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Types of RRSPs

How do you choose an RRSP? First you must realize that an RRSP is not an investment. It is simply a type of trust account that has been set up to receive your tax-deductible contributions. Once the money has been contributed then you must buy an investment.

RRSPs can generally be grouped in three ways according to the limitations of the trustee. The three groupings are: Single Investment / Single Supplier RRSPs, Multiple Investment / Single Supplier RRSPs, and Multiple Investment / Multiple Supplier RRSPs.

RRSPs are offered by Banks, Trust Companies, Life Insurance companies, Credit Unions, Caisse Populaires, Mutual Funds and Investment Dealers.

Single Investment / Single Supplier RRSPs

These plans will only allow a single type of investment within each RRSP. The investment may be one of: a savings account, a term deposit or GIC. The advantage of these types of RRSPs is that they are simple to use. The drawback is that if you want to transfer from one type of investment to another, it is troublesome to do so.

Banks, Trust Companies, and Credit Unions usually offer these plans. Usually no fee is charged. This should be determined before you invest, as some institutions do charge an administration fee or a termination fee.

Savings Account RRSPs are prone to advertise interest rates heavily just before the deadline for RRSP deposits. Therefore, before investing in this type of Plan, ask for a history of the rates paid for the past few years and how often interest is compounded. Since many Plans pay interest on a minimum monthly balance, the best time to buy is on the first day of the month.

RRSPs that are invested in term deposits or GICs are issued for a specific period of time and at a guaranteed rate of interest, usually not longer than five years. GIC and Term Deposit RRSPs guarantee the principal amount of your deposit at the maturity of the investment term, while providing a constant rate of interest.

They are usually offered by Trust Companies, Banks and Credit Unions, but more and more Life Insurance Companies and Mutual Fund Companies are becoming active in this area. Often there are no fees involved, but check for these carefully before investing. You may find one company is offering 6% interest, but is charging 1/2 of 1% administration fee, while another is paying 5 3/4% with no fees. Also check the interest features. For example, if the deposit is compounding, how often does this take place? Some plans offer quarterly compounding, while others feature semi-annual or annual compounding.

Multiple Investment / Single Supplier RRSPs

These plans offer many different types of investments within the RRSP. However the investments must be from the financial institution's own. The investments may be any of: savings accounts, term deposits or GICs, or mutual funds. The advantage of these types of RRSPs is that you can keep better track of all your investments within the RRSP and you can transfer from one type of investment to another without hassle.

These types of RRSPs are offered by Trust Companies, Investment Dealers, Credit Unions, Mutual Fund Companies, banks and many Life Insurance Companies.

There is normally an investment and/or administration fee, and in some cases a commission is paid to the sales agent. This is usually referred to as a "front-end" load.

There are a variety of mutual funds that qualify as investments for an RRSP. They can be classified by the type of investments they hold.

Money Market Funds

This type of mutual fund pools the deposits of individual investors and buys money market instruments like Treasury Bills, Commercial Paper, and short term Bonds. The unit value on these funds does not fluctuate, however, the interest rate changes from time to time.

Fixed Income Funds

These mutual funds invest in residential Mortgages, and government or corporate Bonds and Debentures. Fixed Income Funds will invest in all of these investments. Mortgage Funds invest mainly in Mortgages, and Bond Funds invest primarily in corporate, municipal, and government Bonds.

The unit value of these Funds fluctuate according to the underlying value of their assets which are measured against prevailing interest rates on the day the unit value is calculated.

Equity Funds

This group pools the deposits of individual investors and invests in Common Stocks. Investors receive units of a diversified or specialized common stock portfolio and, depending on the movement of the stock market, the units of these Funds fluctuate, and in some cases can be quite volatile.

Balanced Funds

A Balanced Fund invests in both Fixed Income investments and Equity investments and from time to time in Money Market investments. It is up to the Fund's investment manager to choose the appropriate asset mix.

These Funds will fluctuate in value; however, these Funds will not be as volatile as Equity Funds.

Specialty Funds

These funds invest their assets in specific markets such as Precious Metals, Natural Resources or other Countries. The unit value of these Funds will fluctuate the most of all the mutual funds.

Multiple Investment / Multiple Supplier RRSPs

This type of Plan has been set apart from the groups already mentioned because it relies on the Planholder to set investment policy, rather than an institutional fund manager. A Self-Directed RRSP is usually offered by a Trust Company that acts as the Trustee of the Plan. Investment Dealers and Banks also offer these Plans directly.

The most important thing to remember about Self-Directed RRSPs is that the Planholders are solely responsible for investing the assets of the Plan. Therefore, this type of Plan usually appeals only to the more sophisticated investor, with larger RRSP deposits.

Eligible investments for self-directed RRSPs include:

- money in Canadian currency,
- Canada Savings Bonds,
- bonds, notes, debentures or similar debt obligations issued or guaranteed by the Canadian government,
- bonds or debentures of Canadian corporations listed on a stock exchange,
- shares of a listed Canadian corporation,
- shares listed on certain foreign stock exchanges,
- warrants or rights listed on stock exchanges,
- units or shares of investment funds or insurance company pooled funds,
- annuities issued by a Canadian financial institution,
- shares or interests in a credit union,
- Mortgages in Canadian real estate and shares in mortgage investment companies,
- shares and other investments in certain Canadian private small businesses.

Most of these types of Plans today operate on a \$100 to \$200 per year administrative fee, but some still charge activity and termination fees, so check carefully before deciding. Some Self-Directed RRSPs also offer the advantage of discount brokerage service on stock trades, which can produce an attractive saving over regular commissions.

