

# Simple RRSP Strategies





# HOW MANY AND HOW MUCH DO CANADIANS CONTRIBUTE TO THEIR RRSP?

ABOUT 1 IN 5<sup>1</sup>

AN AVERAGE OF \$3,000<sup>2</sup>

2019'S CEILING WAS \$26,500<sup>3</sup>

2020'S CEILING IS \$27,230<sup>3</sup>

## TAKE ADVANTAGE OF THE RRSP BENEFITS

The RRSP was designed in 1957 to help Canadians save for retirement by offering a tax incentive: allowing savings on pre-tax dollars. Since then, the RRSP has played a leading role in many financial plans. So, it's confusing to learn just how many Canadians are not taking advantage of this investment tool.<sup>4</sup>

There can be many reasons for not contributing to an RRSP—but lack of information should never be among them! Here are a few potential reasons why Canadians may not contribute to their RRSP:

- It's hard for them to prioritize saving over other expenses.
- They feel they don't earn enough to contribute.
- The value of the RRSP is not understood.
- There is no room left to contribute.
- They have a TFSA so believe that is enough.

Many of these reasons for not contributing are actually good reasons to be thinking of contributing.

- An RRSP is a great savings vehicle because your contributions are tax deductible.
- Tax-deductible contributions mean you'll have more of your income available today for your current needs.
- Even a small amount is worth contributing, as it allows you to take advantage of compound growth over time.
- There is always value in saving for your retirement and other financial goals.
- You may be missing out by not considering the full contribution available for you and your spouse or partner.
- There are big advantages to combining retirement savings strategies. Having a TFSA doesn't mean you should forgo contributing to an RRSP; together they make a strong investment strategy.

## WHAT CAN I CONTRIBUTE?



THE RRSP CONTRIBUTION LIMIT IS BASED ON 18% OF YOUR EARNED INCOME UP TO THE ANNUAL GOVERNMENT LIMIT FOR THAT TAX YEAR.

THE MAXIMUM RRSP DOLLAR CONTRIBUTION LIMIT FOR THE 2019 TAX YEAR IS

**\$26,500<sup>5</sup>**

THE LIMIT FOR 2020 IS

**\$27,230<sup>5</sup>**

To summarize why an RRSP is a smart practice, here are the benefits:

- **Tax-deferred growth** - your RRSP contribution lowers your taxable income, so you're reducing the amount of tax you have to pay for the year you are contributing.
- **Flexibility** - RRSPs can hold a variety of qualifying investments, such as mutual funds, bonds, equities and more.
- **Building your retirement portfolio** - especially if you have no company pension plan.
- **Deferring taxes to when you are retired** - when your tax rate will most likely be lower.

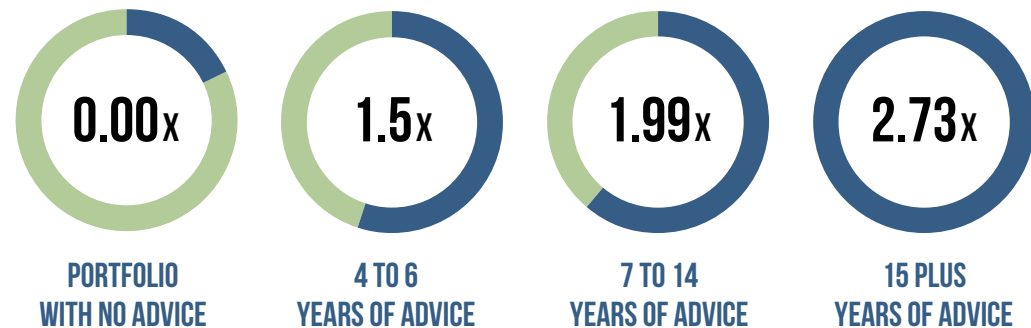
As you can see, an RRSP contribution is worth careful consideration.

## UNDERSTANDING THE REAL VALUE OF WORKING WITH AN ADVISOR

Every year, your financial situation may be a little different than the last. Making sure you adjust your financial plan for these changes can be another task to add to your already full plate of responsibilities. Advisors can help ensure your financial review is not forgotten or delayed, and on average help clients grow their assets 2.73 times more than unadvised individuals over a 15-year period.<sup>6</sup> Review the chart below to see just what a difference an advisor can make.

## THE VALUE OF ADVICE<sup>6</sup>

Advice can have a positive and significant impact on the growth of an individual's financial assets.



## HOW MUCH CAN YOU CONTRIBUTE?

The total amount you can contribute depends not only on your limit for this year but also on how much you have contributed in previous years. The unused portion remains available from past years. However, you do need to make sure you have deducted contributions from any pension plans you might have through your employer when working out what room you have available. To find out what contribution room you have available, check the assessment notice the CRA sent you last year, which you should have received after your tax return was processed.

## RRSP STRATEGIES

### 1. LUMP-SUM CONTRIBUTIONS

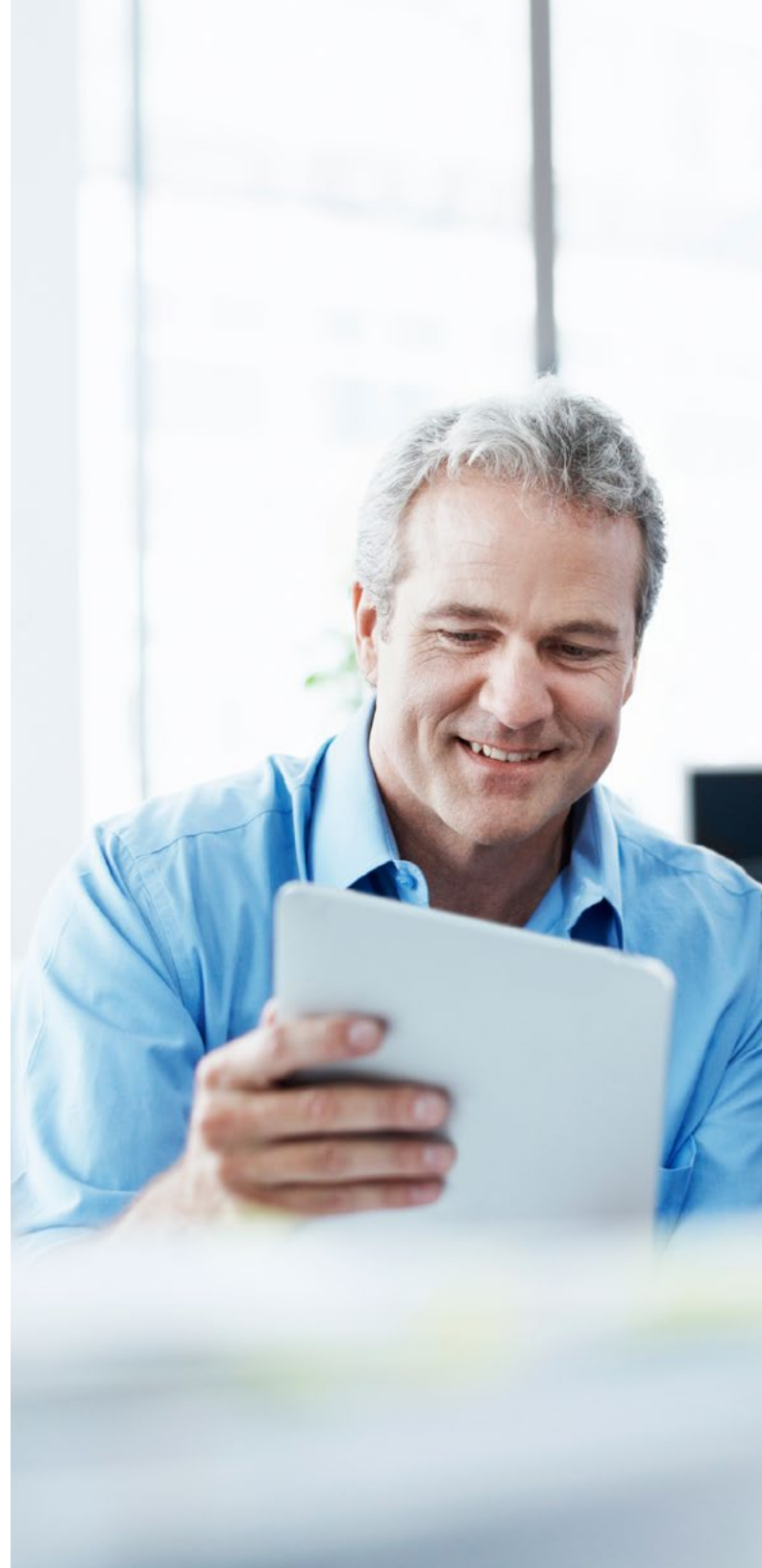
Once you know how much you can contribute for this year, consider making a lump-sum contribution if you have or expect to have a:

- 
- **Bonus at work**
  - **Little extra cash on hand**
  - **Tax refund**
  - **GIC or other investment at maturity**
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A lump sum does not need to be a large amount of money each year; over time, even small lump-sum payments add up and compound.

### 2. AUTOMATED CONTRIBUTIONS

Setting up a monthly RRSP contribution, you allow your investments to grow all year long, and it evens out your portfolio returns should market conditions change. This allows you to take advantage of dollar-cost averaging. Choose an amount that fits well within your budget. Then set it up and forget it. Setting up a PAD (pre-authorized deposit) directly into a designated RRSP account is the best way to make automatic contributions. It will keep working for you without any additional effort required by you. It's a simple, painless, convenient and effective strategy.





### 3. SPOUSAL RRSP CONTRIBUTIONS

Spouses, including common-law, can contribute to a spousal RRSP for each other. It's important to remember that with spousal RRSP contributions, the couple overall benefits, but the funds will be held in the RRSP owner's name. Spousal contributions offer additional tax benefits when:

- One spouse is in a higher tax bracket than the other.
- There is a difference in portfolios between the spouses.
- A person is seeking greater flexibility in retirement income planning.

### 4. CONSIDER A TFSA

A TFSA (Tax-Free Savings Account) is a retirement savings vehicle that can work well in conjunction with your RRSP. They are often combined to help build a solid investment plan. If you have reached the ceiling on RRSP contributions for a given year, investing in a TFSA account may provide another great option to save for retirement.




#### TFSA AND RRSP, WHAT'S THE DIFFERENCE?

A TFSA allows you to contribute up to \$6,000<sup>7</sup> per year, and the investment grows tax-free, meaning you don't pay any additional tax when you withdraw your funds. You can also access your funds at any time, contrary to an RRSP. When combined, the TFSA and RRSP contribute to your ability to build a strong retirement plan.




## ANNUAL CONTRIBUTION DEADLINES<sup>8</sup>



TFSA	December 31, 2019
RRSP	March 2, 2020

## ANNUAL CONTRIBUTION LIMITS<sup>9</sup>



	2019	2020
TFSA	\$6,000	\$6,000
RRSP	\$26,500	\$27,230

When it comes to investing in an RRSP, different options are available to you, it's just a matter of working out which is right for you. A customized plan based on your retirement goals can help sort out which savings should go where, if you're saving for both short-term and long-term goals. Lastly, investing in a TFSA account can create some synergy with your RRSP strategy.

**Call our office today to discuss  
a customized financial plan based  
on your retirement goals.**





Sources:

1. Statistics Canada. Table 11-10-0044-01, Selected characteristics of tax filers with Registered Retirement Savings Plan (RRSP) contributions
2. Statistics Canada. Table 11-10-0044-01, Selected characteristics of tax filers with Registered Retirement Savings Plan (RRSP) contributions
3. Canada.ca, MP, DB, RRSP, DPSP, and TFSA limits and the YMPE, updated November 2018
4. Statistics Canada Website, Trends in RRSP Contributions and Pre-retirement Withdrawals, 2000 to 2013, Derek Messacar, Released February 2017
5. Canada.ca, MP, DB, RRSP, DPSP, and TFSA limits and the YMPE, updated November 2018
6. Cirano Report: Econometric Models on the Value of Advice of a Financial Advisor, July 2012
7. Canada.ca, Contributions, updated January 2019
8. Money Dates 2019, Investment Planning Counsel, 2019
9. Canada.ca, MP, DB, RRSP, DPSP, and TFSA limits and the YMPE, updated November 2018

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