

Planning

Retirement planning: Invest inside or outside your RRSP?

Everyone wants to enjoy a comfortable retirement! However, given the number of financial products and services on the market, choosing the most effective investment vehicle is not always easy.

With recent tax decreases and the low capital gains inclusion rate (only 50% of capital gains are taxable), non-registered investments have become more attractive. You might have even heard of or read some financial analyses questioning the advantages of an RRSP. But what is the whole story? Should you now opt for non-registered investments instead of an RRSP?

Incomplete analysis

Let's look at the hypothetical situation of Julie, age 35. She is committed to investing \$5,000 a year in equity mutual funds from now until the age of 65. Should she choose a registered or non-registered account? Let's see



how much each portfolio would be worth when she's ready to cash in the investments at age 65.

Looking at the figures in the table below, you might think that the registered account, after subtracting taxes, is worth less than the non-registered account. But that's not entirely true. Let's look at a more realistic comparison to see why this analysis is flawed.

Account Type	Accumulated value at age 65	
	RRSP	Non-registered
Before tax	\$472,304	\$431,091
After tax	\$272,047	\$382,702

Note: Based on an assumed annual return of 7% (of which 5% represents capital gains and 2% dividends) and a taxation rate of 42.4%, the rate in Quebec for income between \$54,195.01 and \$60,000.

A more realistic approach

Although the example above seems logical, the two values cannot be compared. Why not? It's simple — the income tax savings of the RRSP have not been considered. In other words, at a taxation rate of 42.4%, Julie's \$5,000 RRSP contribution costs her only \$2,880 (\$5,000 less the \$2,120 tax benefit). For a valid comparison, the contribution to the non-registered account must be adjusted. In Julie's case, an RRSP



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This newsletter was provided by group savings representatives for Desjardins Trust Investment Services Inc., a financial services firm.

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Do you find yourself questioning whether an RRSP is still the best investment vehicle for you retirement? This issue of *Planning* sets the record straight for you.

This fall, take the time to make sure that the balance of your registered and non-registered investments is appropriate for your personal situation.

Call us and let's talk!

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Desjardins

Assets and Values



Complete analysis

	RRSP	Non-Registered
Investment	\$5,000	\$2,880
Actual cost of investment	\$2,880	\$2,880
Value at age 65	\$472,304	\$248,308
Income tax	\$200,257	\$27,872
Value after tax	\$272,047	\$220,436

RRSP advantage: +\$51,611

Note: Based on an assumed annual return of 7% (of which 5% represents capital gains and 2% dividends) and a taxation rate of 42.4%, the rate in Quebec for income between \$54,195.01 and \$60,000.

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contribution of \$5,000 equals a non-registered investment of \$2,880.

By adjusting the contribution amounts, the results can be compared so that Julie is able to make an informed decision (see the table above).

With a complete analysis, it's clear that the RRSP is indeed the investment vehicle that allows Julie to maximize her retirement income!

Definitive proof

Does the RRSP advantage depend on Julie's marginal tax rate, or on the amount invested? To answer this question, let's consider two other

situations in which the contributions and tax rates are different (see table below). You can see that the RRSP advantage depends neither on contribution amount nor on marginal tax rate. There's no doubt! An RRSP is still the best way to maximize retirement income, no matter what your income level.

Always make sure that you're comparing like choices, so that you can make the right decisions. To make the most of your retirement capital, please contact me at any time. I would be pleased to help you make the financial decisions that will bring you the retirement of your dreams. ■

RRSP: Always the best choice, regardless of income level!

	RRSP	Non-Registered	RRSP	Non-Registered
Investment	\$1,998 (\$3,000 before income tax considerations)	\$1,998	\$5,180 (\$10,000 before income tax considerations)	\$5,180
Marginal Tax Rate	33.4%		48.2%	
Value after tax, at age 65	\$188,733	\$151,344	\$489,307	\$380,929

Note: Based on an assumed annual return of 7% (of which 5% represents capital gains and 2% dividends) and taxation rates applicable in Quebec on different levels of income.

What about non-registered investments?



In the previous issue of *Planning*, we underlined the importance of non-registered investments and offered some advice on maximizing their net income. How can you take full advantage of that advice and the ideas presented in this issue?

An RRSP is the foundation of your retirement planning. Non-registered investments can be added to complete the plan and maintain the tax shelter for as long as possible.

In addition, non-registered investments will allow you to bridge the income gap between ages 60 and 69, when you must convert your RRSP into a RRIF. Non-registered investments are especially beneficial in the following situations:

- ✔ **You've maximized** your RRSP contributions;
- ✔ **Your mortgage** is paid off and you have extra cash;
- ✔ **You've sold** your business or received an inheritance;
- ✔ **You're approaching** retirement.

We offer tax-efficient investment products that will allow you to increase your net retirement income. Find out more!

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