

Report on Business Special Report

GLOBE INVESTOR: REPORT ON RRSPS

You can have too much of a good thing Owning many different RRSPs brings a number of drawbacks. Consolidating into one or two plans brings benefits

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As you move through your financial life, it pays to look behind from time to time. You may find you're trailing a handful of different RRSPs.

When it comes to your retirement stash, you can't have too much of a good thing. But you can have too many RRSPs. And the more plans you have, the more likely you're paying too much in fees and commissions and undermining your bargaining power.

On top of that, having numerous plans makes it tough to make smart use of the foreign-content limits, and a real challenge to stay on top of your asset allocation plan.

Last-minute shopping and an eye for a bargain are two common reasons for building up a far-flung collection of RRSPs. Jim Mittleholtz, for instance, realized a few years back he had RRSPs with four different banks and brokerages.

"You go downtown and open one at a bank to beat the deadlines, and the next year you buy another from a different bank because they're offering a good rate," says the 58-year old retiree from Kincardine, Ont.

With investors these days easily inclined to jump from financial institution to institution and ever-increasing marketing efforts to sell RRSP accounts, it's easy to see how quickly you can build up a smorgasbord of savings plans.

"I often see people with many different RRSPs, some at one bank and some at another, depending on which financial institution was closest to where they worked, had a shorter line-up, or was open the weekend they wanted to make their contribution," says Janet Freedman, president of Finance Matters in Toronto.

Having a handful of different plans can also be a bit of a red flag, says David Stewart, a principal with Stewart & Kett Financial Advisors Inc. of Toronto. "It might be there's a deeper pattern of being unsure about what direction to take," he says. "Someone may hear different things from different people and hop on each little bandwagon that's going by."

One basic problem with having multiple plans is you may be paying an RRSP fee to many different institutions. There's also an opportunity cost, since it's tough to properly allocate your assets across a multitude of plans. And if you don't stay on top of your investments, perhaps even forgetting a plan or two exists, you may end up with money sitting idle.

"Someone may have put their contribution into a different bank because it was offering a good rate on GICs one year," says Doug Macdonald, an adviser with Macdonald, Shymko & Co. Ltd. in Vancouver. "But by the time they remember the plan, the money might have been sitting in a low-interest savings account for several years."

Consolidating several smaller plans with one financial institution also gives you more negotiating clout. The bank where Mr. Mittleholtz ended up, for example, had a three-month promotion on offering three free trades per account. Since he doesn't trade frequently, Mr. Mittleholtz was able to carry his family's quota of free trades forward and use them any time in the next 12 months.

And the more money you have to invest at one time, the better return you can often demand.

"If you're putting \$20,000 versus \$5,000 into a bond, you've got more bargaining power," Mr. Mittleholtz says.

For higher-net-worth investors using private money managers pooling your capital can really pay off. "If you can pull your money together and reach certain minimums, you may pay as much as a half to a full per cent less in management fees than investors at the low end of the investment scale," Mr. Stewart says.

The rules regarding foreign-content allowances are another good reason for consolidating.

You can have up to 30 per cent of your RRSP's book value invested in foreign investments. That's not 30 per cent of your overall RRSP savings but rather of each individual plan.

If you have \$10,000 in 10 different plans, for example, that means within each plan you can only invest \$3,000 in foreign assets. Pool it all into one plan, however, and you'll be working with a maximum of \$30,000.

If you find yourself wanting to consolidate many plans, you may quickly discover one potential obstacle: you own many mutual funds which you bought on a "back-end load" basis. In plain English, that means you didn't pay a commission to purchase the fund units but in return agreed to pay a commission when you sell. The rate typically declines the longer you own the units.

But Mr. Stewart doesn't think that's a good reason to put off consolidating. "The position I advise people to take is 'If you had nothing but cash today in my RRSP, how would you invest it?' "

As he points out, bailing out of a back-end-load fund will cost you but often no more than staying in the fund, since back-end-load funds typically have higher management expense ratios. It may also mean staying another three years in a fund that's underperforming or simply not suitable for you. "Once you've bought a back-end load fund, the extra cost is kind of a done deal," he says.

But perhaps the most valuable payoff from having just one or two plans is that you are saved from having to open, read, and understand many different statements at different times of the year.

Dealing with one financial institution and one plan is an easy way to wipe out one of life's unnecessary and unneeded complications. "One thing we figured out a long time ago," Mr. Macdonald says, "is our clients all want us to make their lives as simple as possible."

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