

# Retirement Savings Plans (RSPs)

## RSP benefits

For most working Canadians, an RSP is still the best way to build wealth and prepare for retirement. The most compelling reasons for RSPs include –

### **Tax deductions for contributions**

– Amounts contributed to an RSP generate an income tax deduction that can substantially reduce taxes for the current tax year.

**Tax-deferred growth** – An RSP allows investments to grow tax-deferred until withdrawn, which means they can increase in value much faster than outside a registered plan.

**Savings discipline** – The annual RSP deadline provides a strong incentive to invest. TD Waterhouse offers plans for investing regularly throughout the year.

**Income splitting** – A spousal RSP can be set up to ensure that both partners have similar income streams during retirement, generally resulting in lower combined taxes.

Because of these benefits, when it comes to retirement planning, most Canadians would be well-advised to maximize their annual RSP contribution first and then focus on building their non-registered investments.

## RSP diversification starts with asset allocation

Properly diversifying your RSP portfolio is key to managing risk, and the first step is to ensure that you have the appropriate asset allocation.

The selection of specific securities and market timing used to be considered the most important factors in the variability of your returns over the long term.

However, recent studies have shown that the allocation of investments to each asset class is far more important than the selection or timing of individual investments.

The goal of asset allocation is to achieve the highest return for the level of risk that's acceptable to you. By combining assets with different characteristics in a portfolio, you may achieve higher returns with lower risk over the long term.

Most investors will look at the three major asset classes – equities, fixed income and cash and/or cash equivalents – when determining their allocation. However, alternative asset classes such as real estate and derivatives can be included.

*The increasing complexity of investing has led to the rapid expansion of the investment advice industry. No matter where you look on television, in bookstores and online, an “expert” wants to give or sell you advice. However, as many investors have realized, advice designed for a mass market isn't likely to apply to their unique situations.*

*At TD Waterhouse Private Investment Advice<sup>1</sup>, we believe that developing a one-on-one relationship with each client is the only way we can be sure of providing meaningful and effective guidance.*

*Our advisors carefully analyze your personal financial situation, goals, investment objectives and risk tolerance before proposing solutions. The result is a clear understanding of your investment needs that allows us to provide you with custom-tailored investment advice – advice that enables you to invest with confidence.*



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Once you have determined the right asset allocation based on your investment objectives, you can proceed to the next step and select a mix of investments within each asset class.

It's important to keep an eye on your asset allocation, as different growth rates in each asset class will change the balance over time. A regular review of your portfolio and objectives is strongly recommended.

## Your RSP investments work better when they're working together

You can simplify retirement planning and make your RSP<sup>2</sup> even more effective by consolidating your investments at TD Waterhouse. The benefits include –

**Convenience** – It's easier to plan your investments and make better decisions when you're dealing with your entire portfolio.

**Ease of management** – One RSP account can make it easier to monitor investments and adjust your portfolio.

**Potentially lower costs** – You may be able to save on administration fees<sup>3</sup> when your assets are combined. You could also be eligible for more attractive rates on certain investments.

**Simpler conversion to income** – When it's time to convert your RSP to a registered Retirement Income Fund (RIF) or other retirement income option, it's much easier to deal with one financial institution.

### The RSP maximum contribution limit has increased

For 2006, the maximum annual contribution limit has increased to \$18,000 and it will increase to \$19,000 for 2007.

- Your contribution room for the 2006 tax year is based on 18% of your 2005 earned income, up to the maximum. If you belong to a Registered Pension Plan or Deferred Profit Sharing Plan, deduct your Pension Adjustment and add any Pension Adjustment Reversal to that amount.
- Your available contribution room can be found on the Notice of Assessment sent to you by Canada Revenue Agency each year. Or call Canada Revenue Agency Tax Information Phone Service (T.I.P.S.), listed in the blue pages of your telephone directory.

You can also catch up on any eligible contributions you didn't make going back to 1991 and contribute up to a lifetime total of \$2,000 over your allowable contributions without penalty.

This is not legal or tax advice and should not be construed to be legal or tax advice as each client's situation is different. Please consult your own legal and tax advisor prior to implementation. Particular investments or trading strategies should be evaluated relative to each individual's objectives and in consultation with the Investment Advisor. Neither The Toronto-Dominion Bank nor its subsidiaries are liable for any errors or omissions in the information or any loss or damage suffered.

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<sup>2</sup> TD Waterhouse Self-Directed RSPs/RIFs are administered by TD Waterhouse Canada Inc. The Canada Trust Company is the Trustee.

<sup>3</sup> Waiver does not apply to clients selecting to pay for administration fees from outside their registered account.

<sup>4</sup> Monthly investment minimums apply per fund. Speak with a TD Waterhouse Investment Advisor for details.

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## An effective way to build your RSP

*A TD Waterhouse Systematic Investment Plan (SIP) is a convenient and effective way to purchase mutual funds for your RSP on a regular basis. The amount you choose to invest<sup>4</sup> is automatically transferred to your RSP from a TD Canada Trust bank account or from your chequing account at any Canadian financial institution.*

*When you purchase mutual funds on a regular basis, you'll take advantage of "dollar-cost-averaging," which may result in a lower average cost per unit over time, put your money to work sooner, and avoid the last-minute RSP rush.*

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