Your task is to create a simple handout that summaries the important points. You can work in pairs. You can use other information that you find, just make sure you cite it on the back of your handout.

RRSPs: Introduction

This tutorial is your one-stop RRSP shop. Here we explore the ins and outs of RRSP planning and investing. Specifically, we look at what an RRSP is, what its advantages are, how you can set one up and how you can get the most out of your RRSP account.   
  
RRSP is an acronym for [Registered Retirement Savings Plan](http://www.investopedia.com/terms/r/rrsp.asp). RRSPs are the Canadian government's way of helping citizens save their money for retirement. Saving for 30 to 40 years of retirement may seem like a daunting task, but well-planned contributions and withdrawals from your RRSP can be a great way to get the best bang for your retirement buck.  
  
In this tutorial, we cover the basics of saving, taxes, compounding and [asset allocation](http://www.investopedia.com/terms/a/assetallocation.asp) strategies. We even help you to figure out how much you will need to retire comfortably. (If you need a refresher on retirement savings in general, check out our [*Retirement Planning Tutorial*](http://www.investopedia.com/university/retirement/).)   
  
We can't promise that planning for retirement using RRSPs is going to be an investment thrill-ride, but we *can* tell you that if you overlook the advantages of RRSPs, you will likely be the worse for it. So let's get into it!

# RRSPs: The Benefits

**What an RRSP Is**A [Registered Retirement Savings Plan](http://www.investopedia.com/terms/r/rrsp.asp), or RRSP, is a special type of investment account designed to help Canadians save for retirement. The main advantage of an RRSP account, as compared to a regular investment account, is the tax benefits it offers. We'll discuss these benefits in detail throughout this tutorial.

For now, just know that the [contributions](http://www.investopedia.com/terms/r/rrspcontribution.asp) made to an RRSP - which can be made up to a certain limit - are tax free and that the money within an RRSP can [compound](http://www.investopedia.com/terms/c/compound.asp) without your having to pay taxes on the [gains](http://www.investopedia.com/terms/g/gain.asp).

What an RRSP Is Not   
An RRSP is not an investment in itself. You'll often hear people talking about the "RRSP they bought"; however, technically, this is both incorrect and impossible. An RSSP is simply an account that holds other investments. It's the same as a regular [brokerage account](http://www.investopedia.com/terms/b/brokerageaccount.asp) - you don't invest in your brokerage account at Royal Bank or TD Canada Trust, you open an account in which you hold investments. You can't "buy" an RRSP: you buy an investment in the RRSP account to which you contribute. This is a common misconception, and we'll bet that you will now be able to make this clarification next time you and your friends are talking about RRSPs.   
  
Here is a summary of some of the features of an RRSP account:

* Registered with the Canadian federal government
* Legally recognized as a [trust](http://www.investopedia.com/terms/t/trust.asp)
* Offers tax benefits over regular investment accounts
* Can hold many different types of investments

**Why Open an RRSP?**Tax benefits are the main motivation for contributing to an RRSP. By not taxing Canadians on the funds they contribute to their RRSPs, the government rewards those who save for retirement and encourages further saving. However, the government doesn't do this out of generosity. Because of the government costs involved in funding poorly planned retirements, the government recognizes the importance of ensuring that Canadians make their own provisions for their post-work lives.   
  
RRSP tax benefits come in two forms:   
  
1. **Tax-Deferred Growth**   
All investments within an RRSP account grow [tax deferred](http://www.investopedia.com/terms/t/taxdeferred.asp). In other words, any profits made on investments within an RRSP account in the form of interest, [dividends](http://www.investopedia.com/terms/d/dividend.asp) or [capital gains](http://www.investopedia.com/terms/c/capitalgain.asp) are not immediately taxable to you as income. Later in the tutorial, we'll go through some examples showing just how powerful this benefit can be.   
  
Note that there is a difference between tax deferred and tax free, however. RRSP investors do have to pay taxes on the profits in their RRSP, but this does not occur until the funds are withdrawn. Tax deferral remains a benefit because, in theory, income tends to be lower in retirement than in your peak earning years.   
  
2. **Tax Credits**The second major tax benefit comes in the form of a [tax credit](http://www.investopedia.com/terms/t/taxcredit.asp). What this means is that your taxable income is reduced by the amount you contribute - up to a certain point.

|  |
| --- |
| **Example** If Joe makes $34,000 in 2010, the maximum amount the government will allow him to contribute to his RRSP in 2010 is either 18% of his earned income or $22,000 (the cap on RRSP investments for 2010), whichever is lower.  Maximum Contribution = Lower of $22,000 or 18% of Earned Income  = Lower of $22,000 or $6,120  Because $6,120 is less than $22,000, the maximum amount that Joe can contribute to his 2010 RRSP is $6,120. This means that Joe only has to pay tax on $27,880 of his income ($34,000 - $6,120 = $27,880) if he contributes his maximum to his RRSP. Because Joe contributed to his RRSP, he receives $6,120 in tax credits. |

If you don't already have an RRSP account, what you've just read has probably caught your attention. But who can contribute? What makes you eligible? We'll answer these questions and more in the next section of this tutorial. We'll also tackle the debate between [managed](http://www.investopedia.com/terms/m/managedaccount.asp) and [self-directed](http://www.investopedia.com/terms/s/selfdirectedrrsp.asp) accounts.   
  
RRSPs: Eligibility

Who Can Set Up an RRSP?   
After reading about the tax advantages of [RRSP](http://www.investopedia.com/terms/r/rrsp.asp)s in the previous section, you may be anxious to know whether you're eligible to invest. The good news is that practically any working-age Canadian qualifies for an RRSP. Specifically, you are eligible if you are currently working in Canada and meet the following criteria:

* You are under the age of 69.
* You have contribution room (we'll cover contribution limits later in this tutorial).
* You file income tax with the Canadian government.

To ensure that you qualify, check out the [Canada Revenue Agency](http://www.cra-arc.gc.ca/tax/individuals/topics/rrsp/menu-e.html) website for an extensive list detailing eligibility requirements.   
 **OK, I'm Eligible. Now What?**You can open an RRSP account at any financial institution such as a bank, [credit union](http://www.investopedia.com/terms/c/creditunion.asp), [caisse populaire](http://www.investopedia.com/terms/c/caissepopulaire.asp) and most investment houses. If you'd rather not go into a physical location, you can set up an RRSP account online with most online [brokerages](http://www.investopedia.com/terms/b/brokerageaccount.asp), or on the website of almost any major Canadian bank.   
  
**Managed Versus Self-Directed**Once you've decided to go ahead with an RRSP, the first choice you'll have to make is whether to open a [managed](http://www.investopedia.com/terms/m/managedaccount.asp) or [self-directed RRSP](http://www.investopedia.com/terms/s/selfdirectedrrsp.asp). A managed account is a government-registered bank account that holds investments such as [Guaranteed Investment Certificates](http://www.investopedia.com/terms/g/gic.asp) (GICs) or mutual funds. Beyond choosing from one of the many funds offered by your financial institution, no further investment decisions are required on your part. Whoever is responsible for managing the investments in your managed account will make all the necessary investment decisions on your behalf.   
  
The expenses for managed RRSPs can vary widely. They depend on the types of investments held in your account and the way in which they are managed. The cheapest managed RRSPs tend to be investments in a number of mutual funds.

There are a variety of managed RRSP investment options. Some factors that will determine the fees you will pay include the amount of money you have to invest, the types of assets you want to buy and the level of management you seek.   
  
**Fees, Fees, Fees**The least expensive option for those who don't want to worry about making regular investment decisions is a managed [mutual fund](http://www.investopedia.com/terms/m/mutualfund.asp) portfolio. A licensed mutual fund representative will invest your money into a number of mutual funds that can be held in your RRSP account. Your mutual fund representative will pay some attention to what is happening with your account and may give you a phone call once in a while if one of your funds is underperforming or should be sold and replaced with another fund. The costs incurred with this kind of management start at approximately 1.5% of the value of your portfolio and may include transfer-in fees, transfer-out fees, administration fees and the [commission](http://www.investopedia.com/terms/c/commission.asp) that is charged upon the purchase or sale of a fund. At the end of the day, this kind of management can cost anywhere from 1.75% of the value of the assets in your account to around 2.25% of the value of the assets in your account. There is usually no minimum account balance associated with this kind of management. (For more insight, see [*Advantages Of Mutual Funds*](http://www.investopedia.com/articles/basics/03/040403.asp).)  
  
With the most expensive managed RRSPs, you can expect to pay around 2.5% of the total value of your account, plus annual administration fees of around $150 and transaction costs of 2.25% of the value of any trades made. Typically, investment advisors offering these kinds of services require that clients invest a minimum of $100,000 or be directly related to one of their current clients.   
Some investment advisors provide their clients with [discretionary](http://www.investopedia.com/terms/d/discretionaryaccount.asp) services, meaning that an investor can turn over the authority to make decisions on his or her account to the advisor. Advisors make investment decisions on their clients' accounts, and clients agree to pay fees accordingly. Discretionary management comes at a cost of approximately 3% of portfolio value per year, regardless of the amount of trading that happens in the account. Discretionary services are usually only open to clients with at least $300,000 worth of liquid assets to invest. Furthermore, discretionary services are not offered at all financial institutions because of the legalities involved in handing over investment decision-making power to a third party.   
  
**Self-Directed RRSP**Rather than letting someone manage your money for you, you may elect to manage your retirement assets yourself and choose a self-directed RRSP. Unlike with a managed account, you will have many investment decisions to make, but with these decisions comes more control. Choosing a self-directed RRSP over a managed RRSP is much like electing to open a [discount brokerage](http://www.investopedia.com/terms/d/discountbroker.asp) account instead of a [full-service](http://www.investopedia.com/terms/f/fullservicebroker.asp) account.   
  
If you use an online brokerage to set up your self-directed account, it will be nearly identical to your other online investment accounts. The costs of managing such an account are likely to be as minimal as the costs of opening any online discount brokerage account. Commissions are charged on each trade and most online brokerages also have a minimum initial investment, which will probably fall between $500 and $2,000. Beyond that, every time you buy or sell an investment, the online brokerage charges a fee, or commission.

# RRSPs: RRIFs

Once you've retired, getting the money from your RRSP is easy. All you have to do is go to the financial institution that is holding your RRSP account and say that you have retired. Then it's time to kick back and relax. Your RRSP will be [rolled over](http://www.investopedia.com/terms/r/rollover.asp) to a [Registered Retirement Income Fund](http://www.investopedia.com/terms/r/rrif.asp) (RRIF) account. An RRIF is the opposite of an RRSP. Instead of you having to pay into it, an RRIF actually pays you!

RRSPs: Conclusion

If you're a young investor, retirement may seem like it's a long way off, but we hope that this tutorial has encouraged you to think about planning ahead. After all, starting at a young age is one of the easiest ways to ensure that you will save enough money to retire comfortably. If your retirement days are more imminent, understanding how RRSPs work will help you decide how you can make the most of what you've saved so far. Here's a brief overview of what we covered in this tutorial:

* RRSPs benefit Canadians by reducing their taxes and allowing their savings to [compound](http://www.investopedia.com/terms/c/compound.asp) tax free.
* RRSPs are beneficial to the government because they reduce the financial burden of looking after retirees.
* Not every investment can be placed in an RRSP account - only certain investments qualify for tax advantages.
* Most banks, brokers, financial institutions, trust companies and insurance companies offer RRSP accounts to their customers.
* Managed RRSPs require few decisions on the part of the investor but often include more fees.
* [Self-directed RRSP](http://www.investopedia.com/terms/s/selfdirectedrrsp.asp) accounts allow investors to exert more control over the assets in their portfolios.
* Because of the tax benefits provided by RRSPs, the Canadian government has capped the amount of money that can be contributed.
* Personal contribution limits are based on the contributor's annual income and appear on his or her [notice of assessment](http://www.investopedia.com/terms/n/noa.asp).
* The Canadian government lets everyone contribute $2,000 more than the individual lifetime contribution limit without penalty.
* RRSPs are changing with government policy. Recent changes have increased the amount that people can contribute on an annual basis.
* Though you can take money out of an RRSP at any time, the penalties are harsh and it is usually not in your best interest to do so.
* Any unused contributions are carried forward to your future deduction limit.
* If one spouse is in a different tax bracket than his or her partner, RRSP contributions can be used to lower the total amount of taxes a couple must pay by using [income splitting](http://www.investopedia.com/terms/i/incomesplitting.asp).
* Taking money out of an RRSP account before retirement can be very expensive because [withholding taxes](http://www.investopedia.com/terms/w/withholdingtax.asp) often apply.
* Once you've taken money out of an RRSP through an early withdrawal, you'll never be able to recontribute that amount.
* The RRSP Home Buyer's Plan allows contributors to borrow RRSP funds to finance the purchase of a home.
* The [Lifelong Learning Plan](http://www.investopedia.com/terms/l/lifelonglearningplan.asp) allows RRSP contributors to borrow from their plans to pay for education for themselves or their spouses.
* RRSP contributions are deducted from earned income before it is taxed, so the money that you put into an RRSP is not taxed until it is withdrawn.
* Registered, gradual withdrawals, such as an [RRIFs](http://www.investopedia.com/terms/r/rrif.asp), are the best way to minimize taxes once you retire.
* To maximize your contributions, start early, add to your account regularly, ensure that your money is making as much interest as possible and avoid early withdrawals.

http://www.investopedia.com/university/rrsp/rrsp10.asp