FINANCIAL WISDOM

- WEALTH BUILDER -

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How to Get the Most from Your RRSP

Introduced in 1957, the Registered Retirement Savings Plan (RRSP) is an incentive program to entice the Canadian population to save for retirement. In order to get the most from this type of savings vehicle, it is essential to plan future investments and avoid panicking to meet deadlines or taking action without fully understanding the long-term effects.

Let's take a look at some of the most practical investment strategies to get the most from a savings scheme like the RRSP:

Make regular RRSP deposits

Most families make use of a monthly budget to manage the finances, which make it easy to put aside a set amount that is deposited into the RRSP account. An added bonus of making the monthly pre-authorized payment is the ability to get an instant tax break. It has been agreed by the Canada Revenue Agency (CRA) to let account holders subtract RRSP deposits from their monthly income before the appropriate deductions are made.

Simply save or make a home down payment

The RRSP is a practical savings vehicle for more than simply saving for retirement. The income tax legislation makes it possible for home buyers that meet certain criteria to withdraw a sum of up $25,000 to put down a deposit for a 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 Any funds withdrawn from the RRSP must be repaid on an annual basis over a period of 15 years.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.

Borrow to reach the maximum RRSP deposit

For many savers it may be worth borrowing a certain amount of money in order to reach the maximum RRSP deposit. This is useful for those that have waited until the deadline or don't have the cash. Even though the RRSP-loan interest isn't regarded as tax-deductible, there is the potential to benefit from both the long-term tax-deferred growth and immediate tax savings, which has the potential to make up any interest on a loan application.

Reinvesting any tax refund

While there may be a temptation to spend it, re-investing any of the annual tax refund can have a significant long-term impact on the total amount saved in an RRSP. For instance, for the investor aged 30 who deposits at least $5,000 annually into Registered Retirement Savings Plan that compounds at 7.5% per year to final sum at retirement (age 65) would be over $825,000. Just by adding the tax savings, there is a possibility of accumulating an additional $300,000 of capital, which can go a long way to making later life even more comfortable during retirement.

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 to see an upturn in their annual wages, it is possible to leave the deduction for a time in the future when it is possible to benefit from a bigger tax break.

While the basic principles of an RRSP are quite straightforward, there are more complex issues that need to be considered in relation to ongoing planning. To achieve complete financial comfort in your later years, start today working with a financial professional who can help set up and monitor your overall retirement saving strategy.

Questions about building your retirement savings? We can help you!

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