

## RRSPs aren't just for Retirement

By Gail Vaz-Oxlade

There was a time when the only thing Registered Retirement Savings Plans were used for was retirement planning. Or so all the brochures said. "Never touch this money" the experts expounded. "An RRSP is a long-term investment" the specialists declared. But is it?

In reality, you can use your RRSPs for a multitude of purposes. Some people dip in when they quit their jobs to return to school to get that MBA or train for a new career. Couples with families dip in to provide income while one or the other is at home with their tots. People thrown into periods of unemployment because of declines in business and layoffs dip in to make ends meet. My girlfriend, Suzi, dipped in when she took a one-year sabbatical to play competitive bridge.

Then along came a government which introduced two perfectly acceptable ways to dip in without tax consequence: to buy a home or to fund your education. Now there are as many good reasons to pull the money out of an RRSP as there are to put it in. And this multi-purpose approach to RRSPs has to be considered when you're deciding what type of investment to buy within your RRSP.

It was fine when RRSPs were just for retirement and the gurus said, "Invest for the long-term: buy equities." A long term investment horizon — ten years or more — is fine for buying stocks and equity-based mutual funds. But if you're using your RRSP as a home ownership savings plan and expect to be jumping into the housing market in another four to five years, you don't have a long-term investment horizon. It doesn't matter that it's an RRSP. If you're planning to pull some or all the money out for a downpayment, you have a medium term horizon and shouldn't be in equities. Same holds true for people who plan to use some of their registered money to return to school. Ditto those who want to take time off to raise their families and choose to use their RRSP assets to finance their extended mat leave.

So one of the first questions you have to ask yourself when you're trying to choose investments for your RRSP is, "When am I going to use this money?"

If you consider any part of your RRSP to also be your emergency fund, then you need to have that money invested in something relatively liquid (pronounced "cashable") and short-term focused. And no matter how long-term your home ownership plan started off as, at some point before you go house hunting you have to adjust to a medium and then a short-term investment horizon. That means moving from alternatives like stocks to medium-term bonds, then short-term deposits and, eventually, cash.

Find yourself getting confused about which of your RRSP dollars are for which purpose? Try opening up separate RRSP plans, dedicating each to its own purpose. Label your RRSP statements: "Home ownership RRSP," "Maternity leave RRSP," "Retirement RRSP" and keep them filed separately. That will help to you keep focused on the purpose for which you are saving, and allow you to keep your time horizon in perspective. It might also be a good idea to create a timeline on the front of your file folder as a reminder about remixing your assets as your time horizon shortens. So if you're planning to have a family six or seven years down the road, you might remix your portfolio at the five year mark, and again at the three year mark. A good advisor can help you do this, but you must be up-front about how you plan to use the money.

Finally, while it's fine to use your RRSP for any purpose you wish — it's your money, you get to decide how to spend it — it's important not to sacrifice your long-term goals for your short-term ones. If you're saving for a home purchase, instead of putting your whole RRSP contribution into

your "Home ownership RRSP" this year, divide it equally between home ownership and retirement. Yes, it will take a little longer to get into your dream home. But when you do, you won't be behind the eight ball in terms of retirement planning. Striking the right balance in saving is just as important as in life. A little into each pot will serve you well over the long term.

### **Investments That Fit**

#### **Short term:**

- Money Market Mutual Fund
- T-Bill Mutual Fund
- Term Deposit (30 to 365 days)
- Canada Savings Bond

#### **Medium term:**

- Balanced Mutual Fund
- Income-oriented Mutual Fund
  - Bond Fund
  - Mortgage Fund
  - Preferred Share Fund
- Mortgage Backed Security
- Bonds
- Short-term Strip bond

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### **About Gail Vaz-Oxlade**

Gail Vaz-Oxlade has written ten books on personal finance, written hundreds of articles for the financial media, published a financial magazine for women (FinancialXPress), hosted and co-produced a prime-time personal financial television show (Your Money on TVO), and worked with Canada's leading financial services companies to help educate employees and clients.