



North Shore News Column.

Older & Wiser

By Tom Carney

Consider your savings options for the future

RRSPs may not be the most economical choice for some people

By Tom Carney, Special to North Shore News February 17, 2013

IT used to be that retirement planning was a bit of a no brainer - open an RRSP, sock away as much as you could afford, watch your money grow and then use those funds in your retirement.

But for some seniors an RRSP can turn out to be more of a burden than a blessing.

The story I am going to share with you today comes from a reader I'll call "Ann" and is about the need to do some long-range tax planning before making a contribution to an RRSP.

Here is her story. Ann and her husband left Hungary in 1956 after the revolution and arrived in Canada in the spring of 1957. Starting with their very first pay cheque, they put a small portion into their savings account.

"Imagine my dismay," she writes, "when out of the first weekly pay cheque of \$25 I had to put \$5 into savings!"

In 1977 the couple moved to B.C. Ann was working in an accounting office and she and her husband followed the conventional advice and contributed the maximum to their RRSP every year.

"Neither of us worked in high-paying jobs. We loved hiking and enjoyed what B.C. offered and travelled on the tax refund we received. We thought it was a great plan," she says.

Ann's husband passed away in 1997 and she inherited his savings, most of which was in his RRSP.

She worked until she was 65 and on the advice of several experts used her cash savings first and didn't touch the funds in her RRSP until she had to by law.

"And that's when I got the shock," she says. "After filling out my first tax return when I turned 70, my income was higher than ever before. Instead of paying less taxes I was in a higher bracket, paying a higher percentage.

"I realize I have to pay taxes but I feel I'm being punished for all the years of careful savings. I could have spent it like others do and received more government benefits in my old age. Many thanks for listening. . . . Hopefully you will be able to help some unsuspecting individuals," she said.

Now I am not qualified or licensed to give financial advice but the rules around RRSPs are clear. RRSPs are fully taxable.

You can defer those taxes for years, but sooner or later the tax man will come calling. For most people, that time arrives before the end of the year in which the RRSP account holder turns 71.

The RRSP must either be converted to a Registered Retired Income Fund (RRIF), used to purchase an annuity or taken as a lump sum payment.

Take the money in a lump sum and the taxes are payable immediately. Opt for an RRIF or an annuity and the payouts must be included in your taxable income and that triggers taxes.

The withdrawal rate increases every year - reaching more than 10 per cent at age 85 and 20 per cent by age 90.

Whether you need the money or not, you have to withdraw the mandatory percentage of RRSP funds as income after age 71. You don't have a choice.

It's maddening really. The whole idea behind RRSPs for most people is to put away a little money while you are working to carry you through your lower income years in retirement. What is happening to Ann and others is that the combined income from their pensions and RRSP withdrawals drives them into a higher tax bracket in retirement than when they were working.

And that can lead to claw backs in OAS and other government benefits.

Ann concludes: "The bottom line is, don't put all of your eggs in the same basket. In other words, an RRSP is not the best option for lower income people."

Many experts agree with her. The lesson here is that seniors need to be more vigilant about their tax planning for retirement. RRSPs can be highly effective for those who expect to be in a lower tax bracket when they take their money out. But RRSPs may not be the best retirement savings tool for everyone. Low-income earners and those expecting large pensions are often better off saving in a Tax Free Savings Account or a nonregistered account.

Tom Carney is the executive director of the Lionsview Seniors' Planning Society. Ideas for future columns are welcome. Contact him at 604985-3852 or send an email to lions_view@telus.net.