (this value will be reported on a T4RSP or T4RIF slip). Your spouse will then claim an offsetting deduction for the transfer to their own RRSP, RRIF, or eligible annuity. Any future withdrawals or payments from the RRSP, RRIF, or eligible annuity will be taxable to your spouse.

Payments from an RRSP to your estate for the benefit of your spouse are also taxable to your spouse, provided your spouse and the legal representatives of your estate file a joint tax election. If this election isn't filed, the RRSP amounts will be included in your income for the year of death.

To minimize legal, estate administration, and probate[7] fees, it's preferable to name your spouse as the beneficiary of the RRSP rather than to file the election after death.

[7] Probate doesn't apply in Quebec.

Payment of proceeds to someone other than a spouse

If you want the proceeds of your RRSP to go to someone other than your spouse, generally, the proceeds from an RRSP must be included in your income in the year of death. An exception occurs when the beneficiary is a financially dependent child or grandchild.

If you have a financially dependent child or grandchild who is under age 18, it's possible to transfer your RRSP to a term certain annuity with a maximum term of 18 minus the child or grandchild's age at the time the annuity is purchased. If your child or grandchild is financially dependent by reason of physical or mental infirmity, it's possible to transfer your RRSP to an RRSP, RRIF, RDSP (registered disability savings plan)—up to the lifetime contribution limit —or eligible annuity.

In either case, the transfer must take place in the year your RRSP proceeds are received or within 60 days after the end of the year. If this is done, your financially dependent child or grandchild will include the value of your RRSP at death in their income instead of you. However, the child or grandchild will get an offsetting deduction for the transfer to their RRSP, RRIF, RDSP, or eligible annuity. Any future withdrawals or payments from the RRSP, RRIF, RDSP, or eligible annuity will be taxable to your financially dependent child or grandchild.

If you name a person other than your spouse or financially dependent child or grandchild as beneficiary of your RRSP, your estate will be faced with paying the tax liability even though it may not have enough funds to do so because the entire proceeds of the RRSP were paid to the named beneficiary. If your estate has insufficient assets to meet such tax liability, the beneficiaries of the plan would be jointly liable for the taxes owed by your estate.

Spousal contributions after your death

In the year of your death, or within 60 days after the year end, your legal representative may make a contribution to your spouse's RRSP under the normal rules. This contribution will be deductible on your final tax return.

What happens to my locked-in pension funds?

If you were previously a member of a pension plan, you may be entitled to transfer your locked-in pension funds to a locked-in RRSP (also called a locked-in retirement account or LIRA).

Locked-in funds aren't generally available for cash withdrawal and must be used to provide some form of life retirement income. Various provinces allow for earlier access under the following circumstances:

- shortened life expectancy
- financial hardship
- non-residency status
- small-balance cashouts
- partial unlocking when converting to a life income fund (LIF) or restricted life income fund (RLIF)

If you die, any locked-in funds may be paid to your spouse, although the funds held within the plan may remain locked in.

Depending on the original pension legislation governing your locked-in funds, at the maturity date of your plan (usually no earlier than age 55), you may be able to choose one of the following income options for your locked-in funds:

- You can purchase a life annuity (joint and survivor annuity if you have a spouse).
- You can transfer funds to a LIF, LRIF, prescribed retirement income fund (PRIF), or a RLIF. For more details on these options, see **"Registered retirement income—the facts."**

What else should I consider?

Should I borrow to contribute to my RRSP?

You should consider making your maximum RRSP contribution allowable—you may even consider borrowing money to make the contribution.[8] Although interest on the loan won't be deductible for tax purposes, the taxes you save on the RRSP contribution and the earnings in your RRSP will generally more than compensate for the interest you pay. In addition, the increased tax refund can be used to repay the loan. You should review this strategy each year, taking into consideration the cost of borrowing the funds. For more information, see **"The bigger bang RRSP strategy."**

Is my RRSP protected from creditors?

Federal provisions provide creditor protection to all RRSPs, RRIFs, RDSPs, and DPSPs in the event of bankruptcy only and don't protect contributions made in the last 12 months. The federal legislation doesn't override provincial laws dealing with creditor protection, such as the provincial *Insurance Act* or where provincial protection is already available.

Under the *Insurance Act*, full creditor protection may be available to registered plans and non-registered contracts where an appropriate beneficiary is named. For more information, see **"Are your investments protected from creditors?"**

What if I'm no longer a resident of Canada?

The *Income Tax Act* imposes a 25% withholding tax on both periodic and lump-sum payments to non-residents out of an RRSP or RRIF. This rate may be reduced on certain payments made to individuals living in countries with which Canada has a tax treaty.

As a non-resident, you may transfer certain lump-sum pension benefits or retiring allowances (within limits) directly to an RRSP without paying withholding tax. You may also transfer certain funds tax free between RRSPs. On death, your non-resident spouse may transfer certain RRSP benefits directly to an RRSP, annuity, or RRIF.

If you're a non-resident, you must repay the balance of any funds you withdrew under the Home Buyers' Plan or Lifelong Learning Plan before you file your return for the year or no later than 60 days after you become a non-resident, whichever date is earlier. If you don't make the repayment by the deadline, you must include the amount you haven't repaid in your Canadian income for the year you became a non-resident.

[8] Borrowing to invest in an RRSP may not be appropriate for everyone. You'll need the financial resources to meet your loan obligations in full. Talk to your advisor to find out more about the advantages and obligations of borrowing to invest.

For more information, contact your advisor or visit **www.manulifeim.ca/treps**

Borrowing to invest in an RRSP may not be appropriate for everyone. You will need the financial means to meet your loan obligations. In addition, investments held in an RRSP may fluctuate in value. You should be aware that, regardless of their performance or value of any investments held in your RRSP, you'll be required to meet your loan obligations in full. Talk to your advisor to find out more about the advantages and obligations of borrowing to invest.

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