

Understanding RSPs

Your Guide to Retirement Savings Plans

Getting Started

- Some retirement basics

Getting Ahead

- Setting your retirement savings goals

Getting the Most

- Maximizing your RSP growth



BMO  **Financial Group**

Making money make sense™

Getting Started — Some Retirement Basics

“How do I plan for a financially secure and comfortable retirement?”

The question is always worth asking, whether you’re just starting out or you’ve been in the workforce for many years. The answer, however, will largely depend on your personal circumstances and the amount of savings you have accumulated for retirement income.

Part of your retirement income will come from government plans, such as the Canada Pension Plan (CPP) and Old Age Security (OAS), however these plans tend to replace only a portion of your income¹. While you may have a company pension plan that will provide income in retirement, it may not be enough to provide the ideal lifestyle in your next stage of life. In fact, more than half of the pre-retirees surveyed for The BMO Retirement Trends Study, conducted for BMO Financial Group by Ipsos Reid, said they expect to be working at least part-time in retirement².

Even with the possible sources of income available, many Canadians will still need to supplement their retirement income. The best way to achieve a secure and comfortable retirement is by contributing to a Retirement Savings Plan (RSP).

What is an RSP?

The Government of Canada has created a number of “registered” programs to make it easier and more efficient for Canadians to save and invest for specific purposes.

An RSP is a registered account designed to help people who earn income from a job or a business build a nest egg for retirement. Within your RSP, you can hold a range of investments, including Guaranteed Investment Certificates (GICs), term deposits and mutual funds. If you select a self-directed RSP, you can also hold investments such as stocks and bonds. The investments inside your RSP can be as conservative or aggressive as you wish, and they can be changed as often as needed to match your evolving financial situation and investment goals.

¹ For more information about government-sponsored plans, visit www.hrsdc.gc.ca.

² The BMO Retirement Trends Study, October 2005.

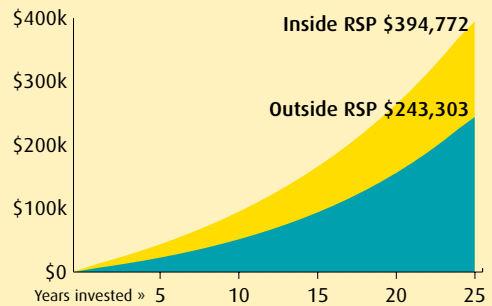


RSP tax advantages

One of the key reasons for investing within an RSP is the array of resulting tax advantages it can offer, including:

1. Every dollar you contribute to your RSP, up to your maximum contribution limit, is deducted from your previous year's taxable income.
2. Money grows inside an RSP on a tax-free basis until it is withdrawn. As long as the investments remain inside your RSP, they can be left to compound and grow tax-free.
3. When you reach retirement, it is likely that you will be in a lower tax bracket than while you were working. Withdrawing from your RSP at a lower tax bracket in the future gives you the added benefit of paying lower taxes at that time.

Benefit tomorrow from tax-deferred growth



Tip

Registered programs offer unique tax advantages that allow you to benefit today and over the long term.

Three simple ways to get started

Building an impressive nest egg for retirement does not have to be difficult. Consider these ideas to help you save.

1. Contribute regularly

If you contribute regularly to an RSP without making withdrawals, your retirement account can grow considerably. This growth is called “compounding,” which means that you’re earning interest on your interest³. Although making regular contributions requires discipline, you can take advantage of a Continuous Savings Plan (CSP) that makes saving easier and more convenient. Using a CSP, you simply authorize an automatic withdrawal of a set amount from a savings account on a regular basis for deposit into your RSP⁴.

2. Invest a lump sum

If you already have savings, simply move them into your RSP. Your money is instantly covered by tax sheltering and you can enjoy a significant tax deduction up to your maximum limit.

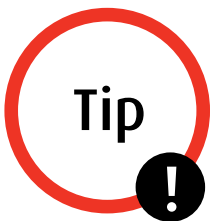


3. Borrow for an RSP contribution

With an RSP, the more you contribute, the greater the benefit. If you don’t have the cash on hand to make the contribution you’d like, an RSP loan is often an excellent solution.

³ To see an example, visit bmoinvesting.com/RSP.

⁴ Check out the CSP and Cash Flow calculators at bmo.com/mutualfunds.



If you'd prefer to trade your large annual tax refund for more cash each pay period, complete a "Deduction at Source" form with your employer, which will let you reduce the taxes withheld from each paycheque (forms available at cra-arc.gc.ca).

Why consider an RSP loan?

The potential tax savings from your RSP contribution, plus the return on your investment, often make the cost of an RSP loan minimal compared to the overall benefit to you⁵.

A sound retirement planning strategy

Spending some time with an investment professional at your BMO Bank of Montreal[®] branch can help you reach your retirement goals. BMO investment professionals have the knowledge and innovative planning tools to help you develop the strategy that is right for you.

RSP rules

- you must have a valid Social Insurance Number
- with eligible earned income, you can contribute until December 31st of the year in which you turn 71

- in general, you can contribute up to 18% of your previous year's earned income to the maximum contribution limit set by the government each year (provided by the Canada Revenue Agency in your previous year's Notice of Assessment)
- if your contribution is less than your maximum allowable contribution limit in any year, the shortfall is considered unused contribution room and can be carried forward to future years
- you can over-contribute a maximum of \$2,000 during your lifetime and deduct the over-contribution in future years — provided you have contribution room against which the deductions can be applied. If you exceed the \$2,000 over-contribution amount, a penalty tax of 1% per month will be levied on the excess amount
- if you are contributing to a spousal RSP, you can contribute until December 31st of the year in which your spouse turns 71.

⁵ Check out the RSP Borrowing Calculator at bmoinvesting.com/RSP for more information. Using borrowed money to finance the purchase of mutual fund units or other securities involves greater risk than a purchase using cash resources only. If you borrow money to purchase mutual fund units or other securities, your responsibility to repay the loan and pay interest as required by its terms remain the same even if the value of the mutual fund units or other securities purchased declines.

Getting Ahead — Setting your retirement savings goals

“How do I create a retirement savings plan to help me achieve my dream retirement?”

As a person and as an investor, you are unique. As such, your investment plan for retirement should be customized to fit your individual needs.

Managing risk in a portfolio

You should have no trouble sleeping at night if your plan takes into account your individual risk tolerance. If you want to know your money is completely secure, you can invest in any number of conservative investment vehicles. If you are comfortable with the additional risk of more aggressive investments, however, you may enjoy higher returns over the long term as a result.

Your risk tolerance, which is part of your total investor profile⁶, can be determined with the help of an investment professional at your BMO Bank of Montreal branch.

Building a diversified portfolio

With your personal circumstances and investor profile in mind (your unique investor profile includes your financial goals, risk tolerance, rate-of-return expectations, time horizon, liquidity and income needs, and tax situation), you can create a well-diversified portfolio by:

- holding investments in various asset classes
- investing in different instruments within each asset class.

Getting the right mix of assets to match your profile is a key factor in shaping your overall portfolio returns. A well-diversified portfolio ensures you are protected in case one of your investments underperforms, since all your eggs are not in one basket. And, by holding all three asset classes (cash and cash equivalents, fixed income, and equity), you will participate in the best-performing asset class every year.

⁶ Determine your investor profile at [bmo.com](https://www.bmo.com).



Combining principal protection with growth

Creating a diversified portfolio can also be achieved by adding principal protected investments to your portfolio mix. If your preference is to hold Guaranteed Investment Certificates (GICs) within your registered plan, it makes sense to consider a laddering strategy.

This strategy offers several benefits:

- you reduce the risk of having to renew your full investment if interest rates are low
- you can take advantage of higher interest rates as they become available
- you gain the potential for higher long-term investment value, as 5-year GICs traditionally offer the highest available rates.

If you are interested in guaranteeing a portion of the principal in your portfolio mix while still gaining access to upside growth potential, you may also want to consider BMO Progressive GICs^{®†}.

These market-linked investments deliver professional investment risk management and principal protection while adding increased diversification to your portfolio.

Building a Diversified Portfolio

CLASS	EXAMPLES	RISK/REWARD
Cash and Cash Equivalents	Premium Rate Savings Account, Cashable GICs, Canada Savings Bonds, Money Market and T-bill mutual funds	Virtually no risk; lowest potential for growth
Fixed Income	GICs, Bonds, Income mutual funds, such as Bond Funds	Low to medium risk; higher interest rates
Equity	Common or Preferred Stocks, and Equity mutual funds	No guarantee on future value but offers the greatest potential for growth
Alternate Portfolio Options	Market-linked and Principal Protected GICs	No risk to principal; potential for higher returns, if any



Ask about GIC strategies that can help maximize your return potential while protecting your principal investment.

Balancing retirement savings with your other financial needs

While contributing to an RSP has exceptional value for most taxpaying individuals, you probably have other financial obligations to consider. You may be paying off a mortgage or simply saving for a home. Here's a look at some common situations and some viable options to help you make the best use of your money.

1. Planning to buy a home

If you face a choice between saving for retirement or saving to buy a home, there is a smart way to do both. Be one of the many Canadians who have taken advantage of the Home Buyers' Plan offered by the federal government. The Home Buyers' Plan allows you to put up to \$25,000 of your RSP toward the down payment on a home and then gives you 15 years to repay the money to your RSP⁷.

2. Mortgage payment vs. RSP contribution

Many people wonder which is better – paying down their mortgage or saving for retirement through an RSP. In many cases, the answer is to do both. Let's assume you have:

- a 40% marginal tax rate
- \$3,000 that you would like to use as a payment toward your mortgage.

Step 1

Contribute the \$3,000 to your RSP. This contribution will provide you with a \$1,200 tax reduction.

Step 2

Pay down your mortgage using the \$1,200 you have saved in taxes as a result of your RSP contribution.

This two-step solution allows you to get the most out of your money by contributing toward both your retirement and your mortgage!

⁷ For details about the Home Buyers' Plan, visit bmo.com or www.cra-arc.gc.ca.

Turn to BMO Financial Group for the right investment solutions

Working with the member companies of BMO Financial Group has many advantages. You can rely on our dedicated investment professionals to provide the expertise and products you need to achieve your investment goals.

BMO Investor Profiler

Get a head start in learning what kind of an investor you are with the BMO Investor Profiler, a sophisticated but simple tool you can complete on your own. To access the BMO Investor Profiler, visit bmo.com/mutualfunds, and then click on “Choosing the Right Mix.” Or, if you prefer, an investment professional will be happy to complete a BMO Investor Profiler with you at your BMO branch.

BMO Investor Profiler:

- helps to determine the type of investor you are and helps you select the right mix of investments for you
- provides information on your financial goals, your investment timelines, and your level of risk tolerance.

BMO Mutual Funds

BMO Mutual Funds⁸ allow you to participate in virtually all types of stock and bond markets using a sound, diversified investment approach. Mutual funds pool your money with that of many other investors to purchase a wide array of investments. Each unit you own lets you share in a diversified portfolio of stocks, bonds, or both.

With BMO Mutual Funds, you benefit from:

- professional asset management
- a choice of low- to high-risk funds, depending on your investor profile
- a broad selection of domestic, international, and specialty funds
- a high degree of liquidity
- no fees to purchase or redeem
- automatic income reinvestment
- most funds require a minimum initial investment of only \$500 with additional contributions of just \$50.

⁸ Ask your branch for a copy of the brochure *Investing in Mutual Funds*.



BMO SelectClass™ Portfolios

BMO SelectClass Portfolios are a series of four risk differentiated portfolios constructed within a corporate class structure⁹ to allow you to accumulate capital in a manner as tax-efficient as possible. You can benefit from:

- Tax-deferred growth potential
- Tax-efficient monthly cash flow from Series T6
- Tax-free switching between other SelectClass Portfolios and classes of BMO Global Tax Advantage Fund Inc.
- Automatic portfolio rebalancing
- Professional money management

BMO Term Investments

Guaranteed Investment Certificates¹⁰ (GICs) can play an important role in a well-diversified RSP portfolio. They offer safety and security along with the potential for upside growth to help you achieve optimal investment risk management within your retirement savings plan. The benefits of GICs and BMO Progressive GICs[†] include:

- a guarantee that your initial investment is safe
- cashable options that allow you access to your money prior to maturity
- investment options designed to optimize your interest rate automatically, year after year
- investment options that guarantee your interest rate will grow over time
- investment options that allow you to participate in stock and other markets for upside return potential without risk to your original investment
- investments with all-in-one solutions to maximize diversification benefits.

⁹ Each BMO SelectClass Portfolio is a class of BMO Global Tax Advantage Funds Inc. BMO Global Tax Advantage Funds Inc. is a separate entity managed by BMO Investments Inc. a financial services firm and separate entity from Bank of Montreal.

¹⁰ Ask for your brochure *A New Look at Guaranteed Investment Certificates*.



Additional tools and worksheets are available to help you plan for your future. Visit **bmo.com** for many useful calculators, worksheets and additional detailed information on all our RSP products and services.

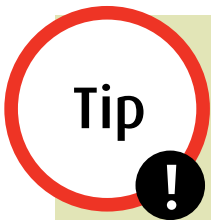
As your experience grows

As your investment confidence and level of sophistication grow over time, you may want to expand your investment portfolio to include stocks and bonds in addition to your mutual funds and GICs. These additional investment types can help you build an even more unique and diversified portfolio to achieve your long-term goals.

Feel free to use all the resources provided by BMO Financial Group, including BMO Nesbitt Burns® and BMO InvestorLine®.

BMO Nesbitt Burns can help sophisticated investors create customized wealth management solutions with the assistance of knowledgeable Investment Advisors who are backed by the country's top-ranked equity research team¹¹.

For investors who are ready to manage their own investments, BMO InvestorLine is an ideal choice to access leading-edge tools and resources to help you make smart investment decisions.



Be Prepared. A meeting with your BMO investment professional will be more productive if you arrive with the following information:

- a list of your sources of income and generally how much you earn
- a general list of expenses including rent or mortgage payments, car loan, monthly credit card payments, etc.
- an outline of your current savings and investments
- your latest Notice of Assessment outlining unused RSP contribution room
- a list of questions (and don't be afraid to ask them!)

¹¹ Brendan Wood International – 2006 Canadian International Equity Research, Sales and Trading Performance Report.

Getting the most — Maximizing your RSP growth

“How can I become a better investor?”

Whether your investments are inside a registered plan or not, there are a number of principles and steps to help ensure your investment plan succeeds.

Ways to maximize the growth of your money:

1. Invest early

The earlier you start investing, the more time your money has to grow and compound. By starting early, you may find that you can make a smaller total investment in your RSP and still be further ahead.

2. Invest regularly

A CSP makes saving easy and convenient. The value of your RSP can increase faster as a result of compounding.

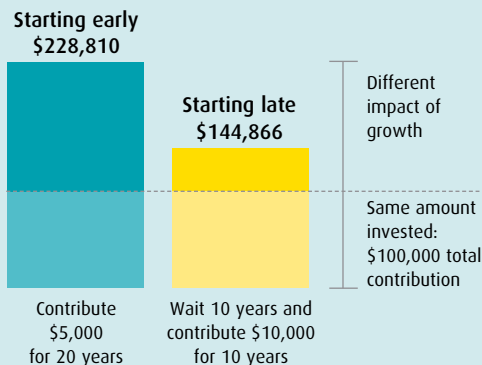
3. Diversify

Spreading your investment dollars across a wide range of investment vehicles is the best way to make your money work

It pays to start early

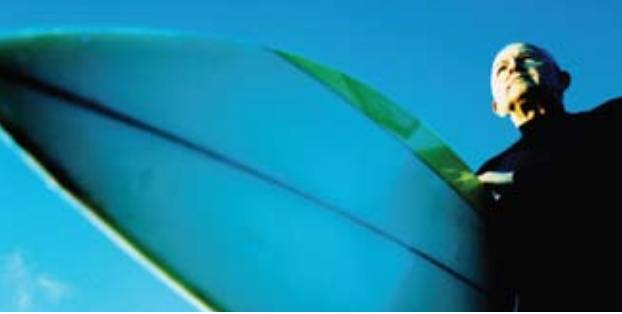
It's understandable that the younger you are, the less likely it is that you have much money to invest. Even if you don't have a lot of cash now, time is on your side.

RSP value in 20 years



Source: BMO Mutual Funds. Illustration is based on the assumption that investing occurs within an RSP and grows at an annual compound rate of 8%.

harder. Choosing a combination of GICs with staggered maturity dates (laddering), principal-protected investments offering upside return potential, and equity mutual funds are proven strategies for long-term investment success.



4. Take advantage of international investing

Canada represents just a small portion of the market opportunities that exist around the world. Over the long term, international markets have historically outperformed Canadian markets. And, increasing international diversification can actually decrease your portfolio risk, since you become less dependent on the performance of Canada's economy alone.

5. Stay invested

The nature of stock markets is that their values rise and fall over time. If you have chosen to diversify your investments into equities and equity mutual funds, you may be tempted to sell your investments when markets are down. However, history has shown time and again that markets do recover.

6. Maximize your RSP contribution

Money invested inside an RSP grows much faster than money invested in similar, non-registered investments. The reason for this is tax-deferred growth.

If you have contribution room and money sitting in ordinary savings accounts and other non-registered investments, it often makes sense to transfer that money to your RSP to maximize your contribution. It may also make sense to borrow to maximize your contribution, since the benefits can be so significant.

7. Spousal and common-law partner income splitting

With a Spousal RSP, you can defer taxes now and income split during retirement. A Spousal RSP works best if your spouse is in a lower tax bracket during retirement.

The benefits of Spousal RSPs include:

- the higher income spouse contributes to a Spousal RSP and receives a tax deduction at a higher marginal tax rate for the current tax year
- when funds are withdrawn from the Spousal RSP in retirement, the funds may be taxed at a lower rate in the hands of the spouse in the lower tax bracket, which reduces the combined tax liability.



Tip

Designate an appropriate beneficiary for your RSP to ensure your money goes to the people you care about without any hassle.

Take action!

Whether you speak to an investment professional at your BMO Branch, call BMO Direct Banking at 1 888 771-0123, BMO Investment Centre at 1 800 665-7700, or visit us online at **bmo.com/personal**, there is no better time than now to start building a comfortable nest egg for your retirement.

Looking forward: your retirement income

Your RSP savings will eventually become an important source of income, whether you retire early or convert your RSP in the year you turn age 71 (required by law). You'll have several choices for how to obtain your money including:

- cashing out of your RSP: the drawback is that a lump sum in a single year could mean a sizeable tax bill
- purchasing an annuity
- converting your RSP into a Retirement Income Fund (RIF), the choice of most plan holders.

Retirement Income Funds

Retirement Income Funds (RIFs) provide the opportunity to continue investing across asset classes and to defer taxes. RIFs also provide the flexibility to withdraw as much — or as little — income as you need each year to live, subject to minimums mandated by law.

When the time comes for your retirement, an investment professional can help you decide the best strategy for withdrawing retirement income effectively. For more information on your retirement income options, please refer to the brochure titled *Understanding Your Retirement Income Options*.



Ask

Ask how BMO Mutual Funds can cover a broad spectrum of asset classes, sectors, geographic regions, and management styles.



BMO Financial Group provides this brochure to clients for informational purposes only. Professional advice should be obtained with respect to any circumstance.

BMO Mutual Funds and BMO MatchMaker Portfolios are offered by BMO Investments Inc., a financial services firm and separate legal entity from Bank of Montreal.

Commissions, trailing commissions, management fees and expenses may be associated with mutual fund investments and the use of an asset allocation service. Please read the prospectus of the mutual funds in which investment may be made before investing, including mutual fund investments under an asset allocation service. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

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BMO GICs are issued by Bank of Montreal Mortgage Corporation and unconditionally guaranteed by Bank of Montreal.

BMO Progressive GICs are issued by Bank of Montreal Mortgage Corporation and unconditionally guaranteed by Bank of Montreal. While the principal amount of a BMO Progressive GIC is guaranteed and is repaid upon maturity, there is no guarantee of any return that is linked to the performance of underlying assets. Changes in the underlying assets (e.g. indices or securities to which the performance of the GIC is linked) may affect the rate of return of the GIC. The Terms and Conditions for BMO Progressive GICs are available at your local BMO Bank of Montreal branch.

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† Terms and Conditions for BMO Term Investments, including BMO GICs and BMO Progressive GICs are available at your local BMO Bank of Montreal branch. BMO Progressive GICs are not available in an RSP, if you turn 69 years of age before the investment’s maturity date.



Ask



We're here to help

BMO Financial Group offers many financial products and services which, in combination with a sound retirement plan, can help you develop an overall financial strategy that's right for you. No matter how far away or close your retirement is, an investment professional at your BMO Bank of Montreal branch is ready to help you develop a personal financial strategy or to ensure your current strategy is working.

For more information on how an RSP can work for you:

- drop by your local BMO Bank of Montreal branch and speak to an investment professional
- call BMO Bank of Montreal Direct Banking at 1-888-771-0123 or BMO Investment Centre at 1-800-665-7700
- visit [bmo.com/personal](https://www.bmo.com/personal)

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