

The UnCanadian Way To Deal With Your RRSPs



Authored By:

A handwritten signature in blue ink that reads "Mark Huber". The signature is written in a cursive style and is set against a light yellow rectangular background.

Mark Huber, CFP

Watch the video here...

<http://howtobesetforlife.com/Videos/50PercentRRSPs/>

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Preface

Don't let the title of this eBook fool you. **This is NOT an unpatriotic book by any means.**

This book is about to expose the way Canadians have for generations dealt with their RRSPs and why YOU should immediately change the way you are dealing with yours.

Keep an open mind as you read along.

As Canadians, there IS a better way to deal with our RRSPs and investments than have been taught to us by our parents, friends, bankers and those in the financial services industry.

It's the "UnCanadian Way"!

Have you ever wondered if you're on the right path?

In my professional travels, I participate in conferences and conventions all over North America and over the past several years, I traveled to Chicago.

As anyone who has traveled to Chicago knows, O'Hare Airport is one of the busiest airports in the world and can be confusing.

On the first few trips, I would grab my luggage and walk outside to be picked up at the bus shuttle center. I would follow the crowd from the baggage claim area outside to the ground transportation area, then across eight lanes of traffic to the shuttle center, often in freezing, windy conditions, without a coat.

One blustery cold, wet day, I followed the crowd and arrived at the shuttle center with my hair windblown and my suit sopping wet. To my surprise, I met the gentleman who had sat next to me on my flight.

His hair was in place and his suit was dry. I said, "How did you get here before me and in such great shape?"

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He replied, "Oh, didn't you know there's an easier way to get here? And you stay warm and dry!" He told me about a corridor that leads people safely underground to the shuttle center, sheltered from traffic and unpleasant weather.

The next time I flew into O'Hare, I learned that the path leading to the shuttle center had always been there - I just hadn't noticed it.

Now it's up to me each trip to choose the path I'm going to take: the way the crowd goes or the safer, more sheltered route.

One day I asked the hotel shuttle service why they didn't instruct people on how to reach the shuttle center by the safer, protected route. They said, "Oh, it's too hard to get people to understand, so we just tell them to follow the crowd."

The ideas you will be presented with are not novel however, the approaches are.

With the insights you are about to gain, I hope you will choose not to always follow the crowd (and accepted wisdom), but to find the best path for your journey towards financial independence.

For the first step on that journey, let's take a look at the two places most Canadians accumulate the most money: our homes and our RRSPs – generally in that order.

Following accepted wisdom, we put money into our RRSPs for retirement. We do this because our contributions are tax deductible and the growth of our RRSPs grow tax deferred. (I didn't say "tax free" – I said, "tax deferred". This is a distinction that gets lost on most individuals).

At the same time, Canadians assume (because we have been taught) that it's best to achieve the goal of financial security with outright home ownership. So, to save mortgage interest expense we begin sending extra principal payments to the bank.

Sound familiar?

However, like naïve, inexperienced drivers, this is just like driving down the highway of life, pursuing financial security with one foot on the brake pedal and the other foot on the gas.

Now we may eventually make it to our destination, but only after a pretty jerky ride. Furthermore, we may wonder why a few others arrived at the station of financial independence sooner, achieving more, with a much smoother ride!

“But I am doing everything right!”

Suddenly we realize that during all of those years of earning money, we socked a portion away in tax sheltered investments (our RRSPs) that gave us a tax deduction on the front end, just to be hammered with taxes on the back end.

During our "golden years" of retirement, we painfully come to the realization that we increased our tax liability by postponing it to a time when we no longer had significant deductions.

In frustration, we complain, "But I did everything right! Everyone concerned about their retirement puts money into RRSPs, and I've always been taught that you should pay off your mortgage as soon as possible by sending extra principal payments to the bank!"

There is a valuable lesson here: All the dogs barking up the wrong tree doesn't make it the right one!

If what you thought to be the best way to save for retirement or to pay off your mortgage turned out not to be the best way, when would you want to know?

Well, of course you would!

Putting Money Into RRSPs & Paying Extra On Your Mortgage Will NOT Make You Rich!

So, now is the time to discover the best way to safely accumulate more money. The sooner you empower yourself with the knowledge to attain financial independence, the greater your net worth will become.

My goal is to create a meaningful transformation in your life through the concepts, truths, and strategies contained in this eBook.

Most educational books are information-based. This book, on the other hand, will provide an insight-based experience for you – based on my personal beliefs and observations gathered from over 21 years in the financial services industry.

Welcome to the “the path less traveled!”

Remember, as a Canadian, you are where you are because of your upbringing, conditioning, beliefs, thoughts and actions.

It is our upbringing, conditioning, beliefs, thoughts and actions that give us the results we have. If we don't like those results and wish to change them – then our beliefs and actions must change!

Why is it that some people become independently wealthy while others struggle just to pay the mortgage and put some money away into RRSPs? What is it that they know that the other social classes do not?

Well, we are going to share (“unconventional” thus, “UnCanadian”) ideas with you so that when you begin to change how you have traditionally thought of and managed your RRSPs - you will see results that you thought were only possible for the wealthy.

Pay close attention and carefully consider how you can apply this information to your own life and financial situation.

I trust that you will find the information you are about to learn of great value to you. If accumulation of financial wealth is truly your core desire, the path has been paved for you in what is to come.

The decision to take immediate action is all yours to make. You will immediately begin reaping the benefits of not only significantly increased cash flow but creating a wonderful peace of mind and assurance as you see yourself getting closer to your goals

Now remember, making RRSP contributions is not just about reducing taxation, it is about planning for a dream.

That dream is financial independence!

One day you may want to take it easy - enjoy life.

This does not mean you have to quit working, but it will mean getting out of the rat race and doing the things you have been putting off - taking up a hobby, traveling the world, spending more time with children and grandchildren or just spending more time at the cottage.

The RRSP is one vehicle that can help you save money in a tax effective manner to live your dream.

We all know the benefits of contributing to RRSPs yet all too few Canadians take advantage of this tax saving device.

I have reprinted the following news article that appeared in "The Province" newspaper Tuesday, January 9, 2007 MONEY/A25.

The statistics and rationale are revealing as well as shocking.

Are you one of them?

RRSP Withdrawals common – study finds

Toronto- CanWest News Service

More than a third of Canadians have withdrawn funds from their retirement savings plans, which could have a significant impact on their retirement, according to a new study by the Bank of Nova Scotia.

"There may be a strong reasons to make an RSP withdrawal, such as buying a home, but we remind Canadians that it is important to make regular RSP contributions," said Ian Filderman, director of mutual funds at Scotiabank.

More than 1,000 investors over 18 participated in the on-line survey in October.

According to the report, withdrawals from RSPs have on average been \$18,000. Of the people surveyed, 37 per cent listed top reasons as to buy, build or get a mortgage for a new home.

Paying down debt was listed as the top choice for 24 per cent and covering day – to – day expenses was listed at 20 per cent.

Canadians are expecting to live longer than ever and their RSP savings should reflect that, Filderman said.

A Scotiabank survey in 2006 found Canadians expect to live to about 85.

Of those people surveyed, 17 per cent said they will need about \$100,000 for their retirement.

- End Article-

Now lets analyze this for a moment...

Why are one third of Canadians (this suggests 8 million of us) taking out money from their RRSPs?

Well, because that is all the money they have saved and invested.

And why. Because they are contributing just for the tax relief.

Then when they need cash for opportunities (buying a home) or emergencies (paying off credit cards and covering for day – to – day expenses) - they tap their RRSPs.

This is not a good strategy!

Its important too understand why this happens.

As many of you know I believe that Canadians are so focused with paying off their mortgages that they have little money left over for things like tax relief (contributing to RSPs) or building up non RRSP investments and savings for emergencies or opportunities.

This is why so many are tapping their RRSPs - to get out of debt and to cover living expenses when they find that their paychecks do not cover the lifestyle that they have.

I see this all the time - and its getting worse!

The answer - don't get into the vicious cycle to begin with!

At this time of year when you are tempted to toss some money into RRSPs - take a moment too pause and give it some thought.

Maybe it's time to look at other ways to achieve your goals.

Introduction

Welcome to: "The UnCanadian Way To Deal With Your RRSPs"

Tax Effective Withdrawal Strategies for Your RRSP or RRIF

OR **"How To Disinherit Revenue Canada From Your RRSP"**

Or even better... **"How to Rip Up Your RRSP IOUs!"**

The whole notion of investing into RRSPs in Canada has become "institutionalized". It is part of our national consciousness!

It is a rite that occurs each and every year building into a buying frenzy which then ends 60 days from the beginning of each New Year.

In fact, speaking against the merits of RRSP's is taboo for many advisors and most don't discuss the alternatives with their clients.

So sadly, most Canadians believe that RRSP's represent the only viable retirement savings option available to them. They scramble at "RRSP time" to come up with money to put into their RRSP and those without the immediate money - borrow from the banks that are only to happy

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to accommodate their clients! (And the interest charged on RRSP loans is NOT tax deductible).

However, RRSP's can and WILL become a painful tax trap to the "unwary" Canadian come retirement.

In fact, the total tax liability that Canadians face on RRSP/RRIF withdrawals could easily wipe out the entire federal deficit!

Put another way, the Canadian government now owns about 40% of your RRSP or RRIF and many pundits feel that they may want their portion sooner, rather than later!

The Problems with RRSPs

1. The plan is registered with Revenue Canada (CCRA) so they can find you.

Note: All RRSP plan trustees are collection agents for the government. (Have you ever "cashed in" an RRSP? If you have then you know that 10% of your first \$5,000, 20% on \$10,000+ and 30% on sums in excess of \$20,000 that are "deregistered" are immediately taken from your RRSP account and remitted to Revenue Canada (CCRA) "on your behalf" as "pre payment" of taxes owing on the RRSPs that you just cashed out.)

2. Contributions are capped so many people cannot contribute what they need to live the retirement lifestyle they desire.

For example: For the 2006 tax year, Revenue Canada (CCRA) will allow Canadians to contribute up to 18% of the previous tax year's (2005) eligible earned income to a maximum of \$18,000 (less a "pension adjustment" if the taxpayer contributed to an employer pension) - whichever is the lesser amount - to their RRSPs and receive a tax deduction.

In 2007, the RRSP contribution limit will increase to \$19,000. Then, for each subsequent year, the increase from \$19,000 will be indexed to increases with inflation.

Because the Canadian government taxes Canadians heavily (don't we know it!) virtually all Canadians buy RRSP's because of the immediate tax relief that they get.

But is this real tax relief for you and I?

Let's look at some real life examples:

Prompted by his parents urging, 25 year old Larry opens up an RRSP account with his financial institution and initially contributes \$1000 to his RRSP. He receives a \$1,000 deduction against his taxes owing and "all things being equal" gets a \$420 "tax refund" because he is in the 42% tax bracket.

Each year Larry invests another \$1000 into his RRSP account and buys more GICs with the money. He gets his \$420 "tax refund" annually and averages 5% on his RRSP investments to age 65 – some 40 years later.

His total contributions over 40 years of \$40,840 has now grown to over \$130,591.

Larry withdraws all the money (not the best strategy) at age 65 and is taxed at 42% again.

Revenue Canada gets \$54,848 and Larry is left with \$75,743!

Another way to look at this is that Revenue Canada gets \$54,848 back on their total investment of \$16,600 which is the \$420 annual "investment" in Larry's RRSP (which is the taxes that they essentially "gave up" at the time) and Revenue Canada has also made 5% on their annual \$420 "investment" in Larry's RRSP, compounded over 40 years!

Got it? Sound like a good deal? Well, this one's even better.

Diane, a 68-year old retired teacher (now widowed) collects her pension of \$36,000 plus the reduced pension of her late husband's pension of \$25,000. She also collects CPP and OAS totaling \$18,000. Her RRSP is worth \$300,000 (a combination of her RRSP and her late husband's RRSP).

Next year, at the government mandated age of 69 she must by law begin to make withdrawals from her registered assets of about \$22,000 that will be added to her income.

Her total taxable income next year will be over \$100,000 and she will end up paying over \$42,000 in taxes.

As this would certainly push her towards the highest marginal tax bracket in Canada Diane will be getting government entitlements "clawed back". (Ever heard of the Old Age Security (OAS) "clawback"?)

Here's another scenario:

Bill and wife Linda have combined RRSP/RRIF assets of \$400,000 (\$200,000) each. They both collect company pensions, CPP and OAS.

Unfortunately, they are both killed in a freak skiing accident.

Upon settling their respective estates for tax purposes, the executor must take into income all the existing income for the year PLUS the entire \$200,000 of their respective RRSP/RRIFs.

Each spouse's final tax return shows income totaling \$250,000. Each estate is facing a tax bill of \$120,000 for each spouse and without a large insurance policy payoff; this will reduce the size of the inheritance to the children by \$240,000!

So...what do you think of RRSPs now?

Broadly speaking, the 3 scenarios are typical of "The Canadian Way" and will give rise to one or ALL of the following:

1. Potentially hefty taxes for you when you withdraw RRSP money
2. The "claw back" of OAS (Old Age Security - approx. \$8,000) in retirement
3. Much less of your estate to pass on due to the taxation of your RRSPs on death. What's left in your RRSP or registered retirement

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income fund (RRIF) when you pass on will eventually become taxable, the bills having to be paid by your estate or your heirs.

I once heard a person lament, "It's "legitimized extortion"!"

And quite frankly, I agree!

Considering all the possible outcomes, an RRSP investment may be adequate for some, a very poor investment choice for others and an absolute disaster for many Canadians.

This is "The Canadian Way"

The average Canadian's annual RRSP contribution is \$3,000!

Using real historical return numbers from a Canadian Balanced fund for our illustrations show that your annual \$3,000 RRSP contribution would grow to approximately \$270,547.64 over 30 years.

The far right column shows the embedded and ongoing annual tax implication if, in any of the intervening years, the RRSP account were to be totally cashed out.

If the RRSP account remains "intact" until the 30th year and then is totally cashed out your \$270,547.64 at a 42% marginal tax bracket your RRSP loses \$156,917.63 to the tax man and you are left with \$113,630.01!

"The Canadian Way" – Annual Contributions

		<u>Your RRSP</u>				<u>Ttl. RRSP is taxable</u>
Client	Annual	Canadian	Deductible	42% Marginal	42% Marginal	
<u>Age(s)</u>	<u>Year</u>	<u>Balanced Fund RRSP</u>	<u>RRSP Contribution</u>	Tax Bracket	Tax Bracket	<u>Net RSP After Tax</u>
	<u>Returns</u>			<u>Annual Refund</u>		
35/30	2005		\$3,000.00			
36/31	2006	-7.4	\$2,778.00	\$3,000.00	\$1,260.00	\$1,611.24
37/32	2007	18.9	\$6,870.04	\$3,000.00	\$1,260.00	\$3,984.62
38/33	2008	28.3	\$12,663.26	\$3,000.00	\$1,260.00	\$7,344.69
39/34	2009	6.2	\$20,851.72	\$3,000.00	\$1,260.00	\$12,094.00
40/35	2010	19.7	\$28,550.51	\$3,000.00	\$1,260.00	\$16,559.30
41/36	2011	4.5	\$32,970.28	\$3,000.00	\$1,260.00	\$19,122.76
42/37	2012	1.2	\$36,401.92	\$3,000.00	\$1,260.00	\$21,113.11
43/38	2013	12.3	\$44,248.36	\$3,000.00	\$1,260.00	\$25,664.05
44/39	2014	17.7	\$55,611.32	\$3,000.00	\$1,260.00	\$32,254.57
45/40	2015	-12.4	\$51,343.52	\$3,000.00	\$1,260.00	\$29,779.24
46/41	2016	17.8	\$64,016.66	\$3,000.00	\$1,260.00	\$37,129.66
47/42	2017	1.8	\$68,222.96	\$3,000.00	\$1,260.00	\$39,569.32
48/43	2018	27.2	\$90,595.61	\$3,000.00	\$1,260.00	\$52,545.45
49/44	2019	-2.2	\$91,536.50	\$3,000.00	\$1,260.00	\$53,091.17
50/45	2020	13.8	\$107,582.54	\$3,000.00	\$1,260.00	\$62,397.87
51/46	2021	27.6	\$141,103.32	\$3,000.00	\$1,260.00	\$81,839.93
52/47	2022	7.7	\$155,199.27	\$3,000.00	\$1,260.00	\$90,015.58
53/48	2023	-5.4	\$149,656.51	\$3,000.00	\$1,260.00	\$86,800.78
54/49	2024	15.2	\$175,860.30	\$3,000.00	\$1,260.00	\$101,998.97
55/50	2025	11.3	\$199,071.52	\$3,000.00	\$1,260.00	\$115,461.48
56/51	2026	-2.3	\$197,423.87	\$3,000.00	\$1,260.00	\$114,505.84
57/52	2027	-6	\$188,398.44	\$3,000.00	\$1,260.00	\$109,271.10
58/53	2028	12.9	\$216,088.84	\$3,000.00	\$1,260.00	\$125,331.53
59/54	2029	8.3	\$237,273.21	\$3,000.00	\$1,260.00	\$137,618.46
60/55	2030	12.6	\$270,547.64			\$156,917.63
		9.20%		\$72,000.00	\$37,800.00	
		Avg.		Ttl. Deductions	Ttl. Refunds	
		Ann.				
		Comp.				
		Return				

* Disclaimer: The rate of return or mathematical table shown is used only to illustrate the effects of the compound growth rate and is not intended to reflect future values of the mutual fund or asset allocation service or returns on investment in the mutual fund or from the use of the asset allocation service. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

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The following chart illustrates another way Canadians save for their retirement using RRSPs.

This chart shows a Canadian with \$50,000, that if left to grow in the same type of investment as the preceding illustration will have an approximate market value of \$510,995.98! Not bad for 30 years of effort. (This dramatically shows the importance and impact of having more money growing for you sooner!)

Now, unfortunately all the embedded tax deferrals come "home to roost" on this RRSP account and it will be taxed at your marginal tax rate (we are assuming 42%). So you are going to have to hand over \$210,821.51 to the "tax man" which leaves you with \$291,134.47 for your time and effort. Ouch!

"The Canadian Way" – Lump Sum Invested

<u>Client Age(s)</u>	<u>Year</u>	<u>Annual Returns</u>	<u>Canadian Balanced Fund RRSP</u>
35/30	2005		<u>\$50,000.00</u>
36/31	2006	-7.4	\$46,300.00
37/32	2007	18.9	\$55,050.00
38/33	2008	28.3	\$70,630.05
39/34	2009	6.2	\$75,009.11
40/35	2010	19.7	\$89,785.91
41/36	2011	4.5	\$93,826.27
42/37	2012	1.2	\$94,952.19
43/38	2013	12.3	\$106,631.31
44/39	2014	17.7	\$125,505.05
45/40	2015	-12.4	\$109,942.42
46/41	2016	17.8	\$129,512.17
47/42	2017	1.8	\$131,843.39
48/43	2018	27.2	\$167,704.79
49/44	2019	-2.2	\$164,015.29
50/45	2020	13.8	\$238,164.63
51/46	2021	27.6	\$303,898.07
52/47	2022	7.7	\$327,298.22
53/48	2023	-5.4	\$309,624.12
54/49	2024	15.2	\$356,686.98
55/50	2025	11.3	\$396,992.61
56/51	2026	-2.3	\$387,861.78
57/52	2027	-6	\$364,590.08
58/53	2028	12.9	\$411,622.20
59/54	2029	8.3	\$445,786.84
<u>60/55</u>	<u>2030</u>	<u>12.6</u>	<u>\$501,955.98</u>
		<u>9.20%</u>	
		Avg. Ann.	RRSP
		Compound	
		Return	

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To sidestep getting into this problem in the first place savvy Canadians are turning to a strategy called "***The RRSP Meltdown***".

The RRSP Meltdown is attractive to:

1. Canadians who wish larger tax deductions than is currently allowed with RRSPs
2. Canadians who are concerned with the amount of taxation of their RRSPs
3. Canadians who want control of their investment assets without "interference" from the "tax man"
4. Canadians who want a retirement lifestyle without "claw backs"
5. Canadians who are concerned about leaving their estate with a significant tax liability on death.
6. Canadians who want to use a borrowing strategy where THEY are the bank.

The main purpose of "*The RRSP Meltdown*" program is to get money OUT of an RRSP without being drowned in tax and it also acts as an effective estate planning tool, among other things.

This strategy is now even more desirable with recent tax changes where now only 50 per cent of investment capital gains must be included in your income for tax purposes.

But be aware that meltdown involves using borrowed money—and as such, may not be suitable for everyone. Leveraging can amplify gains and losses and you have got to be comfortable with that type of risk.

This then is “The UnCanadian Way”.

The RRSP Meltdown Strategy

Say that you have a \$50,000 RRSP/RRIF and for simplicity let's assume a return rate of 9% and borrowing costs of 7.5%.

The following steps are recommended:

- 1.** Borrow \$100,000 and invest it. As the purpose of the loan was for investment purposes, the interest on the loan is tax deductible.
- 2.** Withdraw \$7,500 from your RRSP each year. (Some tax will be withheld on the withdrawal. This will be refunded when you file your tax return.)
- 3.** Use the \$7,500 from the RRSP withdrawal to pay the 7.5% interest costs on the loan.

The result:

The yearly RRSP/RRIF withdrawals are tax free as they are offset by the interest expense deduction.

Investing outside an RRSP allows you to take advantage of capital gains being taxed on only 50% of the gain and as well as the benefit of the dividend tax credit on investment dividends received. (These tax benefits are all lost within an RRSP. All the money that comes out – irrespective of how the gains were manufactured – are fully taxable at your marginal tax rate.)

In the end, you have a \$100,000 (or greater) loan outstanding that can be paid off, if and when, you choose at any point in the future by liquidating some or all of the portfolio built up on the borrowed funds. What you have left is the after-tax growth of the portfolio from the original \$100,000 (or greater) invested.

Tax-free RRSP/RRIF withdrawals are also available to individuals who have significant tax write-offs in excess of their income. For example, an investor in a real estate project may already be incurring significant interest expense in excess of pension and investment income. Here, an RRSP / RRIF withdrawal can be made to offset this deduction so in effect, the tax deduction is not being “wasted”.

The strategy in detail

Under the meltdown strategy, you withdraw money from your tax-deferred RRSP plan to service the debt.

Using this illustration, you withdraw a total of \$9,000, which covers the \$7,500 carrying charge and \$1,500 which is the 20 per cent per cent withholding tax levied on premature withdrawals from RRSPs (in excess of \$5,000).

Now, at tax time you will add \$9,000 into your income, but \$7,500 of that is offset by the deduction you can take on the investment loan interest. That leaves the \$1,500 that Ottawa has already withheld. On this amount, assuming your tax rate is 42 per cent, Ottawa keeps \$630 and (all things being equal) you get an \$870 refund.

Just by changing the location of your invested capital you are utilizing “The UnCanadian Way”. It’s now gone from a place where it’s fully taxed to a place where it’s half-taxed!

Or put another way – **converting your 100% taxable dollars to 50% taxable dollars.**

Now which scenario do you like?

As we all know your RRIF/ RRSP are going to be taxed someday—it’s just a matter of when and by how much.

Now, investors should break the strategy into its two components and look carefully at each. First, assess your suitability for leveraging. The real crux in successful leveraged investing is making sure the money is invested prudently.

Then look at the wisdom of pulling money out of your RRSP early. It could make sense, especially if you are in a lower tax bracket now and anticipate that in retirement—perhaps with a company pension being paid—you will be in a higher one.

Another scenario is that you just want to use your RRSP as the “bank” and use the “meltdown” mechanism to grow more assets without the severe tax implications inherent with RRSPs.

Furthermore, the non registered portfolio will always be available to fund the things in life that come along, like: a new roof the house, braces for “little Johnny”, a college education for the kids, a new car, exotic trips – well, you get the idea.

"The UnCanadian Way"

Client Age(s)	Year	Annual Returns	Canadian Balanced Fund RRSP	Annual Withdrawal from RRSP	RRSP Value After Withdrawal	Annual Returns	Canadian Balanced Fund (loan owing)	Deductible Interest Cost 7.5%
35/30	2005		\$50,000.00				\$100,000.00	
36/31	2006	-7.4	\$46,300.00	\$ (9,000.00)	\$37,300.00	-7.4	\$92,600.00	\$ 7,500.00
37/32	2007	18.9	\$44,349.70	\$ (9,000.00)	\$35,349.70	18.9	\$108,885.56	\$ 7,500.00
38/33	2008	28.3	\$45,565.76	\$ (9,000.00)	\$36,565.76	28.3	\$139,700.17	\$ 7,500.00
39/34	2009	6.2	\$38,832.84	\$ (9,000.00)	\$29,832.84	6.2	\$148,361.58	\$ 7,500.00
40/35	2010	19.7	\$35,709.91	\$ (9,000.00)	\$26,709.91	19.7	\$177,588.81	\$ 7,500.00
41/36	2011	4.5	\$27,911.86	\$ (9,000.00)	\$18,911.86	4.5	\$185,580.31	\$ 7,500.00
42/37	2012	1.2	\$19,138.80	\$ (9,000.00)	\$10,138.80	1.2	\$187,807.27	\$ 7,500.00
43/38	2013	12.3	\$11,385.87	\$ (9,000.00)	\$2,385.87	12.3	\$210,907.57	\$ 7,500.00
44/39	2014	17.7	\$2,808.17			17.7	\$148,238.21	(\$100K loan gone)
45/40	2015	-12.4	\$2,459.96			-12.4	\$129,856.67	
46/41	2016	17.8	\$2,897.83			17.8	\$152,971.16	
47/42	2017	1.8	\$3,752.39			1.8	\$155,724.64	
48/43	2018	27.2	\$4,773.04			27.2	\$198,081.74	
49/44	2019	-2.2	\$4,668.03			-2.2	\$193,723.94	
50/45	2020	13.8	\$5,312.22			13.8	\$220,457.85	
51/46	2021	27.6	\$6,778.39			27.6	\$281,304.21	
52/47	2022	7.7	\$7,300.33			7.7	\$302,964.64	
53/48	2023	-5.4	\$6,906.11			-5.4	\$286,604.55	
54/49	2024	15.2	\$7,955.84			15.2	\$330,168.44	
55/50	2025	11.3	\$8,854.85			11.3	\$367,477.47	
56/51	2026	-2.3	\$8,651.19			-2.3	\$359,025.49	
57/52	2027	-6	\$8,132.12			-6	\$337,483.96	
58/53	2028	12.9	\$9,181.16			12.9	\$381,019.39	
59/54	2029	8.3	\$9,943.20			8.3	\$412,644.00	
60/55	2030	12.6	\$11,196.04			12.6	\$464,637.15	
		9.20%		\$ (72,000.00)		9.20%		\$ 60,000.00
		Avg. Ann.	RRSP	Ttl. Withdrawal		Avg. Ann.	Non-RRSP	Ttl. Deductible
		Compound				Compound		Interest Cost
		Return				Return		

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Now you see the results of RRSP meltdown.

Remember that the concept is to transfer your 100% taxable dollars to 50% taxable dollars, so, let's use these figures and see the tax treatment on the respective accounts.

Remember, that the original \$50,000 RRSP account grew to \$501,955.98 over 30 years. On this amount, you are going to have to hand over \$210,821.51 to the "tax man" which leaves you with \$291,134.47 net after tax profit.

After 30 years, the \$50,000 RRSP account that was "melted down" (by year 8) stands at a fully taxable \$11,196.04 (After a total of \$72,000 has been withdrawn). This \$11,196.04 at a 42% marginal tax bracket would end up attracting \$4,702.34 in taxes with \$6,493.70 left over for you.

While the \$100,000 loan account (which was re paid in year 8) has grown to \$464,637.15, of which, 50% is taxable at a 42% marginal tax bracket.

Therefore, \$97,573.80 ends up being owed for taxes and your net after tax profit for 30 years of diligence is in your non RRSP account is \$367,063.35!

Now!

The difference in net after tax profit between this the "meltdown" strategy and "The Canadian Way" (of allowing the \$50,000 RRSP to just grow for 30 years - as we have seen earlier) is \$75,928.88 BETTER for you.

I don't know about you but that alone is reason enough to seriously contemplate the RRSP/RRIF meltdown.

The following chart illustrates another way Canadians save for their retirement using RRSPs.

This chart shows a Canadian with \$100,000 in RRSPs, that if left to grow will have an approximate market value of \$786,764.86! Not bad for 30 years of effort. (This dramatically shows the importance and impact of having more money growing for you sooner!)

Now, unfortunately all the embedded tax deferrals come "home to roost" on this RRSP account and it will be taxed at your marginal tax rate (we are assuming 42%). So you are going to have to hand over \$330,441.24 to the "tax man" which leaves you with \$456,323.62 for your time and effort. Ouch!

"The Canadian Way" – Lump Sum Invested

<u>Client Age(s)</u>	<u>Year</u>	<u>Annual Returns</u>	<u>Canadian Balanced Fund RRSP</u>
35/30	2005		<u>\$100,000.00</u>
36/31	2006	-7.4	\$92,600.00
37/32	2007	18.9	\$110,101.40
38/33	2008	28.3	\$141,260.10
39/34	2009	6.2	\$150,018.22
40/35	2010	19.7	\$179,571.81
41/36	2011	4.5	\$187,652.54
42/37	2012	1.2	\$189,904.37
43/38	2013	12.3	\$213,262.61
44/39	2014	17.7	\$251,010.09
45/40	2015	-12.4	\$219,884.84
46/41	2016	17.8	\$259,024.34
47/42	2017	1.8	\$263,686.78
48/43	2018	27.2	\$335,409.59
49/44	2019	-2.2	\$328,030.58
50/45	2020	13.8	\$373,298.80
51/46	2021	27.6	\$476,329.26
52/47	2022	7.7	\$513,006.62
53/48	2023	-5.4	\$485,304.26
54/49	2024	15.2	\$559,070.51
55/50	2025	11.3	\$622,245.48
56/51	2026	-2.3	\$607,933.83
57/52	2027	-6	\$571,457.80
58/53	2028	12.9	\$645,175.86
59/54	2029	8.3	\$698,725.45
<u>60/55</u>	<u>2030</u>	<u>12.6</u>	<u>\$786,764.86</u>
		<u>9.20%</u>	
		Avg. Ann.	RRSP
		Compound	
		Return	

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Now let's look at another "meltdown" scenario.

"The UnCanadian Way"

Client Age(s)	Year	Annual Returns	Canadian Balanced Fund RRSP	Annual Withdrawal from RRSP	RRSP Value After Withdrawal	Annual Returns	Canadian Balanced Fund (loan owing)	Deductible Interest Cost 7.5%
35/30	2005		\$100,000.00				\$200,000.00	
36/31	2006	-7.4	\$92,600.00	\$ (18,000.00)	\$74,600.00	-7.4	\$185,200.00	\$ 15,000.00
37/32	2007	18.9	\$88,699.40	\$ (18,000.00)	\$70,699.40	18.9	\$220,202.80	\$ 15,000.00
38/33	2008	28.3	\$90,707.33	\$ (18,000.00)	\$72,707.33	28.3	\$285,520.19	\$ 15,000.00
39/34	2009	6.2	\$77,215.18	\$ (18,000.00)	\$59,215.18	6.2	\$303,222.44	\$ 15,000.00
40/35	2010	19.7	\$70,880.57	\$ (18,000.00)	\$52,880.57	19.7	\$365,957.26	\$ 15,000.00
41/36	2011	4.5	\$55,260.20	\$ (18,000.00)	\$37,260.20	4.5	\$379,290.34	\$ 15,000.00
42/37	2012	1.2	\$37,707.32	\$ (18,000.00)	\$19,707.32	1.2	\$383,841.82	\$ 15,000.00
43/38	2013	12.3	\$22,131.32	\$ (18,000.00)	\$4,131.32	12.3	\$431,054.37	\$ 15,000.00
44/39	2014	17.7	\$4,862.56			17.7	\$407,350.99	(\$200K loan gone)
45/40	2015	-12.4	\$4,259.61			-12.4	\$217,456.67	
46/41	2016	17.8	\$5,017.82			17.8	\$256,163.96	
47/42	2017	1.8	\$5,108.14			1.8	\$260,774.91	
48/43	2018	27.2	\$6,497.55			27.2	\$331,705.68	
49/44	2019	-2.2	\$6,354.60			-2.2	\$324,408.16	
50/45	2020	13.8	\$7,231.54			13.8	\$369,176.48	
51/46	2021	27.6	\$9,227.44			27.6	\$471,069.19	
52/47	2022	7.7	\$9,937.96			7.7	\$507,341.52	
53/48	2023	-5.4	\$9,401.31			-5.4	\$479,945.08	
54/49	2024	15.2	\$10,830.31			15.2	\$552,896.73	
55/50	2025	11.3	\$12,054.13			11.3	\$615,374.06	
56/51	2026	-2.3	\$12,331.37			-2.3	\$601,220.46	
57/52	2027	-6	\$11,591.49			-6	\$565,147.23	
58/53	2028	12.9	\$13,086.79			12.9	\$638,051.22	
59/54	2029	8.3	\$14,173.00			8.3	\$691,009.48	
60/55	2030	12.6	\$15,958.80			12.6	\$778,076.67	
		9.20%		\$ (144,000.00)		9.20%		\$ 120,000.00
		Avg. Ann.	RRSP	Ttl. Withdrawal		Avg. Ann.	Non-RRSP	Ttl. Deductible
		Compound Return				Compound Return		Interest Cost

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Again, remember that **the concept is to transfer your 100% taxable dollars to 50% taxable dollars.**

The \$100,000 RRSP account grew to \$786,764.86 "The Canadian Way"!

Now, however, all the embedded tax deferrals come "home to roost" on this RRSP account and it will be taxed at your marginal tax rate (we are assuming 42%). So you are going to have to hand over \$330,441.24 to the "tax man" which leaves you with an after tax portfolio of \$456,323.62.

After 30 years, the \$100,000 RRSP account that was "melted down" (by year 8) stands at a fully taxable \$15,958.80 (After a total of \$144,000 has been withdrawn). This \$15,958.80 at a 42% marginal tax bracket would end up attracting \$6,702.70 in taxes with \$9,256.10 left over for you.

Now, the \$200,000 loan account (which was re paid in year 8) has grown to \$778,076.67, of which, 50% is taxable at a 42% marginal tax bracket.

Therefore, \$163,396.10 ends up being owed for taxes and your net after tax profit for 30 years of diligence is that your non RRSP account is worth \$614,680.57!

Now!

The difference in net after tax profit between this the "UnCanadian Way" "meltdown" strategy and "The Canadian Way" (of allowing the \$10,000 RRSP to just grow for 30 years - as we have seen earlier) is \$158,356.95 BETTER for you.

I could go on with other variations on the "meltdown" but I think that you get the idea.

Arbitrage - The Ultimate Game

Have you ever wondered how the bank and lending institutions make money? Well, wonder no more.

Essentially, they buy money whole sale and sell it retail.

Have you ever considered why the interest you get paid by your financial institution on your savings and GIC rates is so low while the interest you are charged on your mortgage is so much higher? Well, now you know.

You should now understand that an arbitrage situation occurs when you borrow money at a lower interest rate then invest it to earn a higher rate of return.

Depending on the market, banks and credit unions are willing to pay depositors 2 to 4 percent interest on savings accounts, money market accounts, term deposits and GICs (Guaranteed Investment Certificates). Why? Because they are confident they can invest the money or loan it back out in the form of LOCs (lines of credit) and mortgages - earn a higher rate of return than the cost of the funds - and turn a profit.

Banks and savvy investors have used the concept of arbitrage to amass fortunes for years.

Throughout this book, I have illustrated how you can potentially make hundreds of thousands of dollars by borrowing funds with a net after-tax cost of approximately 4.64 percent (assuming a gross interest rate of 7.5 percent) and investing the loan proceeds in tax-advantaged investments, growing conservatively at 6 to 8 percent.

As a Canadian investor, YOU have the final say on where your investment and saving dollars go – and what those returns should be.

So, if it makes sense for the banks to do it – why not become your own banker (get rid of the middleman) – and begin creating your own wealth!

My Fellow Canadian - Don't Miss Out on Your Fortune

If you have read this far – I congratulate you!

Remember, the rules of investing hold even truer today than ever. Diversify! Don't put all your eggs into one basket. Wouldn't you rather be 50% right than 100% wrong?

You still need a balanced and well-planned approach to saving and accumulating wealth for your other goals in life. And money – or the quick access to money via RRSPs and non registered investment portfolios will be what funds your goals and retirement lifestyle.

If you are interested in exploring your unique and personal situation let me know. Tailor-made solutions are achievable for those who take the time to explore the "meltdown" technique and apply it sensibly.

Remember, it's all about you!

Enjoy the ride and Best of Success!

Cheers!

A handwritten signature in blue ink that reads "Mark Huber". The signature is written in a cursive style and is set against a light yellow rectangular background.

Mark Huber, CFP

"It's Your Life! Plan For It! Then Live Like You Mean It!"

Mark Huber, CFP is also author of - "The UnCanadian Way" series of reports, Ebooks, audios and videos...

Check out the full library of resources here at:

<http://HowToBeSetForLife.com/resources>

About the Author

Mark Huber is a proud Canadian living with his wife in scenic Richmond, British Columbia, Canada.

For over 22 years, Mark has worked in the financial services industry. The focus of Mark's financial planning advisory practice is focused exclusively to British Columbian (BC) Canada residents.

Mark's boutique planning practice works with a select group of clients who all share a passionate vision for creating true wealth and living their dream lives.

Mark is author of "The UnCanadian Way" series of eBooks and audios. These powerful resources share innovative ideas and wealth building strategies to Canadians so that they will never again view their home, their mortgage, their debts, or their assets in the same way again.

Visit: <http://HowToBeSetForLife.com/resources>

Mark also maintains a premier financial planning site at:
<http://HowToBeSetForLife.com>

Another of Marks partner sites is here at: <http://HowToGetRidOfYourMortgage.com>



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-The End-

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