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Gender and money

There are investment and RRSP questions that women should be asking

By Kelley Keehn

Does gender make a difference when it comes to investing? Are Registered Retirement Savings Plans (RRSP) right for everyone? Should women ask different questions than men before making an RRSP contribution? With divorce rates hovering around the 50% mark, there's a good chance that women may find themselves unexpectedly living on a single income and dipping into their retirement savings. What women may not realize is that if they dip into their sheltered savings in a time of need, that money is fully taxed as income and they lose their contribution room forever.

Saving for retirement can also involve non-registered savings – funds held outside a tax shelter. Christine Davidson, former investment manager for CIBC Financial Planning Inc., insists that women must first have an emergency account.

“Women should set up a non-registered savings plan for times of need, before they ever consider saving for their retirement in a formal plan such as an RRSP,” said Davidson.

Consider non-registered savings

There are a number of situations whereby an investor should consider non-registered savings as opposed to the popular shelter. It's true that RRSPs have become much more flexible in recent years. The Canadian government allows contributors to use their funds to purchase a home for the first time, and even for their education, but the funds do need to be paid back. But what about unexpected surprises and expenses? An RRSP is fully taxed when withdrawn and should never be thought of as an emergency account. Investors are wise to consider a non-sheltered account before allocating their entire savings within a tax shelter such as an RRSP.

Wayne Taylor, president of the Canadian Association of Pre-Retirement Planners, echoes the sentiment of Davidson. Taylor recommends that all clients have a balance between registered and non-registered investments.

He notes that although no couple anticipates divorce when signing the nuptials, women tend to be strong peripheral thinkers and sense when trouble in their relationship is imminent. Taylor suggests building a war chest of sorts, because a mid-life disruption of carving up an RRSP account can be devastating on an investor's ability to retire comfortably.

Talk with a professional

With the March 1st RRSP deadline fast approaching, investors need to pause and talk with a financial professional about whether a tax shelter is their best option. One of the most common questions industry experts are asked by their clients is whether they should pay off their mortgage or focus on saving for their retirement. A popular strategy is to address both. While many Canadians rate paying off their mortgage as their top financial priority, this strategy, long-term, may force them into an "asset-rich, cash-poor" retirement. Investors might consider an annual strategy of investing in an RRSP account, then utilizing the tax refund generated from this investment to pay off their mortgage.

In addition to the tax-deferred growth that an RRSP offers, investors also benefit from the tax deduction produced by this shelter, which is based on the contributor's marginal tax bracket. The average investors need to be aware that they are allowed to carry their unused contribution room forward indefinitely. They can save outside a tax shelter and then, if it's in their best interest, to roll those savings into an RRSP; they may do so at any point. Davidson also points out that it always depends on an individual's tax bracket as to whether an RRSP makes sense in any particular year. If this is an extremely low income-earning year for example, investors may wish to defer their contribution until a later, higher income-earning period. Contribution room is not lost and can be carried forward.

Clear up "bad debt"

Let's consider "good debt" and "bad debt." Other questions investors should ask include whether to take out an RRSP loan if they haven't saved outside of a shelter in advance. With relatively low interest rates for such loans and the immediate tax deferral of the investment coupled with the tax refund, an RRSP loan can be thought of as good debt. If your credit card balances are high and your interest rates are in the double digits, that "bad debt" should be cleared up first because it's unlikely your investments will guarantee a return equal to that which is being paid to your credit card company.

Before rushing out to make that RRSP contribution, consider the "gender factor." Women need to examine the impact that their unique situation could have on their finances today and their retirement in the future.

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