

Retirement planning

One financial aspect of partnership is retirement planning.

Retiring in financial comfort is a universal objective. The best, perhaps only, way to reach this objective is to identify your financial goals early and take the necessary steps to achieve them. It is recommended that you work with a financial advisor as investment and tax environments are increasingly complex.

Registered Retirement Savings Plans (RRSP)

A Registered Retirement Savings Plan (RRSP) is a good investment because of the tax deferral element. Contributions to your (or your spouse's) RRSP are deductible from current income. Payments out of the plan are taxed when they are received, usually after retirement when your tax rate is likely to be lower.

Taxpayers may invest in more than one RRSP in their own name up to the end of the year in which they reach age 71. They may invest in an RRSP for their spouse until the spouse reaches age 71. Spousal plans can be particularly effective when one spouse has higher earnings than the other. The higher income earner can contribute to the spouse's RRSP and claim the deduction. The lower income earner will receive future payments from the plan, taxable at his or her lower tax rate. Both individuals benefit, as tax deductions are maximized at present, and future taxation is reduced by income splitting.

The government sets the maximum contribution that a taxpayer can make to an RRSP in a given year. The annual contribution limit is 18% of earned income to a maximum limit (\$22,000 in 2010). Unused RRSP contribution room may be carried forward to future taxation years. Current rules allow an individual to over-contribute by up to \$2000 without being subject to a penalty.



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To be deductible for a particular taxation year, contributions to your RRSP must be made within that calendar year or the first 60 days of the following year.

RRSP investments may be in specific funds or may be held in a self-administered plan. A wide variety of investment vehicles, from fully guaranteed products to those carrying high risk, are RRSP eligible.

Tax Free Savings Account (TFSA)

A Tax Free Savings Account is a non-registered savings account that can be used for retirement savings, or any other type of short or long-term savings.

Deposits to a TFSA are not tax-deductible. However, amounts accumulated in the account can be withdrawn tax-free at any time.

The annual contribution limit to a TFSA is \$5,000. Unused contribution room can be carried forward to subsequent years and money withdrawn from your account can be re-deposited in the future.

For more information, visit the Government of Canada's web site at www.tfsa.gc.ca.

Universal Life

For an individual who is maximizing RRSP contributions and has excess funds available, certain types of life insurance contracts may offer an additional tax-shelter option.

Universal life policies include cash accumulation funds. When deposits are made into the insurance plan, the money left over after deduction of insurance charges and premium tax is deposited into the accumulation fund. Assuming that the plan meets prescribed rules for tax exemption, interest earned in the accumulation fund is not taxed until it is withdrawn. At that time, the withdrawal will presumably be taxable at a lower tax rate due to a retiree's reduced income.

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NOTE: Universal Life Insurance is, first and foremost, a life insurance policy, however, investing in a Universal Life policy may be an effective tax-deferral strategy *after* RRSP and TFSA opportunities are exhausted.

All Canadian life insurance policies (with the exception of some group coverage) pay out tax free to the beneficiary. However, a unique and very important characteristic of a universal life contract is that both the insurance component and the accumulation fund pass to the beneficiary tax free.

In addition, if a preferred beneficiary is named, the funds will pass outside the estate, therefore avoiding probate cost, executor's fees, etc.

Get expert advice

To reduce your tax burden now and benefit from retirement savings later it is wise to consult a financial planner, investment specialist, accountant, or other professional to find the strategies that will work best for you.

It makes sense to start investing in your retirement now.

CBA Financial Services (CBAF) offers low-cost financial services specifically to meet the needs of lawyers, their spouses, and law firm staff. Over time, lower fees can save you tens of thousands of dollars and help you to reach your retirement goals faster.

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