Your Guide to Understanding Registered Plans

We are committed to helping you reach your financial objectives. Whether you are buying your first home or considering your retirement investment choices, there are registered plans and services that can help you save for your goals on a tax assisted basis. Most registered plans are designed to help you save for retirement and manage your income stream in retirement. Your BMO financial professional has the experience and expertise to help you address any gaps with your investment and retirement planning goals.

This guide provides an overview of the benefits of registered plans and how they fit into your financial situation. Your BMO financial professional can develop and implement a personalized financial plan, taking advantage of the benefits and strategies available through registered plans.

Tax-Free Savings Accounts

The Tax-Free Savings Account ("TFSA") is often described by the financial planning community as the single most important savings vehicle since the introduction of the RRSP. Introduced in 2009, a TFSA is an ideal tax-advantaged savings vehicle that allows your investment holdings to grow and earn income tax-free.

Contributions to a TFSA are not tax deductible for income tax purposes; however your savings, including interest, dividends and capital gains grow tax-free inside your account. In addition, there is no tax payable when you make a withdrawal from your TFSA.

The savings you accumulate in your TFSA can be used at anytime and for any purpose – it's completely up to you.

Each year you accumulate additional contribution room. Unused TFSA contribution room can be carried forward indefinitely. For example, if you contribute $1,000 less than your annual limit in a given year, that $1,000 will be added to your contribution limit in the following year. Your annual TFSA contribution limit is shown on your annual Notice of Assessment from the Canada Revenue Agency ("CRA").

TFSA Withdrawals

Withdrawals from a TFSA are tax-free. An amount withdrawn in the current year will be added to your accumulated contribution room at the beginning of the next year. For example, assume a $6,000 contribution is made in June of the current year, followed by a withdrawal of $6,400 ($6,000 contribution + $400 gain) in October of the same year – as of January 1st in the following year, an additional $6,400 will be added to your TFSA contribution room.

Given the tax-free nature of the investment income and flexibility regarding withdrawals and re-contributions, your BMO financial professional can explore how a TFSA can help you maximize your investment growth with tax-efficient strategies. Whether you are looking to tax-shelter non-registered interest or dividend income or depositing surplus pension income, your BMO financial professional can help you determine the strategy that is right for you.

Planning Tips & Considerations:

- Neither the income earned nor withdrawals within a TFSA will affect your eligibility for federal income-tested benefits and credits (e.g. Old Age Security, Child Tax Benefit, GST credit, age credit). Consider depositing your surplus RRIF payment or pension income into your TFSA for future tax-free growth.
- You can provide funds to your spouse, common law partner (hereinafter referred to as "spouse") or even adult children to allow them to contribute to their own TFSA (subject to their personal TFSA contribution limit). None of the income earned within their TFSA is attributed back to you.

Registered Retirement Savings Plans

A Registered Retirement Savings Plan ("RRSP") is a tax-deferred plan designed to help you save for retirement. With an RRSP, your contribution is tax deductible and once in the plan, continues to grow on a tax-deferred basis until the funds are withdrawn. Any funds withdrawn from your RRSP are taxed in the year of the withdrawal. At retirement, the funds may be rolled into any of the RRSP maturity options where they continue to be tax sheltered, except that the amount of money you take out each year is taxable.

Your annual RRSP deduction limit is based on a formula that takes into account your earned income, any unused RRSP deduction room and any pension adjustments or past service pension adjustments. You can find your RRSP deduction limit on your annual Notice of Assessment from CRA.

If you do not take full advantage of the RRSP deduction room available to you this year, the unused contribution room is carried forward for use in a future year. For example, you have $15,000 of RRSP contribution room but can't make a full contribution this year; the carry forward rules allow you to carry part or all of the $15,000 contribution room forward for use in a later year. The RRSP deduction limit indicated on your annual Notice of Assessment will already factor in any unused RRSP room from previous years.

RRSP withdrawals

While the funds in an RRSP are designed to provide you with a lifetime retirement income, CRA does allow withdrawals from your RRSP at any time. However, when money is withdrawn from your RRSP, it is considered part of your taxable income for that year and the trustee of your plan is required to withhold tax and remit it to CRA on your behalf. When you prepare your annual tax return, the tax withheld is reported as tax already paid. It is also important to note that the contribution room used is lost forever when withdrawn.

An exception to the rule is provided for withdrawals made under federal government programs like the Home Buyers' Plan ("HBP") and the Lifelong Learning Plan ("LLP"). These programs allow you to withdraw tax-free from your RRSP under specific conditions to help purchase a home or help finance education. The funds borrowed under these plans must be repaid to your RRSP over time. While the HBP and LLP initially look attractive because no interest is paid on the funds withdrawn from your RRSP, the loan does have its implications. The considerable cost to your RRSP is the potential growth of the loan amount and the compound income it would have earned over time in your RRSP. The younger you are, the greater the potential loss to your RRSP. In addition, if you do not make a scheduled repayment in a given year, the amount is added to your income for that year.

Spousal plans

A Spousal RRSP is the same as a regular RRSP except that a Spousal RRSP is registered in your spouse's name while you, as the contributing spouse, can claim a tax deduction for the contributions you make to the spousal plan. When withdrawals are made, they will be taxed in the hands of your spouse (the plan holder), not you (the contributing spouse) as long as no contributions were made to any Spousal RRSP in the year of withdrawal or either of the two preceding years. You should consider a Spousal RRSP if there will be a large discrepancy between your retirement income and that of your spouse. Your RRSP contribution can be made to a Spousal RRSP, your personal RRSP or split between the two plans.

Planning Tips & Considerations:

- Many people delay building their retirement assets until 10 or 15 years before they plan to retire because of other financial commitments. However, because of the tremendous impact that compound growth has on the value of your RRSP, start your plan as early as possible to allow your savings to compound for the longest period of time possible. Consider establishing pre-authorized payments to your RRSP as a disciplined savings tool.
- Consider making RRSP contributions after you turn 71. As long as you still have RRSP contribution room and your spouse is under the age of 71, you can make tax deductible contributions to a Spousal RRSP in your spouse's name.
- If you turned 71 and have earned income which generated RRSP contribution room in the current year, consider making next year's RRSP contribution in December of this year, prior to converting your RRSP into a RRIF. The one percent penalty tax will apply for December; however the tax savings should exceed the penalty tax.

Registered Retirement Income Funds

A Registered Retirement Income Fund ("RRIF") is very much like an RRSP only it works in reverse. Like an RRSP, all of the growth and income generated by the assets in a RRIF are tax-sheltered until they are withdrawn from the plan. Unlike an RRSP, where your purpose is to build retirement assets by making contributions, the purpose of a RRIF is to supplement your retirement income by making regular withdrawals. In fact, CRA requires that you take at least a minimum amount out of your RRIF each year.

The RRIF minimum annual payment

Your minimum annual payment is based on your age (as of January 1) and is calculated as a percentage of your RRIF's value at the beginning of each year. If you have a spouse, you may use their age to determine the minimum annual payment. While you may make a withdrawal in the year you open your RRIF, you are not required to do so.

If you withdraw only the minimum from your RRIF, there is no withholding tax applied to the payment. If you take more than the minimum amount out of your RRIF, the Trustee of your plan is required to withhold tax and remit it to CRA on your behalf. When you prepare your annual income tax return, the tax withheld is reported as tax already paid.

Since there is no maximum RRIF limit, you may withdraw any amount of money in excess of the minimum that you wish. This flexibility is beneficial when additional income is needed to fund a large purchase or expenditure. Careful planning is important when deciding how much to withdraw from a RRIF. If your withdrawals exceed your investment returns, you run the risk of outliving your money.

Whatever you take out of your RRIF will be considered taxable income in the year you withdraw it.

Converting a spousal RRSP

If you have made contributions to a Spousal RRSP, you've taken advantage of an effective income splitting opportunity. In most cases, the plan holder will pay the tax on withdrawals provided no contributions were made to any Spousal RRSP in the year of withdrawal or either of the two preceding years (i.e. the "transition period"). However, if you make Spousal RRSP contributions during this transition period before your spouse transfers the funds to a RRIF, the excess amount over the minimum will be attributed back to you for income tax purposes (but only to the extent of the spousal contributions made in the transition period). After the transition period, or if no spousal contributions were made during the transition period, withdrawals of any amount will be considered your spouse's income.

Other RRSP maturity options

CRA allows you to choose from among three options when your RRSP matures. In addition to transferring to a RRIF, you can also take a lump-sum cash payment or transfer to an annuity. You can choose one or any combination of these allowable maturity options.

You may make lump-sum withdrawals at any time. However, cashing in your RRSP in one lump-sum is not usually recommended because you must pay income tax on the amount you withdraw in the year you receive it. If you withdraw the funds all at once you could find yourself being taxed at a higher rate than if you had transferred your RRSP into one of the other maturity options and received smaller payments over several years. You may also convert your RRSP on a tax-free basis to a life annuity. A life annuity guarantees you a fixed amount of money each year for the rest of your life. The annuity payments are taxed in the year of receipt. The amount of your annuity payment will be determined by the value of your RRSP, your age, current interest rates, how long a period you want your payments guaranteed and whether or not you also want the payments to continue for as long as your spouse lives. In its simplest form, a life annuity offers you the security of knowing that for as long as you live, you will receive a fixed amount of income.

Selecting the right retirement income option is one of the most important financial and estate planning decisions you will make – especially today, when statistics show that Canadians are living longer, healthier lives. If you're fortunate, your retirement will last 30 years or longer. So it's important to make choices that not only protect your savings but ensure that the purchasing power of your money lasts for decades.

Planning Tips & Considerations:

- Use your younger spouse's age if you don't need the funds immediately. If your spouse is younger than you, you may choose to have your minimum withdrawal amount calculated on their age. This will result in a lower minimum withdrawal.
- You do not have to sell RRIF assets to make the RRIF minimum withdrawal. If you don't require the withdrawal as cash for income, you can choose to transfer specific assets (total value at least equal to the minimum withdrawal amount) held in your RRIF to another type of investment account "in kind" without a sale of the investments. Note, if an "in kind" withdrawal exceeds the minimum withdrawal amount, you will be subject to withholding tax and must have cash available in the RRIF to pay this amount.
- A lot of things can change in your post-retirement years, so if you want to leave all of your options open, you should consider a RRIF option when your RRSP matures. The assets in a RRIF continue to grow on a tax-deferred basis until they are withdrawn and as the investing climate changes, you are able to choose investments which protect your capital and maximize your income.
- Consider the potential tax savings available from the pension income splitting rules where you and your spouse's retirement incomes are disproportionate.

While staying with one employer for your entire career used to be common, recent trends indicate that most of us will work for four or five different employers prior to retirement. If you belong to a vested pension plan (where the employee has an absolute right to the entire amount of money in the account), each job transition may provide you with an opportunity to transfer your pension to a locked-in registered plan. At retirement, these funds would be rolled into one or more of the locked-in maturity options designed to provide you with a lifetime income.

For all provinces and territories (except Quebec) the pension legislation that will govern your locked-in plan is the legislation of the jurisdiction where you were employed while the pension benefits were being earned. If you are employed in Quebec, regardless of where you live, your plan will be governed under Quebec legislation. Pension plans for employees in certain industries that are "federal undertakings", such as banking, communications and transportation industries have resulting locked-in plans that are governed by the Federal Pension Benefits Standards Act.

Depending on the applicable pension legislation, the locked-in alternative to an RRSP is referred to as a Locked-In RRSP ("LRSP") or a Locked-In Retirement Account ("LIRA"). The purpose of these plans is to ensure that locked-in funds will be used to provide you with a lifetime retirement income.

At retirement or at the plan maturity, the funds must be rolled from your LRSP/LIRA into one or a combination of a life annuity, or, if available in your province, a Life Income Fund ("LIF"), Locked-in Retirement Income Fund ("LRIF") or a Prescribed Registered Retirement Income Fund ("PRIF").

If you're a member of a provincially regulated pension plan, you may only transfer the commuted pension entitlements to a LIRA or LRSP approved by the province where you were employed. Subsequent transfers of these locked-in funds are subject to similar restrictions, even if the former employee's province of residence has changed. For example, funds held in an Ontario LIRA may only be transferred to another LIRA, LIF, LRIF, life annuity or registered pension plan, each of which must be governed by Ontario pension legislation. Similarly, a federally regulated plan can only be transferred to another federally regulated plan.

There are numerous regulatory requirements surrounding locked-in plans which should be considered. Your BMO financial professional can review your personal situation to outline your options based on the governing jurisdiction.

Planning Tips & Considerations:

- If you have one or more locked-in accounts, consider consolidating them into one account if they are regulated by the same provincial or federal legislation.
- Over the years, positive changes have been made in numerous jurisdictions making it easier for you to access locked-in monies. We suggest consulting your BMO financial professional to see if your plan can be unlocked under certain conditions such as small amounts, shortened life expectancy, non residency or financial hardship among others.

Individual Pension Plan

Individual Pension Plans ("IPP") have become an increasingly popular retirement savings vehicle over the past several years. An IPP is a pension plan established for a single individual who is interested in maximizing their tax-assisted retirement savings. If you're a business owner, professional or senior executive, an IPP may allow you to benefit from the retirement savings and tax-deferral advantages of a registered pension plan. A typical IPP provides what is called a defined benefit – the amount of pension is determined at retirement by reference to a formula. This is different from an RRSP or a defined contribution pension plan, where only the account balance itself is available to provide benefits at retirement.

As a general rule, to maximize the benefits of an IPP, you should be at least 40 years of age and receiving at least $100,000 per year in T4 earnings from the employer who sponsors the IPP. The longer you have worked for the company and the older you are, the greater the benefit of establishing an IPP.

Employer and employee contributions are tax deductible (within limits) and are not subject to employee withholding taxes. Investment earnings on these contributions grow tax-free until they are used to pay benefits under the plan.

While flexible in terms of its settlement options, the basic purpose of an IPP is to provide a retirement pension to the plan participant. In the right circumstances, an IPP permits much larger tax deductible contributions than an RRSP. An IPP also normally offers the plan member a greater degree of creditor protection than an RRSP. Contributions to an IPP will reduce the amount that you will be able to contribute to your RRSP, by way of a Pension Adjustment ("PA").

An IPP presents many benefits and opportunities. Upon the initial set up, you can often make a significant lump-sum past service contribution. A valuation is usually completed every three years to ensure that the contributions to the plan are meeting its future liability. If the plan does not meet the assumed 7.5% per annum compound rate of return, the sponsoring company must make additional tax deductible contributions to ensure proper funding at retirement.

Planning Tips & Considerations:

- IPPs offer greater creditor protection than RRSPs.
- Upon retirement, you may be eligible to have additional tax deductible payments made into the pension plan to fund unreduced early retirement benefits (called Terminal Funding).

Registered Education Savings Plans

While a post-secondary education is an invaluable personal asset, it can be expensive to fund. Government cutbacks and inflation further undermine your ability to save for your child's education. However, the good news is that CRA has significantly enhanced the Registered Education Savings Plan ("RESP") rules over the past few years. In addition to the tax advantages, there are increased contribution limits, additional termination options and the Canada Education Savings Grant ("CESG").

An RESP is a tax deferral plan designed to help save for a student's post-secondary education. The contributor to the RESP is called the subscriber and the future student is the beneficiary. Although contributions to an RESP are not tax deductible, all of the income in the plan compounds on a tax deferred basis. In addition, there is also the CESG – a federal program that will deposit grants directly into your child's RESP based on your contributions. Finally, when the accumulated income and CESG are withdrawn from the RESP to pay for education expenses, the beneficiary student pays the taxes, not the subscriber. Withdrawals of CESGs and the accumulated income are taxed in the student's hands as ordinary income (i.e. there are no dividend tax credits or reduced capital gain tax rates). Generally, this income would attract little or no tax if withdrawn over a few years due to the student's basic personal exemption and tuition and education tax credits.

While most RESPs are set up by parents for the benefit of a child, anyone who wants to help fund someone's education may set up an RESP, including grandparents, aunts, uncles, godparents and friends. You may even set up a plan for yourself.

There are two types of RESPs: single beneficiary and family plans. As the name implies, with a single beneficiary plan there is only one beneficiary. You may name anyone as the beneficiary – any related or non-related child or adult, even yourself or your spouse. A family plan is one RESP that is set up for the benefit of more than one child within a family. Each beneficiary of a family plan must be related to the subscriber by blood relationship or adoption.

RESP contributions

Your RESP contributions are not tax deductible nor are they considered taxable when withdrawn. The main reason for contributing to an RESP is that all of the investment income generated compounds on a tax-deferred basis. The tax-deferred compounding of income can result in substantial growth in the plan. When the income and CESG are paid out for education expenses – called Education Assistance Payments ("EAPs") – the funds are taxed in the student's hands and not the subscriber's.

To obtain the maximum benefit from an RESP and the CESG, it makes sense to start your savings program early. Your BMO financial professional can help you determine the best way to finance your child's education and work with you to develop a savings program that ensures you'll meet your education savings goals.

Registered Disability Savings Plans

A Registered Disability Savings Plan ("RDSP") is designed to help parents and others save for the long-term financial security of persons with severe or prolonged disabilities who are eligible for the Disability Tax Credit. Contributions to an RDSP are not tax deductible; however investment earnings grow tax free. In addition, there is the opportunity for contributions to qualify for payments from the Canada Disability Savings Grant ("CDSG") program. Lower income families may also qualify for payments from the Canada Disability Savings Bond ("CDSB") program without having to make a contribution to an RDSP. Earnings withdrawn under the disability assistance payment are taxable in the hands of the beneficiary.

For more information, please speak with your BMO financial professional.

BMO Private Wealth provides this publication for informational purposes only and it is not and should not be construed as professional advice to any individual. The information contained in this publication is based on material believed to be reliable at the time of publication, but BMO Private Wealth cannot guarantee the information is accurate or complete. Individuals should contact their BMO representative for professional advice regarding their personal circumstances and/or financial position. The comments included in this publication are not intended to be a definitive analysis of tax applicability or trust and estates law. The comments are general in nature and professional advice regarding an individual's particular tax position should be obtained in respect of any person's specific circumstances.

BMO Private Wealth is a brand name for a business group consisting of Bank of Montreal and certain of its affiliates in providing private wealth management products and services. Not all products and services are offered by all legal entities within BMO Private Wealth. Banking services are offered through Bank of Montreal. Investment management, wealth planning, tax planning, and philanthropy planning services are offered through BMO Nesbitt Burns Inc. and BMO Private Investment Counsel Inc. If you are already a client of BMO Nesbitt Burns Inc., please contact your Investment Advisor for more information. Estate, trust, and custodial services are offered through BMO Trust Company. BMO Private Wealth legal entities do not offer tax advice. BMO Trust Company and BMO Bank of Montreal are Members of CDIC.

® Registered trademark of Bank of Montreal, used under license.

All rights are reserved. No part of this publication may be reproduced in any form, or referred to in any other publication, without the express written permission of BMO Private Wealth.

08/22-1012_ACC ID6935