

# Should you invest in an RRSP?

Elliot Schiller

It's that time of year again – RRSP season. So I thought I'd switch direction this month and concentrate my column on personal finances instead of business funding help. Below are the pros and cons of RRSP investing as I see them, to let you decide exactly what's right for you.

## THE 'PROS' OF INVESTING IN AN RRSP

Statistics Canada continues to report that a large majority of taxpayers don't invest in an RRSP. If you're one of them, you were penalized for your decision by paying more tax than someone in the same income bracket who did invest. Furthermore, you lost a great opportunity to accumulate wealth at a return on investment (ROI) that is unbeatable to the average taxpayer. Let me explain.

First, let's examine the mathematics of investing in an RRSP. Let's say you have \$60,000 in taxable income, after standard individual/child deductions, but before any RRSP investment. Your average tax rate, province/territory dependent, is anywhere from 18% (Nunavut) to 25% (Quebec). Let's use Ontario (20%) as our example, as it's on the lower side and will represent a conservative estimate of the financial value of an RRSP.

RRSP contributions are 18% of your previous year's earned income. Assuming your previous year earned income is similar to this year, you're entitled to invest approximately \$11,000 into an RRSP. If you pay taxes in Ontario, and don't take advantage of the RRSP tax benefit, your tax payable will be approximately \$12,000. If you instead invest in an RRSP, then you'll pay approximately \$8,500 in taxes. In other words, you invest \$11,000 and get a tax break of \$3,500. Or, to re-state, you actually invested \$7,500 and the rest of your investment came from the federal and provincial governments. And the \$11,000 in the bank in the form of an RRSP is in your name, not the government's. That's equivalent to an immediate non-taxable ROI of 46%.

But, you might say, that's fine and dandy if you have \$11,000 to invest. What if you don't? Here's where the cons start to kick in. Returning to our example taxpayer, if he/she has enough disposable income to pay back the \$11,000 loan within 12 months, which nets out to \$7,500 after you use the government refund cheque(s) of \$3,500, then, no problem. There isn't a major bank in Canada that won't loan you the \$11,000 at prime, as long as your RRSP investment is with their institution. The current prime rate is 4%, meaning that you will pay \$240 in interest for the year. Now, filtering that cost into your ROI, it's still a whopping 42%.

In other words, worst case scenario: 42% ROI; best case scenario 46% ROI – and that's on day 1. Assuming you invest in something which gains only 4% per annum (prime), then after one year, you would have gained approximately \$240. Or, as Denzel Washington's character in Philadelphia would have requested, explain it to me like I'm a four-year-old. So here goes: you spend either \$7,500 all at once or \$645 monthly for 12 months to have \$11,000 in the bank on day 1, or else you pay \$3,500 extra in taxes with nothing in the bank to show for it.



## THE 'CONS' OF INVESTING IN AN RRSP

If it's that rosy, then why isn't everyone taking advantage of the tax break? There are a few problems with RRSP investing. First, you have to have enough disposable income to pay back the loan in 12 months. Second, many people feel that you aren't really saving taxes, you're simply deferring them. They argue that once they turn 71 and are forced to begin withdrawing their RRSP funds, the large amount of RRSP dollars that they have accumulated keeps them in a high tax bracket. Whereas, if they had just paid the taxes when they were younger, they would now be in a lower income bracket, and get the tax break in their senior years. True, but would they have accumulated wealth as easily as a forced RRSP would accomplish (not to mention the government kick-in that boosts the ROI to over 40%)? Thirdly, this money is for retirement; it's not a rainy-day fund.

So here's the bottom line, as they say: Your choice – pay extra taxes now, or let the government help you save for the future.

I wish you a very happy holiday season and thank you for your ongoing support of this column.

Elliot Schiller is a Director at Toronto's Teeger Schiller Inc., a company that specializes in obtaining government funding. His clients receive over \$5 million annually to support their ongoing business innovation. E-mail [eschiller@teegerschiller.com](mailto:eschiller@teegerschiller.com), visit [www.FundingHelp.ca](http://www.FundingHelp.ca) or phone 1-888-816-0222 Ext. 102.



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## David Teeger

### Director

David Teeger C.A., C.A. (S.A.) graduated as a Chartered Accountant in South Africa, and upon arrival in Canada he obtained his Canadian C.A. designation and joined Richter & Associates, a management consulting firm, where he concentrated his practice on various business sectors including household goods, fashion, automotive parts, public associations, and retail chains. He performed many roles in his 15 years at Richter, including managing the professional services organization in North America and all business operations throughout Europe.

David's professional capabilities include computer audits, feasibility studies, system analyses and assistance in the selection, negotiation and implementation of computerized solutions.

As a founding partner of Teeger Schiller Inc., he has focused his practice on consulting to management. His team of professionals has helped businesses select and successfully install a variety of ERP business solutions and add-on systems including business intelligence solutions to give new life to existing computer systems. David's clients not only rely on him to successfully manage the implementation of their new systems, but to manage the change that occurs in their organizations as a result of the use of these new tools.



## Elliot Schiller

### Director

Elliot Schiller, Ph.D., C.M.C. began his career as a Chemical Engineer working for Grumman Aircraft, in Long Island, New York. He obtained his Ph.D. at the University of Pittsburgh with funding from the U.S. Atomic Energy Commission, and, after being awarded a Presidential Fellowship, he went on to perform research and development activities at Brookhaven National Laboratory.

Since coming to Canada, he has primarily assisted consumer products and retail organizations in a variety of strategic management initiatives, traveling around the globe on behalf of his clients. In 1987, Elliot joined Richter & Associates, and it is here that he first met David Teeger.

As a founding partner of Teeger Schiller Inc., he has focused the SR&ED / Grant Division on obtaining grants and tax incentives for over 100 companies in the small to medium sized business sector. His team has provided services to the discrete / processing manufacturing, material development, textiles, apparel, automotive and computer sciences sectors. Annually, Teeger Schiller Inc. secures more than \$5 million in government funding to assist its clients in having their business initiatives supported by government funding.



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