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# Next RRSP season, hold the trauma

Eliminating anxiety is easy when contributions are pre-planned

A recent BMO Financial Group study says three-quarters of Canadians with an RRSP have already made or plan to make a contribution before the March 1st deadline. Unfortunately, sixty percent find the deadline stressful.

Contributing to an RRSP doesn't need to be traumatic. For many, simply changing their savings schedule can eliminate anxiety. However, although it might be easier to make smaller regular contributions throughout the year, forty-nine percent wait until the end of each year to make a lump sum payment.

Twelve smaller sums should not only be easier than finding one large sum right after holiday season expenses, but paying by automatic withdrawal also makes it difficult to skip a month for an impetuous purchase. The investor no longer frets about funding and the retirement savings discipline is reinforced.

Funding stress can be lowered further if the expected tax refund is received during the year. An employed investor can file a T1213 form, advising the CRA and the employer about their RRSP savings plan, and have tax deductions reduced at source to improve cash flow and make the payments easier.

Regular RRSP contributions are also beneficial from an investment perspective because investors can take advantage of dollar-cost averaging, buying more of their investments when prices are low and less when they are high. Investing equal dollar amounts over a set period of time generally achieves a lower average cost and the worry about buying shares amid market excursions is decreased.

It's wise to think about the RRSP's place among other priorities such as eliminating high-interest debt. If an RRSP's benefits don't support those goals it may need to wait. Acting on knowledge and planning is less stressful than making quick decisions and then wondering if they were right.

Thought should be given to the way RRSPs work. For investors in higher income tax brackets, RRSPs make sense because their tax deduction is likely at a higher marginal rate than it will be when withdrawals are taxed in retirement. For those in the early stages of a career with a low income, it may be better to accumulate RRSP headroom until their higher marginal tax rate is higher.

For the investor who has determined that an RRSP is the retirement vehicle they need, there is comfort in having the right strategy. It begins with examining the way in which the RRSP is invested. Generally speaking, bonds and other interest-bearing investments are best kept within an RRSP to remain tax sheltered while the most favorably taxed investments, such as those that produce

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*Continued from Page 1*

capital gains and dividends, should be outside the RRSP.

Asset allocation relative to age is an important consideration. According to the BMO study, sixty per cent of Canadian investors have specific time frames or target dates to reach their financial goals and eighty-nine per cent agree that it is important to hold investments that evolve over time, becoming less risky as key life events approach. While that may be what the majority believes, only 49 per cent invest accordingly.

At any stage of life retirement planning requires careful thinking. Don't allow an investing process to impede your thought processes by introducing stress.

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