Getting the Most from your RRSP

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Since its inception several decades ago, the Registered Retirement Savings Plan (RRSP) has become the most widely used retirement savings vehicle in Canada. In order to get the most from an RRSP, it is essential to plan ahead for future investments to avoid panicked deadline decisions or taking action without fully understanding the long-term impact.

In this article we examine a number of different RRSP savings strategies:

Make regular RRSP deposits

Many families follow a monthly budget to manage their financial strategy, which includes making a regular monthly deposit into an RRSP account. An added bonus to making monthly RRSP deposits is the ability to get an instant tax break by using the CRA Form T1213. [1] This form allows RRSP account holders to subtract the value of recurring RRSP deposits from their monthly income (before deductions) thereby increasing the amount of their net pay.

Borrow to reach the maximum RRSP deposit

For those who haven't planned their RRSP contributions in advance, it may be worthwhile getting an RRSP loan to reach their maximum allowable RRSP contribution. Even though RRSP loan interest is not tax-deductible, the potential benefits from both the long-term tax-deferred growth and immediate tax savings usually cover the cost of any interest paid on the RRSP loan. Because borrowing money to invest comes with additional risks, anyone considering an RRSP loan should first consult with a financial professional who can help determine the optimum RRSP loan amount and the right investment selection.

Reinvest any tax refund

For anyone making a lump-sum RRSP deposit with cash, or an RRSP loan, there is often a strong temptation to spend the tax refund...sometimes even before the cheque arrives. However, re-investing a tax refund amount can have a significant long-term impact on the total amount accumulated in an RRSP. For instance, for a 30-year-old investor who deposits $5,000 annually into a Registered Retirement Savings Plan that compounds at an average rate of 7% per year, the final sum at age 65 would be around $500,000. Additionally, re-investing the tax refund each year could result in approximately $200,000 of additional capital available for retirement income. Tax refund amounts vary for different individuals based on their tax bracket and province of residence. Talk to a professional financial advisor if you have questions about determining your tax refund from an RRSP deposit.

Let the deduction carry forward

Even though a deposit has been made to an RRSP, there is still the option to carry forward any deduction. If the account holder expects a significant upturn in their annual wages in the near future, it might be wise to delay using an RRSP deduction until a future date when they are in a higher marginal tax bracket. This type of tax strategy can be complex and should never be considered without obtaining expert advice.

Saving for a home down payment

An RRSP account is a practical savings vehicle for more than just retirement. Income tax legislation makes it possible for home buyers, who meet certain criteria, to withdraw up to $25,000 to purchase a qualified home. Any funds withdrawn from the RRSP must be repaid on an annual basis over a period of 15 years. In the event of the repayment being missed for any 12-month period, the amount not repaid is regarded as a taxable RRSP withdrawal. While this home-buying strategy can often have a detrimental effect on an individual's retirement savings plan, sometimes it is the best option for aquiring a personal residence. A financial professional can provide more details about the Home Buyers' Plan.

While the basic principles of an RRSP are quite straightforward, there are many complex issues that need to be considered in relation to each individual's ongoing financial strategy. To achieve complete financial comfort in your later years, **work with a financial professional** [2] who can help set up and monitor your overall retirement saving strategy.

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