

CASE IN POINT

Sales Tax Estate Planning Underwriting & Product Newsletter

RRSP Contributions for Working Seniors



Stan is turning 71 this year. He is enjoying a life filled with travel, relaxation and time with his family. Like more and more people, work is very much a part of his life. Stan expects to work at least part-time for the foreseeable future. To Stan, this keeps his mind active and helps define who he is. He would like the opportunity to claim Registered Retirement Savings Plan (RRSP) deductions after age 71 even though he knows he must mature his own plan at that time. What are his options?

One thing that Stan can do is contribute to a spousal RRSP until his spouse, Nelly, reaches age 71. His contributions are limited to 18% of his previous year's earned income. Those deposits to Nelly's plan do not affect Nelly's ability to contribute to her own plan provided she has earned income or unused contribution room. Stan gets to take advantage of tax deductible contributions. Nelly benefits from asset splitting, since she gains from the tax sheltering in her Registered Retirement Savings Plan. The couple can benefit from income splitting later since Nelly declares the income coming out of her matured Registered Retirement Savings Plan, either in the form of an annuity or a Registered Retirement Income Fund.

2016, Issue 11



Peter A. Wouters,
Director, Tax
Retirement &
Estate Planning
Services, Wealth

Peter works with independent advisors and other professionals raising awareness on issues and concerns faced by affluent individuals, professionals and business owners. He supports efforts in researching and developing optimal solutions for clients aimed at improving their financial well-being and supporting their personal wishes and lifestyles. He annually provides 100's of workshops, seminars and technical support throughout the country on tax, retirement income and estate planning issues, concepts and strategies to both advisors and consumers. As a Registered Financial Gerontologist, a good deal of his time is spent on building awareness and educating people of all professions who work with or specialize in the needs, expectations and issues of elders. Comprehensive lifestyle planning is an important element of these processes.

The Sales, Tax, Estate Planning, Underwriting & Product (STEPUP) team provides internal and broker support, including seminars, education, advanced concept illustrations & Client case technical consultations.

Peter can be reached at
peter.wouters@empire.ca

Case in Point

Stan has always maximized his Registered Retirement Savings Plan contributions. He could consider an over contribution to his own plan. He can make excess contributions to his Registered Retirement Savings Plan before he matures his plan by the end of the year in which he turns age 71. Stan has earned income this year of \$80,000. That means he will have $(\$80,000 \times 18\%) = \$14,400$ of contribution room next year. Stan can contribute next year's contribution room in December of this year, just prior to maturing his Registered Retirement Savings Plan.

This strategy will result in a penalty for the month of December to the extent that his excess contribution is over \$2,000. Taxpayers are allowed a \$2,000 over contribution without penalty. The penalty is 1% per month. Specifically, Stan will be charged an over contribution penalty of $(\$14,400 - \$2,000) \times 1\% = \$124$.

Stan's over contribution scenario vanishes on Jan 1st of next year because he will be entitled to \$14,400 of contribution room based on his prior year's earned income. The deduction more than offsets the comparatively small penalty. The Registered Retirement Savings Plan deposit can either boost his annuity income or his Registered Retirement Income Fund (RRIF) balance, with most of that extra money enjoying some ongoing tax sheltering.

What else does Stan need to do? He will have to file Form T1-OVP which will report his over contribution to the Canada Revenue Agency (CRA). He needs to file the form and pay the penalty 90 days after the end of the current year.

This information is for general information purposes only and is not to be construed as providing legal, tax, financial or professional advice. Empire Life Investments Inc. and its affiliates assume no responsibility for any reliance on or misuse or omissions of the information contained herein. Information obtained from and based on third party sources are believed to be reliable, but accuracy cannot be guaranteed. Please seek professional advice before making any decisions.

Empire Life Investments Inc., a wholly owned-subsiary of The Empire Life Insurance Company, is the Manager of Empire Life Mutual Funds and the Portfolio Manager of Empire Life Segregated Funds. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund and segregated fund investments. **Any amount that is allocated to a Segregated Fund is invested at the risk of the contract owner and may increase or decrease in value.** A description of the key features of the individual variable insurance contract is contained in the Information Folder for the product being considered. Segregated Fund policies are issued by The Empire Life Insurance Company.

® Registered trademark of **The Empire Life Insurance Company**. Empire Life Investments Inc. is a licensed user of this trademark.