Strategies to Enhance Your RRSPs

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Since their introduction in 1957 as an incentive to save for retirement, Registered Retirement Savings Plans (RRSPs) have evolved into the most popular savings vehicles in Canada. All too often, though, RRSP decisions are made in a panic to meet a deadline, with little or no planning or understanding of the effects of our actions.

Here are a few top strategies to help you get the most from your RRSP and retirement plans:

Make systematic RRSP deposits - Most of us plan and budget on a monthly basis. You can do the same with monthly pre-authorized deposits to an RRSP. It is also possible to get an instant tax break by contributing this way. With approval from the Canada Revenue Agency (CRA), formerly Revenue Canada, your RRSP deposits can be subtracted from income before deductions are calculated. This reduces the amount that needs to be sent to Ottawa each pay period but also reduces any tax refund that may be coming to you.

Be careful using RRSPs to save for or make a home down payment - Although Income Tax legislation allows qualified home buyers to withdraw up to $25,000 per person of existing RRSP funds for the purchase of a home & Income tax will not be withheld on this withdrawal, payments are required to be repaid to an RRSP over a 15-year period and if a repayment is missed in any year, it will be considered a taxable RRSP withdrawal. Moreover, it is imperative that you continue to make your normal RRSP contributions in addition to the repayment or pay it back within a year or two otherwise the advantage is lost.

Be careful when you borrow to make your RRSP deposit - You may want to consider borrowing to maximize your RRSP deposit if you don't have the cash or have waited until the deadline. Although RRSP-loan interest is not tax-deductible, this gives you an opportunity for immediate tax savings as well as long-term tax-deferral growth. The alternative is to forego one year of RRSP deposits and make the regular monthly contributions instead which saves you the interest on the RRSP loan that can then be added to the RRSP instead which may be far wiser for you.

Re-invest your tax refund - A few weeks after filing your tax return, a refund cheque arrives in the mail. Once received, It is only natural to want to spend it. A 30-year old depositing $5,000 per year to their RRSP at 6% compounded annually will have about $629,035 at age 65. Assuming a 40% tax savings, the RRSP will grow by an additional $251,614 by depositing the tax savings as well. So don't blow your tax refund.

Carry forward your deduction - Just because you made a deposit to your RRSP doesn't mean you have to deduct it right away. Jane expects her income to increase next year, so she will wait until then to claim the deduction so she can get a bigger tax break.

The CRA makes it easy for us to maximize contributions. After filing your tax return, they tell you what your RRSP deposit limit is for the next tax year on your tax assessment.

While the mechanics of RRSPs are relatively simple, the ongoing retirement financial strategy associated with them can be more complex. It is highly recommended that you work with someone experienced in the area of RRSPs and retirement planning to help set up and monitor your program. Your financial comfort in retirement may just depend on it.

Do you have questions about your financial strategies?

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