

A *t a glance*

Helping You Understand Financial Planning and Investments

The ins and outs of spousal Registered Retirement Savings Plans (RRSP)

By Maria Amoroso

We all pay attention to lowering our income taxes during our earning years, but it's easy to overlook the importance of tax savings in retirement. An effective income-splitting tool to reduce the taxes you will pay in retirement is by contributing now to a spousal RRSP.

The mechanics of spousal RRSPs

Spousal RRSPs offer an opportunity for one spouse to contribute to an RRSP for the other spouse. The contributing spouse receives a tax deduction for the amount of the contribution, while the ownership of the RRSP assets belong to the other spouse.



When you're considering a spousal RRSP, it is important to consider yours and your spouse's financial circumstances at retirement as well as in the present. *For example*, you may be the higher income spouse today, however, at retirement you may be the lower income spouse. Consider these scenarios:

- You're currently the higher income spouse but do not have a pension plan, or your spouse has an excellent pension plan,
- You're currently the higher income spouse, but your spouse is expecting a large sum of income before retirement (i.e. inheritance),
- You're currently the higher income spouse, but your spouse started contributing to their RRSP much earlier than you, made larger and more regular contributions and/or earned higher returns on their investments.

As everyone's financial circumstances are different, it is always a good idea to consult a financial advisor when starting a new plan.

Are you eligible?

You're eligible to contribute to a spousal RRSP if you are legally married or are common-law (including same-sex) spouses who have lived together for at least one year, or have lived together for less than one year and have a child together.

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Know your contribution limits:

The total amount of your contributions to a spousal RRSP and your own RRSP can't exceed your personal RRSP contribution limit for the year. This amount is shown on your Notice of Assessment from the Canada Revenue Agency. Any contributions you make have no effect on your spouse's contribution limits.

For example, if you have \$10,000 of RRSP contribution room and your spouse has \$6,000, you can share your contribution any way you want between your RRSP and a spousal RRSP – as long as your total personal contribution and spousal contribution isn't greater than \$10,000. You could deposit the full \$10,000 in a spousal RRSP, and your spouse could still deposit \$6,000 into his or her own RRSP.

Do you want to make RRSP contributions past age 69?

You can't make contributions to your own RRSP after you turn 69. However, if you have a younger spouse, you can continue to make contributions to a spousal RRSP. If you still earn income, or you have unused RRSP contribution room carried forward from previous years, a spousal RRSP allows you to continue taking advantage of the tax-deferred growth opportunity provided by an RRSP until your spouse turns 69.

Beware of the 3-year rule

When your spouse withdraws funds from a spousal RRSP, the income is taxed in his or her hands. However, special rules apply to make sure the funds are earmarked for retirement and not as a tax-saving tool for use during your working years. These rules require that the funds remain in the spousal RRSP for the two calendar years following any deposit to the spousal RRSP. If the funds are withdrawn before that time, they'll be taxed in your hands.

For example, let's say your spousal RRSP is worth \$40,000, and you contributed all of the funds prior to 2000, except for a \$5,000 contribution in 2003. If your spouse withdraws \$9,000 in 2004, \$5,000 will be taxed as part of your income, since a contribution for that amount was made in one of the two calendar years preceding the withdrawal, and the remaining \$4,000 will be taxed as part of your spouse's income.

Because of the attribution rules, you should keep spousal RRSPs separate from non-spousal RRSPs, and make sure that your spouse contributes only to his or her plan, and not to the spousal plan you establish. And if the spousal RRSP is converted to a RRIF, be aware the same attribution rules will apply if your spouse withdraws more than the minimum RRIF payment within three years of any spousal RRSP contributions.

There is one way to make the 3-year period run faster—contribute to a spousal RRSP in December, rather than January. If you contribute to a spousal RRSP in December, 2004, your spouse can withdraw funds from it anytime in 2007 without the attribution rules applying – but if you wait until January, 2005 to make your contribution, the attribution rules will apply until 2008.

Using a spousal RRSP can be an important tool in your long-term financial planning, and can provide you with substantial tax savings in retirement—savings you can use to help realize your retirement dreams.

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