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Beyond RRSPs: 3 alternative investments to consider this RRSP season

Because there are other places to grow your money while optimizing your tax position.

By Marjo Johne

With less than a month to go before the 2021 tax year's deadline to contribute to an RRSP, many Canadians are scrambling to put together money to invest in a registered retirement savings plan.

For doctors, it's usually less a question of finding the money and more of figuring out the best route to save for retirement while optimizing their tax position.

Joseph Bakish, Bakish Wealth

"RRSP season is actually a good time to do overall financial planning for the year," said Joseph Bakish, a Montreal-based certified financial planner and chartered financial analyst at Bakish Wealth who specializes in working with physicians. "Many people will just decide to put money into an RRSP because they're worried about missing the deadline. But if you're a physician at a certain income level then you'll want to consider whether or not an RRSP still makes sense for you."

RRSPs are, in general, a good investment and tax optimization option for early-career doctors making less than $100,000 a year and for doctors who don't have the ability to incorporate, such as hospital employees. Once they start bringing in more money, it's time to think about alternative investments, said Bakish.

The Medical Post asked Bakish and two other finance professionals to highlight investments that physicians may want to consider beyond an RRSP. Here's what they said:

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David Barnsdale, RBC Dominion Securities

Set up your own pension

David Barnsdale, senior portfolio manager and wealth advisor at RBC Dominion Securities Inc., said most physicians are well positioned to take advantage of a personal pension plan (PPP), which requires the plan owner to be an incorporated professional, business owner or executive.

This registered private pension allows for significantly greater contributions than an RRSP and provides other benefits such as reduced corporate tax, higher-level creditor protection, tax deductions for all fees including investment fees, and income splitting with a spouse regardless of the plan member's age. By comparison, an RRSP allows income splitting only at age 65 or older.

"Plus with a PPP there's potential to have multi-generational wealth transfer without incurring taxes if your kids are employees or shareholders," said Barnsdale. "With an RRSP, you can pass it on to your spouse tax-free, but when your spouse dies that RRSP becomes taxable."

Another PPP feature that would likely be useful to physicians is its three-sleeve structure as defined benefit, defined contribution and additional voluntary contribution.

"So you have that built-in flexibility to contribute based on your cash flow," said Barnesdale. "I think (the PPP) is one of the best kept secrets in the country."

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Say hello to flow-through shares

In Canada, certain corporations in the resource sector–including mining, oil and gas and renewable energy–are allowed to issue flow-through shares, essentially transferring eligible exploration and development expenses to their investors.

This creates tax deductions of up to 100% of the original investment in the year of purchase, as well as investment tax credits on resource expenses in the mining sector.

"You can apply (tax deductions from) flow-through shares to income, to capital gains and even to severance packages," said Barnsdale. "There's actually a line item in your tax return for flow-through shares."

Flow-through shares–which have existed since 1954, preceding the RRSP–tend to be riskier than other investments, said Barnsdale. For this reason, he favours mutual funds that give investors access to diversified baskets of resource companies.

"I have more than 20 years of (flow-through shares) history with good years and bad years, and as an example one fund I know has had an average after-tax return of 30% for 20-plus years," he said.

In addition to the first-year tax deduction, flow-through shares can trigger an additional tax deduction of 100% when they're used for charitable giving.

"So you're basically writing it off twice," said Barnsdale. "You deduct the first time you invest in flow-through and you deduct again when you donate your shares to a registered charity."

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Life insurance: Like a TFSA on steroids

Elke Rubach, a certified financial planner and principal at Toronto-based Rubach Wealth, likens permanent life insurance to a "TFSA on steroids without limits."

Elke Rubach, Rubach Wealth

"The biggest issue is it's called 'insurance' which makes a lot of people tune out when you bring it up," she said. "But as an investment asset class, permanent life insurance is an excellent tax-advantaged vehicle that provides risk management–through the death benefit–and a savings or investment component that grows tax-free every year."

Physicians looking at permanent life insurance as an alternative investment asset class will need to consider whole- or universal life. While universal life policies offer benefits such as the flexibility to adjust premiums and coverage value, they do require policyholders to manage the investment component within the policy.

"I find universal life for doctors is tricky because the investment component can go up and down and doctors don't have time to watch it," said Rubach. "Whereas with whole life, the insurance company typically has a big investment fund managed by some really good people."

Whichever type of permanent life insurance physicians choose, they'll enjoy tax-free accumulation of wealth while providing a tax-free death benefit to their heirs, said Rubach.

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Considering a direct investment? Consider carefully

Enterprising physicians who are thinking about putting money into a separate business need to do the proper due diligence and consider what kind of return_or loss–they could get from that investment, said Bakish.

"It's important to remember that the maximum value physicians are going to earn will be made on their own earnings," he said. "We see a lot of people lose a lot of money by investing in a friend's business, and that money is not coming back."

Before committing, say $50,000, to a separate business, consider how much that money would actually be worth if invested over a certain period, said Bakish.

"And remember that what usually ends up happening is that first cheque you give towards a business won't be the last cheque," he said. "When the business starts to struggle, you'll probably need to write another cheque in the hopes that it will help the business get on its feet and allow you to at least get back your investment."

Last word: Plan with your family in mind

If you have a family, then you may want to consider directing extra cash towards TFSAs owned by your spouse and children, as well as registered education savings plans, said Bakish. It's also a good idea to look into buying life insurance with your children as policyholders. "So when they're older they'll have coverage at lower-cost premiums," he said.

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