

longer dependant, they are no longer saving for retirement, they no longer pay CPP and EI premiums, and they may be in a lower tax bracket.

The first layer of a retired person's income often looks like this.

Example

	Age 65
Old Age Security	\$5,816
Canada Pension Plan ⁴	\$9,140
RSP Income	\$12,000
Pre-Tax Income	\$27,000
less Tax ⁵	(\$3,537)
After-Tax Income	\$23,463
Bi-Weekly (26)	\$900
Monthly (12)	\$1,950

⁴CPP at 90% of maximum payable at age 65.

⁵ Tax payable \$3,537 (13% Average Tax)

Financial Planning Strategies

A Registered Savings Plan is a financial planning tool that will have changing uses throughout a person's lifetime.

- **Buying A First Home**

Funds can be accumulated and used towards the purchase of a first home.

- **Emergency Fund**

A source of additional income when it is needed most.

- **Income Splitting**

The easiest way for one spouse to transfer their high taxed income to their spouse with lower income.

- **Retiring Early**

Old Age Security income commences at age 65. RSP's can create an income bridge to age 65.



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but Selectpath had more.*

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BENEFITS OF AN EMPLOYER SPONSORED RETIREMENT SAVINGS PLAN



- *Income Tax Savings*
- *Immediate Tax Savings*
- *The Convenience of Payroll Deduction*
- *The Advantage of Early Investing*
- *Sources of Future Retirement Income*
- *Financial Planning Strategies*

BENEFITS OF AN EMPLOYER SPONSORED RETIREMENT SAVINGS PLAN

Contributing to a registered savings plan sponsored by your employer is an excellent way to secure your financial future.

• Income Tax Savings

Reduce your high income tax payable now, earn tax sheltered growth, and withdraw the funds when your tax rate is lower.

• Immediate Tax Savings

Your employer can withhold less tax from your paycheck if you have a prearranged RRSP contribution.

• The Convenience of Payroll Deduction

Saving money can be a challenge. A payroll deduction makes it easy and affordable.

• Starting Early

Starting early and staying invested are the first steps towards building your retirement “nest egg”. The magic of compound interest takes care of the rest.

• Sources of Retirement Income

Government pensions will give you some retirement income. A registered savings plan will help you achieve your retirement income goals.

• Financial Planning Tool

A registered savings plan will have different uses throughout your lifetime. Whether it is a down payment on a first home, an emergency fund, a tax saving strategy, or your “early retirement” plan, your RSP is an integral part of your financial security.

Income Tax Savings

A contribution to a registered savings plan will decrease income tax payable. The tax saving will be at the person’s marginal tax rate.

Taxable Income	Marginal Tax Rate ¹
\$30,000	21%
\$40,000	31%
\$50,000	31%
\$60,000	31%
\$70,000	43%
\$80,000	43%
\$90,000	43%
\$100,000	43%
\$110,000	43%
\$120,000	46%

¹2006 MTR for Ontario

Tax sheltered growth

Investment earnings within a registered savings accumulate “tax sheltered”. No tax is reportable until the earnings are withdrawn.

Unlike a non registered savings plan or debt repayment strategy, a contribution to a RSP has not first been reduced by income tax. The effect is that there is also significantly more capital at work earning investment income.

Income deferral

Withdrawals from an RSP are taxed a person’s marginal tax bracket when withdrawn. This rate is often lower than when the funds were contributed.

Example

A person with taxable income of \$40,000 contributes \$2,000 (5%) to a registered savings plan (RSP). The income tax reduction is \$620 in that tax year.

The \$2,000 is withdrawn from the RSP when the person’s income is lower. The marginal tax payable is \$420.

The person gained \$200 in tax savings on the original \$2,000 deposit. The tax sheltered investment earnings will be taxed at the lower marginal rate when withdrawn as income.

Immediate Tax Savings

An employee who contributes to a RRSP sponsored by their employer can receive their tax savings immediately. There is no need to wait for a tax refund.

The Convenience of Payroll Deduction.

Many people find that making a deposit directly to their employer sponsored RSP is the most convenient and disciplined method of saving for the future. Small periodic contributions that are made with “pre-tax” earnings are easier to make versus trying to make a large lump sum contribution in February each year.

Examples

Below is the reduction in the person’s paycheck if they contribute 5% to their income to an employer sponsored RRSP.

	A	B	C	D
Earnings	\$35,000	\$50,000	\$65,000	\$90,000
RRSP Savings (5%)	\$1,750	\$2,500	\$3,250	\$4,500
Reduction in Paycheque				
Bi-Weekly	\$51	\$66	\$84	\$98
Weekly	\$25	\$33	\$42	\$44

Starting Early

The longer money has to work, the more there will be in the end. It pays to start early. Let’s say a person has a savings goal of \$150,000.

Annual Deposits to Reach \$150,000 Goal	Savings Period	Total Deposits	Total Accumulation
\$3,850	20	\$77,000	\$150,000
\$1,800	30	\$54,000	\$150,000

- By waiting ten years, a person needs to save twice as much per year (\$2,000 more per year in this example).
- Total deposits are 1.4 times greater (\$21,000 more)
- 6% rate of growth illustrated

Sources of Future Retirement Income

A Registered Savings Plan creates income over and above government pension plans.

	Age 60	Age 65
Old Age Security	Nil	\$5,816
Canada Pension Plan*	\$7,095	\$10,135
Total	\$7,095	\$15,951

* CPP retirement incomes illustrated are the maximum amounts payable. Many people do not receive the maximum.

The Retirement Income Gap

The difference between projected government incomes and a retiree’s “income goal” is referred to as the “retirement income” gap.

Let’s say a person needs an additional \$12,000 annually, or \$1,000 per month, to retire comfortably at age 65. Today’s retiree needs about \$150,000 to \$170,000 in their retirement savings plan to create \$12,000 per year of guaranteed level income for life.

Examples

Capital required at age 65 to create a monthly income of \$1,000: \$160,900

Age	Current Plan Value	Annual Savings Required to Reach Goal*	Capital in Today’s Dollars at Age 65	Capital in Future Dollars at Age 65
30	Nil	\$2,630	\$160,900	\$452,700
30	\$19,700	\$1,750	\$160,900	\$452,700
40	Nil	\$4,340	\$160,900	\$337,00
40	\$33,250	\$2,500	\$160,900	\$337,00
50	Nil	\$8,455	\$160,900	\$250,000
50	\$64,400	\$3,250	\$160,900	\$250,000

Assumptions

Accumulation growth rate	6%	Future dollars represent the actual accumulated dollar value
Inflation	3%	Today’s dollars represent “buying power”
Annual Savings increase*	3%	As income increases, so should the % of income saved.
Annuity Rate basis	5%	A lifetime annuity is a guaranteed level income for life based on long term interest rates.

Income in Retirement

Many retirees find that they have a satisfactory lifestyle even though their retirement income is less than what they earned while “at work.” Debt obligations may be gone, children are no