

## Unused RRSP deductions – a dormant source of income

Contributing to your RRSP is not always easy given the unexpected financial demands that arise during the year. However, if you don't make the maximum contribution to your RRSP, you might be doing yourself out of thousands of retirement dollars. Remember, you will still have many years ahead of you once you retire, so it is important to take the necessary steps to ensure that you will be able to live in financial security.

If you have not been able to contribute the maximum to your RRSP each year, you likely have deduction room. Shown on your federal income tax notice of assessment under "Unused RRSP deduction limit at the end of 200X", your deduction room indicates the cumulative amount that you have not deducted to your RRSP over previous years. You can defer this amount and make your deduction, in full or in part, in any subsequent year.

### The National Bank Mutual Funds Periodic Investment Plan<sup>1</sup>

An easy way to make up any unused deductions or to prevent them from accumulating further is to sign up for the National Bank Mutual Funds Periodic Investment Plan<sup>1</sup>. With this plan, you can invest regularly in one or more National Bank Mutual Funds while developing good savings habits. This way, you benefit from:

- *Flexibility*: You choose the amount and frequency of your payments that will be made electronically from your bank account and can be changed at any time without penalty.
- *Customized solution*: Your investor profile and financial means will be taken into account as well as whether you are looking for security, a steady income or a strong potential return.
- *Minimum contribution*: The minimum contribution required is only \$25 and no administration fees are charged to sign up for the plan.
- *Diversification*: You can choose from among more than 45 mutual funds.
- *Peace of mind*: You benefit from market upturns while minimizing the effect of downward slides because you buy fewer units when prices are high and more when they are low. This reduces the average purchase cost.

The earlier you invest in the National Bank Mutual Funds Periodic Investment Plan<sup>1</sup>, the more you will benefit from your investment.

Age	Contribution amount	Number of investment years	Amount invested	Value of investment at age 65
25	\$50 per month	40	\$24,000	\$99,575*
45	\$100 per month	20	\$24,000	\$46,204*

\* Calculations based on an annual compound return of 6%. Table shows the effects of compound interest.

If you start at age 25, you can contribute half as much each month and still earn \$53,371 more with the same total amount invested.

### RRSP Loan<sup>2</sup>

Depending on your current financial situation, an RRSP loan<sup>2</sup> could be a good way to make up your unused contributions or prevent them from accumulating. It can help you build up your retirement nest egg and you can pay back all or part of the loan using your income tax refund.

Let's assume that your maximum allowable RRSP contribution is \$4,000 and that your marginal tax rate is 50%<sup>3</sup>. You have saved up \$2,000 over the year which you'd like to put in your RRSP. You have two options :

- You can contribute the \$2,000, in which case you will receive a \$1,000 income tax refund that can then be invested. You will therefore have \$3,000 in total savings.
- You can take out an RRSP loan<sup>2</sup> of \$2,000 and contribute the maximum \$4,000 to your RRSP. As a result:
  - You will double your income tax refund to \$2,000 instead of \$1,000
  - You can repay your loan in full with your refund
  - You will have contributed \$4,000 to your RRSP rather than \$3,000
  - You will enjoy the financial benefits that come from higher contributions, which will make all the difference at retirement

This way, if you have cash on hand, a loan equal to your expected income tax refund is a more profitable solution because the loan repays itself while increasing your retirement income. If you do not have any cash, but have room in your budget for a \$200 monthly payment for example, you could:

- Make periodic deposits to your RRSP and invest your income tax refund.
- Take out an RRSP loan<sup>2</sup> for one year for an amount that would have \$200 monthly payments and apply your income tax refund to your loan to reduce the payments or pay it back more quickly.

It is important to mention that the interest on an RRSP loan<sup>2</sup> is not tax deductible.

To calculate the amount of an RRSP loan<sup>2</sup> that will be repaid in full with your income tax return, all you need to know is your marginal tax rate (see table) and the initial amount you have to contribute:

$$\text{RRSP loan}^2 = \frac{(\text{marginal tax rate multiplied by initial amount})}{(1 - \text{marginal tax rate})^4}$$

<b>Taxable income</b>	\$7,756 to \$27,094	\$27,095 to \$32,182	\$32,183 to \$54,194	\$54,195 to \$64,367	\$64,368 to \$104,647	\$104,648 and over
<b>Marginal tax rate<sup>5</sup></b>	29.4%	33.4%	38.4%	42.4%	45.7%	48.2%

If you would like more information on the National Bank Mutual Funds Periodic Investment Plan<sup>1</sup> or on our RRSP loan<sup>2</sup>, call our **TelNat Customer Service Centre at 1-888-483-5628 (options 5 and 3)**. You can also visit our website at [www.nbc.ca](http://www.nbc.ca) or drop by one of our branches.

<sup>1</sup> National Bank Securities Inc., the manager and distributor of National Bank Mutual Funds (the "Funds") is a wholly owned subsidiary of National Bank of Canada. There may be management fees and other fees associated with Fund investments. The Funds are not guaranteed nor insured by the Canada Deposit Insurance Corporation or any other government deposit insurance program. Their values change frequently and past performance may not be repeated. Please read the simplified prospectus carefully before investing.

<sup>2</sup> Subject to credit approval by National Bank of Canada. Certain conditions apply.

<sup>3</sup> The highest marginal tax rate in Canada for 2003 is 48.64% (Newfoundland). In Quebec, the rate is 48.22%.

<sup>4</sup> This formula is valid only if the taxable income, less contributions, remains in the same tax bracket. For example, someone with a salary of \$40,000 who makes an initial contribution of \$3,000 could, by applying the formula, borrow \$1,870 to make an additional contribution, for a total of \$4,870. The income tax refund will then be used to repay the loan. Since the salary in our example is \$40,000, the marginal tax rate applicable *before* contributions is 38.4%. After the initial and additional contributions are deducted, the marginal tax rate remains 38.4%, because the taxable income *after* contributions is \$35,130 (\$40,000 - \$4,870) which is still in the same tax bracket.

<sup>5</sup> 2003 taxation year, for Quebec residents only.