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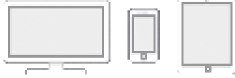

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Before you rush to buy RRSPs, consider other options

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Almost 60 years after they were introduced by the federal government, RRSPs remain popular among Canadians. The Bank of Montreal pegs the percentage of Canadians with an RRSP at 67 per cent, while the Bank of Nova Scotia puts it at 56 per cent.

This year, many Canadians are again finding room in their budgets – or, for those who don't have the funds, taking out an RRSP loan – to make a contribution before the March 1 deadline. A poll conducted recently for Scotiabank found close to 40 per cent Canadians plan to put money in an RRSP for the 2012 tax year.

Should they, really?

While saving for retirement is never a bad idea, financial experts say an RRSP isn't always the best

way to do it. Ted Rechtshaffen, president and CEO of Toronto-based TriDelta Financial Partners, says putting money each into an RRSP has become such an entrenched habit for some Canadians they don't even stop to consider other options for saving.

"Don't get me wrong, I think RRSPs are a good thing," says Mr. Rechtshaffen. "But should people look at them as something they should be doing on an annual basis, without fail, because that's what they do every year? Probably not."

As a general rule, says Mr. Rechtshaffen, RRSPs make sense for Canadians whose incomes are high enough to benefit significantly from the tax savings provided by an RRSP. Those in the top income tax bracket stand to benefit the most from an RRSP.

For a student working part-time, or a stay-at-home mom, an RRSP would likely provide little or no tax advantages, says Mr. Rechtshaffen. A tax-free savings account would be a better place for these savers to park their extra cash, he says.

But even when contributing to an RRSP is likely to translate into a tax refund, it may not necessarily be the best thing to do, says Mr. Rechtshaffen.

"Some people might say, 'Why wouldn't it be? I get to save money, it's tax-sheltered and I might get a 20 per cent tax refund,'" he says. "And in some cases the answer might be because there's likely going to be a year when you can get significantly more tax benefits from an RRSP, perhaps a 30-per-cent tax refund versus 20 per cent, so save the contribution room for that year."

If deferring RRSP contributions to another year makes sense and there is money to put away, Canadians with kids might consider putting more cash into their children's registered education savings plan, says Mr. Rechtshaffen.

Those with aging parents could also take the money they would normally put into an RRSP and use it to buy life insurance for mom or dad, with the person making the payment named as beneficiary. While insurance premiums are higher for older people, the payout would be tax-free and, unlike an RRSP investment, the amount would be guaranteed.

"Some people might say this is icky, but from a pure investment standpoint the rates of return are pretty good," says Mr. Rechtshaffen. "And you know, there are some parents who are more sophisticated financially and would be okay with this if they knew that they would be helping their children and their grandchildren."

Blair Corkum, a financial planner and chartered accountant with Corkum & Arsenault in Charlottetown, PEI, says it's also possible to make an RRSP contribution in one year and claim it in a subsequent tax year when you're earning more. But not everyone has the discipline to do this.

"Convincing people not to claim that RRSP contribution right away can be difficult," he says. "The excitement of getting that tax refund now makes it easy for people to ignore the fact that, if they waited to make that claim, they would get an even bigger refund."

Incorporated professionals and entrepreneurs should also be weighing the fiscal wisdom of contributing to an RRSP each year, says Mr. Corkum. Many professionals and business owners believe they should be drawing a higher salary from the business to increase their RRSP contribution room. But this usually means moving into a higher tax bracket.

"Business owners have a tax deferral advantage in their corporation," he says. "Leaving money in the business and investing it may make more sense than taking an extra $70,000 out of your company so you can put a little more money into your RRSP and get a little bit more in your tax refund."

Jean-Pierre Laporte, CEO of Toronto-based Integris Pension Management Corp., says a personal pension plan would provide greater benefits than an RRSP.

Personal pension rules allow for contributions higher than the maximum contribution for an RRSP, says Mr. Laporte, whose company is the only one in Canada that offers personal pensions backed by administration and fiduciary services. In 2013, the maximum contribution room for an RRSP is $23,350; with an Integris plan, the contributions could be anywhere from $24,270 to $38,490, says Mr. Laporte.

Because the company is paying the pension, corporate tax is reduced, in some cases by as much as 40 per cent.

“It keeps more money in the family,” says Mr. Laporte, noting that Integris fees are also lower than those charged by most mutual fund RRSPs. “There’s less corporate income tax paid because you’ve taken more deductions, and your retirement fund is growing without being eroded by fees.”

Personal pension plans are also protected from creditors’ claims, whether or not the plan holder files for bankruptcy. By comparison, RRSP assets are shielded from creditors only if the account holder files for bankruptcy.

Another benefit to the plan Integris offers is the ability to switch between defined benefit and defined contribution.

“Every year you can switch to match your contribution requirement with your cash flow,” says Mr. Laporte. “In your good years, you can have defined benefit, and when you need to cut back on your funding cost you would switch to defined contribution.”

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