RRSPs….A valuable retirement tool, but understand what they **aren't!!**

The annual ritual is well underway; thousands of Canadians have visited their financial advisor or flocked to a financial institution to set up or top up their registered savings plan prior to the March 3 deadline. Meanwhile, many others will fail to take advantage of RRSPs…one of the few government giveaways. Many financial analysts say both groups are mistaken in their approach.

Firstly, analysts point out that you really don't want to rely on the government or anyone or anything to finance your retirement. The big attraction of an RRSP is that you can deduct your contribution from your taxable income and any earnings, within the plan, grow tax free. Why wouldn't you use an RRSP to get the tax savings? You're savings taxes today…yes, you will eventually have to pay tax on the amount you withdraw, but by that time you will probably be retired and your annual income will, in all likelihood, be much less.

Secondly, analysts are telling us that people are living longer and that means you will have to live with the consequences of not saving for those retirement years. Back in the 70s and 80s the average person that went into retirement was looking at approximately seven years of retirement. Now, with the changes in life expectancy and improvements in health care, etc.; a person (between the ages of 60 and 65) retiring today can expect to have 20 t0 30 years of retirement.

These compelling arguments don't necessarily mean that RRSPs are for everyone…because they aren't. There is a small percentage of people for whom an RRSP doesn't make sense. These typically are individuals whose income is going to be higher in retirement (those with a large corporate pension and the certainty of inheriting a large sum).

The decision to set up an RRSP and make regular contributions, either monthly or annually, is only a part of the overall equation because in a great many instances there is a misunderstanding of what an RRSP is. The problem is that far too many people wait until the deadline and dash off to their financial institution and place their money into a money market fund, which pays a minimal return. Then quite often the person will get upset because the investment is not growing to their expectation and they even question why they have an RRSP anyway. The truth of the matter is that having an RRSP means having to take some risk by

investing in equities, through a mutual fund or actual company shares because returns from fixed-rate investments are much lower and are likely to remain so for the foreseeable future. In the current environment your guaranteed return is going to be 3 or 4% per year and with these low rates you'll need to save lots of money to have that comfortable retirement you've thought about. Depending on your age and personal risk tolerance putting 50% of your investment into equities might not be unreasonable.

The important thing to remember is not to try and do your retirement plan yourself. Either set up an appointment with your credit union personal account manager "right now" or wait until later in March when you can have a more relaxed discussion about your financial/retirement goals.