

# MAXIMIZE YOUR RRSP

With endless expenses and competing financial priorities, there never seems to be enough money left over for RRSPs. Whether you're a young person just beginning to save, or you're in your 60s and counting the days to retirement, we can help you make sure you're comfortable in your golden years **by JULIE CAZZIN**

Want to stress someone out? Remind them that the RRSP deadline is coming up—fast. For many of us, it's a February frenzy as we try to scrape together some funds to make a meager RRSP contribution. The deadline—which falls on February 29 in this leap year—also forces us to think about a touchy subject: Will our retirement savings be enough to live off comfortably when we quit working?

Take heart: you're probably already doing a lot of things you need to do in order to guarantee yourself a comfortable retirement. Perhaps all you need are some small adjustments to bring your stagnating RRSP returns back to life, or to find a way of squeezing a little more into your investment account.

For the 2011 tax year (which includes the first 60 days of 2012) you can contribute up to 18% of your earned income in 2010, to a maximum of \$22,450, plus more if you have unused contribution room from previous years. But even a much smaller RRSP contribution can help.

To maximize the benefits of RRSPs, you need to make the right financial moves at every stage of life—your 20s, 30s, 40s, 50s and 60s. With a section for every age, we're going to show you how to make the tough decisions needed to stay on course. To help, we've asked other Canadians to share their own struggles and successes at each stage of life. So if you feel you haven't been making the most of RRSPs, read on.



# YOUR 20s

## GETTING STARTED

**I**n your 20s, paying the rent and covering your basic needs often takes priority over longer term goals such as saving for retirement. Sure, you want to do the right thing and put a little money away for the future. After all, young people who start investing have the advantage of a longer time horizon to grow their money. But after paying bills and student loans and spending a bit on entertainment and other fun activities, there may be nothing left of your less-than-whopping paycheck.

For many young people, such as 28-year-old Toronto actor and model Lori Bassarab, their first goal is paying down debt. When Bassarab graduated from the University of Western Ontario and got her first full-time job as a marketing manager, she was focused on paying off more than \$10,000 in student loans. "I cut back on concerts, vacationing, food and alcohol consumption until it was entirely paid off," says Bassarab, who is now debt-free.

Bassarab also made some RRSP contributions in her early 20s. "I was interested in reducing taxes," says Bassarab. "My parents suggested I do it, and I did." Right now, she holds a couple of stocks in her RRSP but hasn't checked up on them or made another contribution for a couple of years. "With my modeling job, entertainment and clothing bills are stupid," says Bassarab. "Once I pay all my expenses, there's just

nothing left at the end of the year." Her goal? To eventually use her \$15,000 or so in RRSP savings to make a down payment on a small condo. "I wish I managed money better. I worry about saving for retirement, so anything that would help make that easier would be great news."

Kimberly and Brad DeLenardo, both 28, sympathize with Bassarab. The DeLenardos both work for social service organizations in Kirkland Lake, Ont., but say their financial life has become more complicated since their two young daughters—Adriana, 22 months, and Leyla, two months—were born. And even though the couple earns a respectable \$110,000 in total annually, they're stretched to the limit.

That's because on top of carrying \$20,000 in student debt and a \$45,000 mortgage on their home, the couple's expenses just keep mounting. They include a huge \$15,000 annual daycare bill when Kimberly returns to work from maternity leave next fall, a much bigger mortgage when they buy a larger home in a couple of years, as well as the \$1,000 a year that they contribute to their kids' RESPs annually. That leaves only about \$2,400 a year for RRSPs. "Neither one of us has a company pension, and we won't be able to contribute much more than this to our RRSPs for the foreseeable future, so we worry," says Kimberly.

Right now, Brad has \$10,000 in his RRSP while Kimberly has \$17,000, mostly in bank mutual funds. "I've been too busy to monitor returns or look at the fees we're paying," says Kimberly. "It gets pushed aside because life gets in the way. But it's on our to-do list for this year."

### WHAT THE EXPERTS SAY

Don't worry if you're not building up a large RRSP during the early years of your career. "Saving for retirement is unlikely to be a top priority in your 20s," says Norbert Schlenker, president of Libra Investment Management Inc. in Salt Spring Island, B.C. "Instead, do what you can to increase your income, cut your expenses, and start cutting your debt." Remember that reducing debt and saving for retirement are not competing goals: both work together to shore up long-term financial health.

Start by eliminating student loans and other non-mortgage debt—the interest you pay on these loans is usually higher than the guaranteed interest you can earn on investments. Once you're in the black, you may want to park some money in a high-interest Tax-Free Savings Account (TFSA) to cover unforeseen emergency expenses, >

After paying her bills, actor Lori Bassarab has nothing left

like rent if you lose your job suddenly.

This may mean you don't even make an RRSP contribution in your 20s, but that's okay: unused RRSP room is carried forward. This works out well, since you will likely earn more money in your 30s, 40s and 50s, and contributions made during higher-income years mean more tax savings. However, if you're earning a substantial full-time salary in your 20s—\$50,000 or more, say—an RRSP contribution could be a good idea if you've paid off all your consumer debt and student loans.

The key is to focus on developing good savings habits. "You can start by paying yourself first," says Marc Lamontagne, a fee-for-service adviser with Ryan Lamontagne in Ottawa. Both Bassarab and the DeLenardos can do that by setting up an automatic contribution to their RRSPs. "Every time they get paid, they should put a percentage, say 10%, towards their RRSPs before paying any other bills," says Lamontagne.

The trick to building savings is increasing your contribution amount every time you get a raise, says Lamontagne. "You are probably used to living on your current salary, so there is no loss if you divert every raise—or part of it—to savings." You can also boost your savings by using any tax refunds to make another contribution to your RRSP. This in turn will generate a larger refund next year.

You may have heard that when you're young, RRSPs should be invested mostly in stocks. However, you may want to buck conventional wisdom and invest more conservatively. If you plan to use your RRSP for a down payment, or if you think you might tap it for emergency funds, then it should be in cash, GICs or short-term bonds. "Those small RRSPs may be the only emergency savings you have and if, like Lori, you plan to withdraw the funds in the next couple of years, you don't want to have to delay buying a home or condo if the market is down," says Lamontagne.

If your RRSP is truly for retirement savings and you don't plan to touch it until you leave the workforce, then you can invest more aggressively. A good plan is to invest 60% of your RRSP money in equities and the remaining 40% in fixed income (bonds) using low-fee investments such as index mutual funds.

As for the DeLenardos, they're ahead of the game and shouldn't worry too much about saving for retirement yet. "You can always catch up later," says Schlenker. "And given the small size of the existing RRSPs, high fees shouldn't be a big concern now."



Scott and Erin Parkin wonder if they should save in RRSPs or pay down the mortgage

# YOUR 30s

## LEARNING TO JUGGLE

Most of us feel that by our mid-30s, we'll be well on the road to savings. The reality is usually very different. Chances are, you'll find yourself struggling to keep many balls in the air—mortgage payments, the huge expenses of a growing family, and the increasing responsibilities of a busy career. Your income is probably not hugely generous, and there may not be much money to spare for savings. In fact, you may find yourself constantly trying to satisfy several financial demands. Should you be paying down the mortgage? Saving for the kids' education? Or putting money into an RRSP?

To make the right choices, you need to do a bit of planning. There's no right answer for everyone, and much depends on your priorities and the setbacks you face along the way. Just ask Scott and Erin Parkin of Brantford, Ont. Erin, 33, has been a stay-at-home mom to her two kids, Owen, 10 and Molly, 6, for the past 10 years. Scott, a 39-year-old engineer, has been the sole income earner and since he's in a high tax bracket, he has always contributed to RRSPs—his own plan plus a spousal RRSP for Erin. Over the years they've accumulated \$66,800 in Scott's RRSP and \$20,000 in Erin's.

But those contributions came to an end in 2009. That's because the Parkins aren't comfortable with the way their RRSP money is invested. Their entire portfolio is made up of segregated funds with annual fees over 3%, and they don't know what to do about it. But the bigger reason is that they are trying to stay on track to pay off their \$198,000 mortgage in 15 years. "We put the little extra money we have—about \$3,600 a year—towards the mortgage," says Scott.

The couple also say they could probably squeeze an extra \$200 a month from their budget to put towards either the RRSP or the mortgage, but they aren't sure which option is best. These competing priorities are typical for people in their 30s. "It's a constant battle," says Scott.

Megan and Matthew Shaw of Thunder Bay, Ont., share the Parkins' concerns. They too, are trying to raise a family (they have three kids, ages 9, 4 and 2) and pay off their \$99,000 mortgage solely on Matthew's \$85,000 salary. (Names have been changed to protect their privacy.) "We have no consumer debt so we're happy with that," says Matthew, 35, a police officer for the last six years. "But after expenses we usually have about \$5,000 annually to invest, and we don't know where to put that money—the mortgage or RRSPs?"

What makes the choice more vexing is the fact that the Shaws are at a loss over how to fix the stagnant returns on their \$150,000 RRSP nest egg. They feel they need a whole new strategy. "Why are we putting all this money into RRSPs and not getting any returns?" asks Megan, 38. "Our annual fees, which average about 2.8%, are ridiculously high."

The Shaws feel stuck. Most of their mutual funds have deferred sales charges (DSCs)—a penalty you pay when you sell the fund before a certain number of years. These charges usually go down to zero after seven years, but before then the charges can be steep. "We're debating whether to bite the bullet, sell the funds and pay the penalty, which could amount to several thousand dollars," says Matthew. "Or, should we wait and sell them when the deferred sales charges reach zero in a few years? We just don't know."

### WHAT THE EXPERTS SAY

In your 30s—like Scott and Erin Parkin, and Megan and Matthew Shaw—you'll often feel frustrated at not making much financial progress. The good news is that focusing on paying down a mortgage is an excellent strategy. "It's the highest-return risk-free investment the average person can

make," says Schlenker, the planner. "Most mortgages allow extra principal payments, up to 10% of the balance, on anniversary dates. Take advantage of that opportunity."

Still, if saving is a huge motivator for you, it may make just as much sense for you to contribute to an RRSP. "Mortgage vs. RRSP? I get asked that question all the time," says Lamontagne. "If it's strictly a financial decision, then typically high-income individuals in the top tax brackets are better to maximize their RRSP room before making additional mortgage payments," says Lamontagne. "The key is not to spend that refund. If the Parkins contribute the refund back to their RRSPs, or even use it to pay down their mortgage, then they will be compounding their savings."

Something should also be done with how the couples' existing RRSPs are invested. The Parkins and the Shaws have their savings tied up in high-fee investments, and the costs of their funds are eroding their returns. "In reality, investors can control only two things that affect the returns on their investment accounts—their own behaviour and the fees they pay," says Schlenker. "Both the Parkins and the Shaws are paying fees of \$3,000 to 4,000 a year, far higher than seems warranted."

Lamontagne agrees. "If they can lower their costs by even 0.5%, that will leave thousands of dollars more in their accounts by the time retirement rolls around." The Parkins and Shaws should start shopping around for a fee-based adviser, rather than one who receives commissions from the funds he or she sells. Ideally, their adviser should be using low-cost exchange-traded funds (ETFs) or index mutual funds to build their RRSP portfolios.

In the Shaws' case, they can begin the transition by transferring at least some of the money out of their mutual funds. You can usually transfer 10% of the balance each year without being hit with the deferred sales charge. A low-fee investment portfolio split 60% equities and 40% fixed income—similar to the *MoneySense* Couch Potato Portfolio—is a good place to start. (See [MoneySense.ca](http://MoneySense.ca) for details.)

Finally, the Shaws need to realize that police officers such as Matthew stand to collect a very generous pension in retirement. That means having a large RRSP would result in that money being taxed heavily when mandatory withdrawals start at age 72. So a better option for the Shaws may be to use extra money to pay down the mortgage and max out their TFSAs before they save more in RRSPs. ➤

# YOUR 40s

## JUST KEEP SWIMMING

If you're in your 40s, you probably feel like you're treading water. Between paying the mortgage, raising a family, contributing to RRSPs and saving for your kids' post-secondary education, you may find yourself paddling as hard as you can just to keep your head above water. Andy Charles, a 40-year-old senior manager for a large retail company in Toronto, knows that feeling well. And while he feels that he's behind in his retirement savings, it isn't for lack of trying.

Charles immigrated to Canada from Grenada in 1994 and spent his 20s completing three university degrees. With a \$220,000 mortgage on his two-bedroom condo and \$50,000 worth of outstanding student loans, it's no wonder he feels overwhelmed. He earns a hefty \$100,000 a year but still finds himself struggling financially. "I always feel as though I'm juggling many, many financial balls, and so I never give any one of them the appropriate level of attention," says Charles, a single dad to a 12-year-old daughter, Shaday.

While Charles says he's on track to pay off his mortgage in 26 years, he isn't sure that his contributions of \$4,800 a year to his RRSP—which now totals \$36,000 and is invested mainly in index funds—will be enough to guarantee him a comfortable retirement. "I want to be realistic because I started my career late," says Charles, who expects to retire at 65. Right now, he pays \$600 a month towards his student loans, but he looks forward to 2014, when he will

have two of them completely paid off, freeing up about \$225 a month. (The rest are due to be paid off in 10 years.) As well, in six years Shaday will be in university, bringing his \$175 monthly RESP contributions to an end. "Should I put that extra money in RRSPs? Or towards my student loans?"

Alexis and Dimitri Iatrou of Halifax understand Charles's anxiety. Alexis, a 46-year-old stay-at-home mom who recently returned to full-time work for an accounting firm, spent the last 18 years at home raising her three kids, ages 18, 16 and 11. Dimitri, 45, who works for a beverage company, was the sole income earner for all those years. The couple decided to make paying down the mortgage on their \$400,000 home their top priority—a goal they will meet this month when they make their final payment. "It's

been a struggle, but we're really proud of ourselves," says Alexis.

But over the years, even though expenses were high, the Iatrous always made sure there was enough in the household budget to contribute \$3,000 to \$5,000 a year to RRSPs. "All our retirement savings went into spousal RRSPs and we now have close to \$90,000 in that account," says Alexis, who invests the money in exchange-traded funds and a few common stocks.

The Iatrous' goal in the next 10 years is to increase their RRSP contributions to \$13,000 a year, split equally between the two of them. "The way I see it, it's full steam ahead for the next 10 years," says Alexis. "We hope to retire at 60 and be able to draw an nice income from our retirement savings. I think we can do it."

### WHAT THE EXPERTS SAY

Your 40s are a critical point in your life. Statistically speaking, your peak spending year is around age 46. After that, the hugely expensive years of raising young children are usually behind you, and higher cash surpluses will allow you to build some momentum in paying down the mortgage and boosting retirement savings. The challenge, says Lamontagne, is that most people tend to spend those surpluses. "So you need a plan to ensure those funds are used to meet your goals."

The Iatrous have worked hard to pay off a big mortgage. "By continuing their diligent savings habit and directing what used to be the mortgage payment into RRSPs instead, their retirement savings will grow rapidly," says Schlenker. "In a few years, ask a fee-only adviser to do a calculation to see if Dimitri should start contributing to his own RRSP instead of the spousal account."

And for those who got a late start, like Charles, the news is also good. "He's contributing \$400 a month to his RRSP today," says Schlenker. "He will be fine, whether he chooses to tackle the student loans or the mortgage first." Schlenker notes that if Charles continues his current loan payment schedule, he can gradually bump up his RRSP contributions to \$1,200 a month. He should invest his money in low-fee ETFs or index mutual funds, with 60% in equities and 40% in fixed income. If he does that, Schlenker says, by age 65, Charles' RRSP will grow to more than \$500,000. With government pensions thrown in, that should assure a comfortable retirement. ➤



Andy Charles, single dad to Shaday, is behind on his RRSPs

Photograph by Reynard Li

# Leading the Way in Investment Excellence!



Morningstar  
Canadian Investment Award  
**2011 Winner**

## MORNINGSTAR DOMESTIC EQUITY FUND MANAGER OF THE YEAR

Congratulations Martin Ferguson!

Mawer also won awards for:

- INTERNATIONAL EQUITY
- GLOBAL SMALL/MID CAP EQUITY
- GLOBAL BALANCED
- CANADIAN EQUITY
- CANADIAN SMALL/MID CAP EQUITY

*Mawer Investment Management is an independent investment counselling firm that has been managing portfolios for foundations, endowments, not-for-profit organizations, pensions and individuals for over 35 years. The Firm manages in excess of \$9 billion across all major asset classes.*

**M A W E R**  
INVESTMENT MANAGEMENT LTD

---

www.mawer.com | (800) 889-6248 | Calgary • Toronto

YOUR  
50s  
& 60s

THE HOME  
STRETCH



Debra Bates is enjoying the payoff from her savings

WHAT THE EXPERTS SAY

In your 50s and early 60s, you need to make a conscious effort to catch-up with your RRSP savings. You should also compare the tax savings of RRSP contributions now with the tax bill you'll face when you make withdrawals in retirement. That's because seniors face clawbacks of Old Age Security benefits if they have an income above \$67,668. "The Kirbys should consult a planner to see if they would be better off saving through a TFSA instead of an RRSP," says Lamontagne.

Schlenker further advises families to invest their RRSP prudently. Once you're in your 50s, you may not have enough time to make up for investment losses, and many people make the mistake of holding too much in stocks as they approach retirement. But the Kirbys have the opposite problem. "Their investment strategy has understandably become conservative, but probably too conservative," says Schlenker. That's because a married couple in their mid-50s, even when both have health problems, is likely to see at least one of the two live for 30 years or more. The Kirbys should add some solid blue-chip stocks or equity ETFs so their portfolio can beat inflation.

The key to success is to never lose sight of your retirement goals—at any age. Make sure you pay down debt as quickly as possible, and then resolve to stay out of debt. Contribute to your RRSPs annually if you can—or have a plan to catch up when the demands of a mortgage and growing children are gone. Manage your money well by keeping a balanced portfolio of equities and fixed income, and make that mix a bit more conservative over the years. Keep a close eye on investment fees and aim to keep them below 1% at all times. As well, spend wisely and learn how to keep expenses low so that you'll never have to struggle to find money for retirement savings.

Finally, make sure to have an accountant look at your tax situation as your income creeps up later on in your career—that way you'll be able to keep more of your savings.

Debra Bates did all of these things and is thankful now. She's having a great time, safe in the knowledge that her money will never run out. "We never think we're going to grow old, but it happens to all of us," says Bates, who now spends her days line dancing, swimming, traveling, attending concerts and volunteering. "The more prepared we are when it happens, the better the chance that retirement will bring us peace of mind and happy, happy days." ■ M

says Sam, who was injured in a car accident four years ago and now works only two days a week. Beatrice, a 54-year-old part-time accountant, has also suffered setbacks to her health, but the couple say they will continue to make RRSPs a priority, putting in about \$5,000 a year. "We've paid off the house and plan to work part-time until age 60," says Beatrice. "We're hoping our RRSP nest egg will last us a lifetime."

Meanwhile, 59-year-old Debra Bates of Edmonton has already taken the plunge into retirement. The former real estate agent and bank teller supervisor retired last fall and she's now happily spending four months in sunny Arizona every year. Bates, who divorced her husband at age 33 and raised her two young kids on her own, is the first to admit that it wasn't easy. "There was always an unexpected expense to worry about, whether it was trumpet lessons for my son or school trips for my daughter."

To make it work, Bates bought furniture at garage sales, learned how to turn one chicken into four separate meals and had movie nights at home to save those RRSP dollars. "I kept telling myself it was temporary, and things would be better next year."

Things did get better. In 2000, Bates started selling real estate, and was raking in around \$100,000 a year. Even though she made several high-risk real estate investments, she always made the maximum contribution to her RRSP every year, investing in GICs, index funds and blue-chip stocks. "I was always a hands-on investor," says Bates. "I'm all the better for it today."

If you don't have a bulging RRSP portfolio by your 50th birthday, don't get discouraged. Few people do. The good news is that your 50s tend to be years when household expenses start to subside. Kids grow older and move out of the house, and the end of your mortgage may be in sight.

But as you get closer to retirement, you're more vulnerable to market dips and crashes. Sam and Beatrice Kirby of Winnipeg were shaken by the stock market collapse in 2008. (We've changed their names to protect their privacy.) After losing almost a third of their RRSP savings, the Kirbys sold all their mutual funds and now hold about \$300,000 in cash and GICs in their RRSPs. "We've seen how you can lose money overnight,"

Photograph by Tawnee Miller