

# FamilyMatters

NEWSLETTER

WINTER ISSUE 2008

Scrivens  
Family of Companies

## The Scrivens Perspective

by Peter Scrivens, President



It's difficult to imagine why someone wouldn't take advantage of the financial benefits available through Registered Retirement Plans. Not only do you put money away for your retirement, those funds grow tax-free until you're ready to withdraw them, most often decades later. Yet less than one taxpayer in three takes advantage of RSPs. And even those who do put money into an RSP rarely invest the maximum amount.

There are many reasons why people choose not to invest in RSPs, of course, such as mortgage payments, other debts, education costs and illness. These people may simply feel that an RSP is too large a financial commitment. In this edition of *Family Matters*, we look at some options for those who might not recognize that an RSP investment is within their reach. For others, particularly those who haven't invested in recent years, we examine the best way to take advantage of the unused contribution space they have available.

As always, we've provided the latest information on all types of Registered Retirement Plans—what's new, what's best and what we at Scrivens can do to make this RSP season go as smoothly as possible. ☺

## Borrowing money to invest

It's a question many Canadians face every year: should I borrow money to invest in my Registered Retirement Plan (RSP) or not? There is no simple answer, of course, but it's easier to make the right decision if you're aware of the advantages (and disadvantages) that come with either option. Here are some of the benefits of borrowing money to invest in your RSP:

- You can take advantage of your full contribution room.
- Investing a larger lump sum of money accelerates the compound growth in your plan.
- You're effectively contributing to a "forced" savings plan.
- You can reduce the amount of your loan almost immediately by applying any tax refund against it.

Of course, no matter how great the benefits, you'll still be required to repay the loan. If you feel that you can't afford the payments or that they will put too much stress on your cash flow at this time, you may have to put off investing into an RSP until a later date. Remember, you can invest in your RSP at any time during the year. One other thing to remember—the interest on the money you borrow is **not** tax deductible.

There are also benefits to borrowing money to invest outside of an RSP:

- You'll enjoy accelerated compound growth in the investment, because you are starting with a larger lump sum.
- Should you withdraw funds from a non-registered investment, only the income and growth (not the original capital) is taxed. By comparison, every dollar withdrawn from an RSP is subject to tax.
- The interest you pay on the loan is generally tax deductible **if** the proceeds are used to earn business or property income (capital gains are **not** considered to be business or property income). For that reason, it's best to purchase investments with a reasonable expectation of generating interest and/or dividend income.

However, it's important to remember that negative market conditions could result—at least in the short term—in your loan balance being greater than your investment balance. We suggest you take a long-term focus (at least 10 years) to your investment. Also, some investment loans may require you to "top up" your investment balance should it fall below a certain percentage of the loan balance.

One thing is true for both registered and non-registered investments: if borrowing money puts too great a stress on your cash flow, it is probably best to wait until your cash situation improves to borrow. ☺

## INSIDE matters

- Space to contribute
- Mortgage vs. RSP
- Miscellaneous bonds



## Which comes first, the mortgage or the RSP?


There are those among us who find themselves in the enviable position of having access to surplus funds at the end of the year. For such fortunate people, the question is likely not “Should I invest the funds?” but “How should I invest the funds?” Most often, the choice comes down to reducing the mortgage payment or topping up the RSP.

Simply put, there is no one correct answer. If you’re in this position, your choice may depend on how you balance the mathematical and emotional considerations. The best advice we can

offer is: consult your Scrivens advisor to discuss all of your options.

Some general guidelines are worth considering. Where the expected return from the RSP is greater than the rate of the mortgage, the RSP is often the better option. However, with today’s mortgage rates hovering around 6 to 7 per cent and 5-year GICs returning a little less than 5 per cent, you would probably require at least a 40 per cent equity component in your portfolio to attain a return greater than your mortgage rate.

Another point to remember: the biggest return on mortgage prepayments generally comes in the early years of the mortgage, when you have the highest balances and the longest remaining amortization.


There is a “best of both worlds” solution you may want to consider—using the refund generated from your RSP contribution to prepay your mortgage. No matter which way you’re leaning, we feel strongly that it’s best to discuss all of the available choices with your financial advisor. 

## Consider putting unused RSP contribution space to use

Two years ago, Canadians poured more than \$30 billion into their Registered Retirement Plans (RSPs). While impressive, that total represents just a fraction of what they could have contributed. In fact, \$30 billion was barely 7 per cent of the total contribution room available to Canadians.


The good news is, you don’t lose your unused contribution space. It’s always there in case you’re in a position to sock away more money for your retirement at a future date. If you’re thinking about utilizing your unused RSP space this year, remember that you do not have to deduct all of the contribution at once—you can carry forward deductibility into future years. Suppose you contribute \$15,000 to an RSP this

year, but you know that your income next year will be significantly higher. It might be to your advantage to delay the deduction of some or all of the \$15,000 until the following year. Not only will this increase your tax advantage, you’ll also earn a tax sheltered return from the time you first contributed the \$15,000.

Taking advantage of unused contribution room is a benefit available to the vast majority of tax filers, not just those who contributed less than the maximum in previous years. Only about one in three Canadians actually contribute to their RSPs every year—if you’re one of the remaining two-thirds, you also have unused contribution space available. 

## Spousal RSPs still a viable option

While income-splitting offers a number of advantages, a spousal RSP can still be the wisest choice for families eager to build a retirement nest egg for the lower-income spouse. A spousal RSP differs from an individual RSP in that one spouse contributes to a plan in the other spouse’s name. This allows the spouse to retire more comfortably while redistributing the family income better for tax purposes.

Although you must wind up your individual RSP at age 71, you can continue to contribute to a spousal RSP **if** your spouse is younger and you are still earning income or have unused RSP contribution room from previous years. 



## PERSONAL

### insurance

#### Winter tires can put you on the road to safer driving



The experts agree: putting winter tires on your vehicle may be the single most important thing you can do to make driving in snow and ice safer. Don

Frisby of Frisby Tire, a longtime Scrivens client and an acknowledged expert in the field, offers several excellent reasons to consider winter tires for the tough driving conditions ahead:

- Winter tires deliver up to 30 per cent better traction, braking and stability.
- Most winter tires are as quiet—and often quieter—than all-season tires or performance-oriented summer tires.

- A summer tire's operating range is above 7°C and an all-season above at least -15°C, whereas a winter tire will remain pliable down to -40°C.
- Winter tires are particularly important if your vehicle is normally equipped with performance tires or tires with above 205 section width and lower than 60 profile; these are summer tires, not all-season.
- If you lease, purchasing a set of winter tires means you probably won't have to purchase a new set of tires at the end of your lease.

For more information, call Jennifer Falconer at 236-9101. ☎



## RISK management

### COMMERCIAL insurance

#### Different bonds meet different needs



Surety bonds fall into two major categories: those used in the construction industry (principally contract bonds) and miscellaneous bonds.

Miscellaneous bonds usually fulfill government requirements for security. They guarantee compliance with customer protection obligations imposed under the law. Situations and activities that expose the government or the public to financial risk are often subject to such regulatory intervention.

The following miscellaneous bonds respond to private and corporate needs:

- Licence or Permit Bonds guarantee obligations imposed by consumer protection regulators such as motor vehicle dealers or travel agents.

- Customs and Excise Bonds (such as Custom Warehouse Bonds and Inward Remission Order Bonds) guarantee compliance with federal and provincial tax acts and regulations.
- Court and Fiduciary Bonds (such as Executor Bonds and Guardian Bonds) offer security for court costs, to release liens and to comply with probate and bankruptcy laws.
- Lost Document Bonds are used by corporations when they reissue securities, certificates or other valuable documents. The bond protects them should the originals later be presented for payment.
- Financial Guarantee Bonds (such as Completion Bonds and Subdivision Bonds) specifically guarantee loan repayment, rent payment or similar contracts.

For more information, call Ole Jensen at 236-9101. ☎



## PERSONAL ASSET

### management

#### What you need to know about this RSP season



It's RSP season again and, as always, there are a few dates, rules and numbers to bear in mind. Here are just a few:

- Remember, it's a leap year: this year's deadline for contributions is February 29, not March 1.
- You can now make contributions to your RSP until the end of the year you turn 71.
- For spousal RSPs, contributions can be made to the end of the year your spouse turns 71.
- You must convert your RSP to an income option by the end of the year you turn 71.
- The maximum contribution limit for 2007 is the lesser of:
  - 18% of your 2006 earned income
  - or \$19,000, less any pension adjustment.
- The most you can over-contribute this year is \$2,000.
- There is no longer a limit on foreign content.

While pension splitting (see the previous edition of *Family Matters*) is an effective way to save taxes for those couples with eligible pension income, there are still important benefits to spousal RSPs. Specifically, the spousal RSP, subject to certain restrictions, can be used to split income regardless of the age at which you actually withdraw the funds.

Last, but certainly not least, think about putting together a retirement plan. When making your plan, consider what you plan to do during retirement as much as the actual numbers. This will make planning a more fulfilling experience.

Contact your Scrivens advisor at 236-9101. ☎



# OTHER MATTERS

## The *Scrivens Kitchen*

We have Arlene Spurlock to thank for this enticing Chicken Flautas recipe.

### Chicken Flautas

#### Ingredients

- 4 skinless, boneless chicken breast halves, cooked and shredded
- 1 8oz jar picante sauce or salsa
- ¼ tsp ground cumin
- 36 6-inch corn tortillas
- 1 tbsp vegetable oil
- 8oz shredded Monterey Jack cheese
- 8oz shredded cheddar cheese

#### Directions

- Preheat oven to 350°F (175°C).
- In a medium bowl, combine shredded chicken, picante sauce and ground cumin.
- In a small skillet, heat vegetable oil over medium high heat.

- Place corn tortillas, one at a time, in the skillet for 1 to 2 seconds each side to soften (if possible, have someone help you do this).
- Place tortillas on paper towel to soak up excess oil.
- Put 1 tbsp of chicken mixture in the centre of each tortilla, sprinkle a bit of both cheeses on top, and roll up to enclose filling.
- Place rolled tortillas on a lightly greased cookie sheet, seam side down (if there is any cheese left over, sprinkle it over the rolled tortillas).
- Bake tortillas for 15 to 25 minutes, or until they are slightly crispy and golden brown.

Send us a favourite recipe and we'll share it through the Scrivens Kitchen. 📖

## Staff and Stuff

Like our customers, we at Scrivens love getting together for internal social functions such as our annual Thanksgiving dinner, our Canada Day celebration, and most recently, our staff Christmas party. These get-togethers wouldn't be possible without all the hard work of our Social Committee. Here's a big thank you from all of us to Terry Burchill, Jane Dunlop and David Miles for making Scrivens a better place to work. 📖

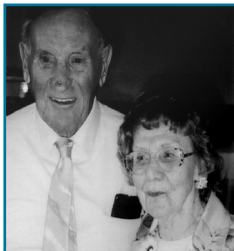


## Worth Reading

### Late Nights on Air by Elizabeth Hay

Described by the judges as a splendid achievement, the Giller Prize-winning novel *Late Nights on Air* features a diverse and compelling cast of characters, all working at the local radio station in Yellowknife. As the friendships and romantic entanglements of these sad, beautiful dreamers and slightly-crazed zanies evolve, you'll be drawn totally into their lives, both past and present. An Ottawa resident, Elizabeth Hay's previous books include *A Student of Weather*, also a Giller Prize finalist, and *Garbo Laughs*, which won the Ottawa Book Award and was a finalist for the Governor General's Award.

Read a good book lately? Let us know and we'll tell others about it in Worth Reading. 📖



## Couple celebrates 60<sup>th</sup> anniversary

Heartfelt congratulations to Harry and Vivian Turner, longtime clients of the Scrivens Family of Companies, who recently celebrated their 60<sup>th</sup> wedding anniversary. 📖

#### Generic Disclaimer (mutual funds only)

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the simplified prospectus before investing. Mutual funds are not guaranteed and are not covered by the Canada Deposit Insurance Corporation or by any other government deposit insurer. There can be no assurances that the fund will be able to maintain its net asset value per security at a constant amount or that the full amount of your investment in the fund will be returned to you. Fund values change frequently and past performance may not be repeated. Labour Sponsored Funds have tax credits that are subject to certain conditions and are generally subject to recapture, if shares are redeemed within eight years.

#### Personal Opinions & Recommendations Disclaimer

The foregoing is for general information purposes only and is the opinion of the writer. This information is not intended to provide specific personalized advice including, without limitation, investment, financial, legal, accounting or tax advice. However, please call Scrivens Family of Companies to discuss your particular circumstances.

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