The Empire Life Insurance Company (Empire Life) offers competitive individual and group life and health insurance, investment and retirement products to help you build wealth and protect your financial security. We manage investments and funds for our customers following a conservative, value-oriented philosophy that helps grow and preserve wealth.

We are among the top 10 life insurance companies in Canada[1] and are rated A (Excellent) by A.M. Best Company[2]. Our vision is to be the leading independently owned Canadian financial services company committed to simplicity, being easy to do business with and having a personal touch.

[1] *Based on general and segregated fund assets reported in 2008 company annual reports*
[2] *As at June 12, 2009*

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Empire Life®

(01/10)

RRSP Freeze/Meltdown

Invest in your future and theirs

Ideal for those with RRSPs looking to increase their holdings and minimizing tax on their income, with the ability to pass on excess to their heirs

Empire Life®

RRSP Freeze/Meltdown is a strategy that reallocates registered retirement savings into a non-registered portfolio. The systematic process takes advantage of preferred tax treatment on assets generating dividends and capital gains. A non-registered portfolio is established with a bank loan. Transfers of registered assets are used to pay the interest on a loan. Redirected RRSP deposits can also be used to service a loan. The original RRSP asset either remains the same or is totally replaced over time by a non-registered portfolio.

Challenges for high-income earners and RRSP rich assets

All growth in an RRSP is tax sheltered. Maximum tax deferral is limited to the year in which the plan holder reaches age 71. Maximum tax deferral on death is generally available only when the unused portion of the plan is rolled over to an RRSP of a surviving spouse.

All withdrawals are fully taxed which may cause claw-backs to government benefits like Old Age Security. The tax-preferred treatment of dividends and capital gains is lost in an RRSP.

RRSPs limit contributions and all income is fully taxed. This may reduce the amount of spendable income needed during retirement.

Options to enhance long-term savings.

Investors can immediately set up a complementary, balanced portfolio of non-registered investments or systematically reduce their RRSP holdings without paying any net tax. They can benefit using other people's money. Income from non-registered savings can potentially reduce the tax burden associated with RRIF or annuity payments and increase eligibility for a number of tax credits geared to seniors.

A bank loan is used to set up a non-registered portfolio of assets with a high equity component. RRSP withdrawals and/ or redirected RRSP deposits pay the interest on the loan.

How does it work?

Current tax laws permit the growth in a non-registered investment to grow on a tax-preferred basis. Unrealized capital gains in equity investments grow tax-deferred until:

1. the investment manager sells something within a portfolio or
2. when the plan holder makes an investment change or withdrawal.

The size of the RRSP withdrawals matches the size of the interest payments on the loan. Properly structured, the tax deductions on the loan interest offset the tax triggered on RRSP withdrawals.

Although the loan does not have to be repaid until death, it is usually paid off once the original RRSP is reduced to zero.

Later, the loan is retired from growth in the non-registered portfolio. Although repayment of the loan could be deferred until the death of the investor, the meltdown strategy often retires the loan once the original RRSP asset is reduced to zero. This results in no out of pocket loan expenses.

The right type of candidate

The overall strategy is best suited for investors who display at least a moderate to moderately aggressive risk profile and are in the upper tax brackets.

The RRSP freeze strategy is best suited to people whose only long-term retirement asset is an RRSP and who see the value in having a balanced approach to retirement planning, using registered and non-registered investments.

The meltdown strategy is best suited to people between the ages of 40 and 60 who have large RRSP holdings. Their existing RRSPs contain significant amounts of equity investments which generate capital gains growth and dividends. They recognize and value the benefits of tax-preferred growth and want to reduce the amount of tax they are paying on income generated from their assets. They are also interested in getting more money working for them. In all cases, investors have a solid credit history.