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Get More From Your RRSP

The so-called **RRSP Season** is on its way. TV, newspapers and magazines will soon be full of advertising to get you to make your last-minute RRSP deposits. And then RRSPs and retirement planning are often forgotten until the next deadline. But a little advance planning will get you more from your RRSP.

Start early. It's human nature to put things off. As there is no immediate consequence to delaying financial planning, unlike not paying your electricity bill, it's easy to just let RRSP deposits slide. But to get the most from an RRSP, start it as soon as you can. **A 25-year old depositing $5,000 per year at 8% compounded annually will have $1,199,706 at age 65.** A 35-year old will have about half that, and a 45-year old investing the same amount at the same rate will have less than a fifth. So begin your RRSP as soon as you can.

Contribute today. You could have made your year 2015 RRSP deposit on January 1st of this year. It's easy enough to figure out how much you can contribute and Canada Revenue Agency lets us know each year what that amount is anyway. Using the 25-year old mentioned above, the total accumulations to age 65 would actually be $1,295,283 if the deposits were made at the beginning of each year instead of waiting until the deadline---a no-cost gain of almost $100,000!

Split future income. A spousal RRSP is a great way to split retirement income between spouses and reduce future taxes. If just one person has a $60,000 income, the total income taxes are about $15,000. But, split between two, so each has only $30,000, the total taxes for both are about $5,000 less. So, not only can you get a tax deduction today for your RRSP contribution, you can also pay less tax on your future income.

Enjoy tax-deferred growth. Perhaps a greater benefit than the tax-deductible contributions to an RRSP is its tax-deferred growth. The difference between tax-deferred growth and taxable growth is remarkable. $5,000 annually invested at 8% per year will accumulate to $566,416 in 30 years inside an RRSP. But at the 40% tax level, the same $5,000 annually grows to only $321,008 outside an RRSP. And if we consider that this non-deductible $5,000 annually is equivalent to a $3,000 after tax deposit, the accumulation is only $192,604. So put as much as you are allowed into your RRSP to maximize both your deductions and tax-deferred growth.

Look ahead. It's well and good to make regular deposits to an RRSP, but what does it mean in the long run? For example, have you projected how much your RRSPs and other assets will be worth when you retire? Will they pay you the income you want for as long as you want? Do you know if you'll be able to retire when you want to? Do you know how to make such projections? If so, are you happy with the results? And are your RRSP and non-RRSP investments arranged to minimize taxes, both today, and in the future?

Want help with your retirement planning?
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