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Planner



Thanks to those who introduced friends and family throughout the past year. Such referrals are the highest compliment.

John Q Gregg, Certified Financial Planner

The star, the sun, the moon And RRSPs

"Thanks one heap," beamed Stella Maris, age 18, to her father, Solar, on receiving a \$1,000 Christmas gift. Though it was behind bars, locked in a Registered Retirement Savings Plan.⁽¹⁾

"Retiring, like, wow!" she shone cheerfully, "That's something I'll be doing any day now."

Solar had another take on it. He had eclipsed his mother, Luna. This, he figured, was a return on the stake she had furnished him when he was eighteen. At that age one is considered an adult by Revenue Canada, which then allows gifting "without income attribution to the donor." Which means that Luna was not taxed on any investment yield Solar generated.

RRSP START A-DULT

Three months later Stella's glow brightened. "What do I do with this?" She fluttered the cheque

for \$220.50 (see table next page) over her father's breakfast cereal. She'd never seen an income tax refund before.

"Reinvest it," illuminated Solar. "You've just made 22% on your money — and you're now 22% of the way toward contributing another \$1,000 this year."

"Neat," she had to agree.

RRSP STARTER HOME

Five years later, Stella wants a home, a little Quadra starter shack with a view of Mt Dougie Dowler. Humongous Bank is willing to provide her a high-ratio mortgage at "prime-plus-one-and-a-half" and some hefty mortgage default insurance fees.⁽²⁾ Or, she can make a sufficient downpayment, avoid the additional fees, and pay a lower interest rate.

Stella taps the RRSP Home

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Fun with footnotes:

(1) As it's difficult to surprise one with an RRSP, Solar actually gives Stella a gift certificate, redeemable through his professional advisor.

(2) *Prime* is the preferred lending rate at a financial institution. It generally varies in relationship to the Bank of Canada overnight lending rate, the rate at which our central bank lends to the larger banks. At this writing, the Bank rate is 2.50%, and most primes 4.25%.

A *high-ratio* mortgage is one granted to a borrower who has little downpayment. The bank lays off its risk by having the borrower purchase default insurance. Stella's starter costs \$100,000. If she scratches

Amount of RRSP tax deduction is based on income tax bracket.

Tax refund per each	Earned Income Brackets	
	From	To
\$220.50	\$8,524	\$32,476
\$251.50	\$32,477	\$35,000
\$311.50	\$35,001	\$64,954
\$337.00	\$64,955	\$70,000
\$377.70	\$70,001	\$74,575
\$397.00	\$74,576	\$90,555
\$407.00	\$90,556	\$113,804
\$437.00	\$113,805	The sky

(Continued from page 1)

Buyer's Plan. She's able to withdraw up to \$20,000 from her investments without incurring income tax. She uses it to increase her downpayment.

This strategy, she figures, saves her \$14,560 in borrowing costs over her ten year repayment schedule.⁽³⁾ The only requirement is that she reimburse her RRSP at least 1/15 annually over a subsequent fifteen years. Using the difference saved in monthly mortgage payments, she doesn't waste the fifteen, but does

it easily in five.⁽⁴⁾

But she's not done.

RRSP START A CAREER

Now 28, she wishes to complete her nursing degree. This could be accomplished in two years straight, if funds were available, or it could be stretched out over the next

decade. Because she's gainfully employed, owns her own home, has money in the bank, she's not a prospect for Canada Student Loans.

She now taps the RRSP Lifelong Learning Plan. As a full time student, she's able to withdraw up to \$10,000 annually, to a maximum \$20,000, without incurring tax.⁽⁵⁾ The funds can be used for any purpose, no proof of expenses required. She has up to ten years to pay herself back, and doesn't need to start until two years after graduation.

Piece a cake," she figures, and, at the next family Christmas, lands a sloppy wet one on her father's cheek. "Thanks, Dad, for thinking of my long term."

This presents a cursory overview of HBP and LLP options, and should not be considered as financial or investment advice. For fuller details on these, and all aspects of Registered Retirement Savings Plans, visit

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up only a 5% downpayment, the bank would charge 3.25% of the mortgage amount (\$95,000) as an insurance premium — adding \$3,088 to her borrowing costs.

(3) Interest on \$95,000 at 5.75% for ten years = \$33,760 plus \$3088 insurance fee = \$36,788. Interest on \$75,000 at 4.75% for ten years = \$19,200 and nil fees. This strong advantage to Stella's strategy increases dramatically if do interest rates.

(4) On \$95,000 at 5.75% her payments would have been \$1073 monthly. On \$75,000 at 4.75%, payments are \$785, making a difference of \$288. If Stella used this difference alone to reimburse her RRSP, it would take her 5 years and 9 months.

(5) If Stella simply cashed in her RRSP, she would immediately lose \$6,000 (30%) to withholding tax. And, since the \$20,000 would be added to her income for the year, it would increase her marginal tax rate, and likely increase the amount of tax owing. In other words, she would have less than \$14,000 to employ toward expenses while in school. Versus \$20,000 if she withdraws the same money under the Life-long Learning Plan.

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