

Think outside the (RSP) box

Explore the benefits of non-RSP strategies with your clients

Retirement Savings Plans (RSPs) are the foundation of many Canadians' retirement savings strategies, as it should be. As your clients already know—this is why they're all rushing to make appointments with you at this time of year—RSPs offer an immediate tax deduction and the potential for tax-deferred growth. What many clients *don't* know is that saving outside a registered plan can be an important financial planning strategy as well.

Money invested in a non-registered account is often easily accessible and is not subject to withholding taxes when it is withdrawn. Clients who want to invest in tax-advantaged securities, such as flow-through shares, could hold them in a non-registered account. And, with the recently proposed higher dividend tax credit, investors may want to split up their portfolios so they earn interest income (which is taxed indiscriminately at your client's marginal tax rate) inside an RSP and dividends and capital gains, which benefit from preferential tax treatments, outside a registered plan.

There are also other, more sophisticated “outside the RSP box” strategies you may want to consider for your clients. In a recent conversation with *TD Performance Magazine*, David Phipps, CFP, a senior financial advisor with Assante Capital Management Ltd. in Ottawa, shared some of his ideas about investing beyond RSPs.

Leveraged investing in a non-registered account

Phipps always recommends that his clients maximize their RSP contributions and pay down their personal debt, including mortgages, before they consider saving money in a non-registered account. But for clients who have put as much as they can into their RSPs and made their final mortgage payment, Phipps uses a simple but effective leveraged investing strategy.

“We have them borrow typically \$50,000 and invest it in a non-registered portfolio,” he explains. “Obviously, they get all the benefits of leveraged investing in terms of the tax deductibility of the interest. But the bigger advantage that I have found is that my wealthy clients save more aggressively when they are trying to pay down debt than when they are simply contributing to an open account.”

When a client has paid off the initial \$50,000 line of credit, Phipps recommends that they borrow another \$50,000. Steadily, over time, \$50,000 by \$50,000, his clients build their savings. Each \$50,000 is an achievable goal and clients feel more satisfied as they whittle the debt down to zero than if they were simply sending a never-ending stream of cheques towards a more distant, less concrete long-term goal.

Phipps also finds that this approach simplifies the conversations he has with clients. Instead of calling him up to say, “I've got an extra \$3,000—where should it go?” they know that whenever they have additional money it should be used to pay down the line of

credit. He adds that a manageable increment, such as \$50,000, motivates clients without exposing them to excessive risk in case their investments drop in value.

Depositing savings into a universal life policy

Phipps' second strategy for saving outside RSPs exploits the benefits of universal life insurance. Depending on a client's specific situation, he might recommend that they deposit their additional savings into a universal life insurance contract. They won't get a tax deduction, as they would if they were contributing to an RSP, but from the moment the money is deposited, they don't have to pay any more tax on the growth of their investments unless they make a withdrawal.

"When you're dealing with people who have paid off their mortgage and maximized their RSPs, some of them be in a situation where, when they are 70 or 80, they actually don't need that additional money," he says. "If they're wealthy, it might be that the RSP is sufficient. Well, if it turns out in the future—20 years from now—that this is the case, then the money that's in that universal life insurance contract is ideally positioned to be passed on to their estate in absolutely the most tax-effective manner possible."

If they do need the money, of course, they can withdraw the cash value and pay tax on the growth. Even so, they will have benefited from a deferral of tax during the years the money remained in the contract. Phipps doesn't recommend another relatively popular universal life strategy that borrows the cash value of a contract so clients can use the money tax-free while they are alive, with the life insurance portion of the policy paying off the debt after their death.

"It's a very common strategy in higher-end planning," he says. "But I don't promote it because it is definitely aggressive tax planning. Revenue Canada could easily change those rules to make it so that particular twist is not allowed."

Using IPPs to boost retirement savings

Individual Pension Plans (IPPs) can also work well for the right candidate, says Phipps. With an IPP, business owners and senior executives who have maximized their RSP contributions, but who haven't accumulated sufficient retirement savings, may be able to establish a plan that will provide them with a guaranteed income for life after they retire.

To be eligible, clients must work for an incorporated business and their employment income must be reported on a T4. They must also be age 40 or older, and the company that is sponsoring their IPP must pay them a salary of at least \$75,000. IPPs are sophisticated products that generally require ongoing actuarial and trustee services. In addition, depending on your client's province of residence, their IPP assets may be locked in.

"The primary advantage of an IPP is that because they're funding what is essentially a mini-defined benefit pension plan, they can put in more than the normal RSP contribution

room,” Phipps says. “The downside of an IPP is that there are administrative expenses that are significant, and there are certain restrictions which can make the product a little bit less flexible.”

Whatever non-registered approach you take with your clients, make sure it complements their RSP strategy and helps them meet their long-term goals. Visit www.tdadvisor.com for support materials and additional information on this topic.

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BOTTOM LINE

As clients make their RSP contributions this year, you may want to suggest an additional meeting to discuss these non-RSP strategies:

- Borrowing to invest in a non-registered account provides a tax deduction and incentive to keep saving
- Depositing money in a universal life insurance policy allows money that's not needed in retirement to grow tax-sheltered and then pass to beneficiaries in a tax-effective manner
- IPPs may be appropriate for business owners or senior executives interested in higher contribution limits than RSPs and a guaranteed income in retirement