



# “Dollars & Sense”

## RRSP's Could be a Bad Idea for Some!

Every year at this time, the mad panic is on to acquire RRSP's. Why the vast majority of people wait until the last minute each year is anyone's guess, however, there are a number of instances where RRSP's could be a very poor investment for you. Consider the following:

If you are self-employed, investing in RRSP's is probably not for you at this stage of your life.

The basic premise of RRSP's is to save for retirement while deferring taxes to a point in your life where your expected marginal tax rate should be lower. However, when you are self-employed, you likely claim a significant amount of 'personal' expenses as business expenses. Consider this, if your business pays for your vehicle costs, home office expenses, some travel & entertainment, telephones & cellular etc., these expenses reduce your taxable income.

Perhaps today you earn \$75,000 but after expenses your taxable income is only \$50,000. When you retire, you will need to pay for your vehicle, telephones etc, from after tax dollars. In order to maintain the current lifestyle you have, you will likely have to withdraw upwards of \$90,000 per year in retirement.

Your current income level is at an effective marginal tax rate of about 31%. When you retire and need to take in \$90,000 per year for the same lifestyle, your marginal tax rate could be upwards of 37%. You are, in effect paying 6% more in taxes than you would today.

So the advice for a small business owner would be to invest in income generating assets today, when your marginal rate is lower, and pay the taxes on that income today.

Another instance where RRSP's could be a poor investment is when an individual (or couple) have high interest bearing debt. Retail credit cards are a glaring example of this problem! Your typical retail credit card, Sears, Leons etc., carry interest rates of up to 29.9%.

Even if your RRSP's are generating a decent return of say 8% per year, if you do not pay down your high interest debt, you are losing money by investing. When your RRSP's are generating 8% return and you are carrying debt at 29.9%, you are losing almost 22% per year on your investments.

Of course, like anything else, these situations are very subjective as everyone's specific circumstances are different. In many cases, people will use their RRSP investment as a means of forced savings; if this is how you justify your investment, this may be appropriate for you.

Investing and balancing your lifestyle with your retirement plans is a very delicate proposition, and a great deal of information should be reviewed before you make the decisions to invest or not.

Not only is the decision itself delicate, but the type of investments and level of risk you are willing to accept should be carefully considered.

In any case, before you make any investment decision, it is best to consult a Financial Services Professional, do not trust your own judgement.



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- A Payroll Provider
- An Equipment Leasing Partner

## Do You Also Have:

- An Insurance Agent
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- A Mortgage Broker



## Why deal with so many people when you can deal with just one?

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