# RRSP



# The nuts and bolts of RRSPs

Melissa Leong | Jan 15, 2013 10:27 AM ET | Last Updated: Jan 15, 2013 10:53 AM ET

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*While many Canadians are stressed about RRSPs and the looming contribution deadline, Jason Casagrande feels excitement. The 34-year-old Torontonian, however, has been investing since he was 15, and works as a certified financial planner with BMO's investment and retirement planning department. "Seeing the accounts grow is my motivation," Mr. Casagrande says.*

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## Savings Squad

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Coming to the rescue of your savings: FP Personal Finance presents advice from some of the country's top experts in this video series.

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*The rest of us hear the term RRSP — maybe even just the first two letters — and get glassy-eyed, or even wide-eyed (60% of respondents of a recent BMO poll reported suffering from anxiety about gathering retirement savings).*

*So how do you get people excited about saving for the future? First, arm them with information. To help, Mr. Casagrande, and other financial experts, have provided answers to their most frequently asked questions.*

**Q What are the rates on RRSPs?**

**A** "There seems to be a misconception with what RRSPs actually are. People think an RRSP is an investment," says Scott Plaskett, a certified financial planner and founder of Ironshield Planning. "It's not an investment, it's simply an account that you put investments into that have certain tax benefits associated with it."

**Q OK, how much can I contribute to my RRSP?**

**A** Revenue Canada puts limits on the amount of money you can contribute to registered savings programs every year. You're able to contribute up to 18% of your previous year's income to your RRSP, up to a maximum of $22,970 for 2012. The tax benefit? You are then taxed on your income, minus the RRSP contribution. (Revenue Canada mails you a notice of assessment, which tells you your contribution limit.)

**Q What happens if I get too excited and over contribute?**

**A** Revenue Canada will penalize you 1% a month on the over-contributed amount; you can then do a redemption from your RRSP to hit your limit.

**Q Should everyone jump on the RRSP train?**

**A** Not everyone should be putting money into an RRSP, Mr. Plaskett says. First determine whether it is the best wealth-accumulation vehicle for you. “We have clients who have low taxable income, very little debt and they’re self-employed,” he says. “If you don’t get the immediate tax savings then you’re actually doing a disservice to yourself or to your financial plan by putting money into an RRSP.” In this case, he says, you might consider a tax-free savings account.

**Q When should I contribute?**

**A** You have until the first 60 days of 2013 to contribute for the 2012 tax year; the deadline this year is March 1. But the earlier you do, the better — and save regularly. “Get into the practice of investing every week or every month or every time we get a paycheque. The sooner the money goes in, the sooner it’s working for you,” Stuart Gray, regional financial planning consultant at RBC, says. “When you’re looking at investments like mutual funds that may fluctuate in value, you’re taking advantage of dollar-cost averaging....You’re buying into those investments, if you were doing it monthly, 12 times a year, instead of one day sometime in February.”



**Q I spent all of my money on Boxing Day. What if I don’t have cash for a contribution?**

**A** If you have not been saving throughout the year for your retirement, you could borrow funds to make the contribution. But if you choose this route, you must ensure that you repay the loan as quickly as possible. Use the tax refund to pay down part of the loan.

“Most people pay it off in six months,”

says Mr. Casagrande. “You might pay a couple hundred dollars [in interest], but you’re getting thousands of dollars back on your return and you now have a nest egg that’s thousands of dollars larger. You have to be OK with the thought of having a short-term liability for a long-term gain.”

You could also make a transfer of eligible capital property to the RRSP but make sure this fits with your tax and investment strategy. (When securities are transferred from a non-registered investment account into an RRSP, the securities are treated as if they had been sold and will trigger any capital gains or losses. The amount of the security is its market value at the time of transfer to an RRSP.)

**Q I don’t have an account, how do I get one?**

**A** Contact your bank. Check if they have any incentives. For example, right now BMO will give you 15% of your first month’s contribution to a maximum of $150 if you open an RRSP account with an automatic savings plan.

**Q So what’s the right investment choice?**

**A** “Make sure the investments that you’re holding in your RRSP match the objective that you have for that money,” says Mr. Gray. “We’re looking at time horizon and your risk objective. When I’m looking at an RRSP, I’m looking 50 or 20 years out so my risk tolerance may be different than money that I’ll need next year. That means diversifying between the asset classes that are available to you whether that’s cash, fixed income or guaranteed investments, or equity investments.”

**Q Do I invest in my RRSP or my TFSA?**

**A** It’s not really an either/or situation. The savings tools complement each other. The benefit of an RRSP is that contributions reduce your taxable income. But you pay taxes on the money when you withdraw it down the road. Also, once you take the money out of your RRSP, you've lost the contribution room that you originally used.

With TFSAs, you do not receive a tax deduction. But money grows tax free and you do not pay taxes on it at the time of withdrawal; when you withdraw from your account, you may put that sum back in the following year.

"One of the things I would always look at is, what is the client's tax rate today?" Mr. Gray says. "If the client is in a high tax bracket, RRSPs are more palatable because they get that tax reduction. Ideally, they'll probably be in a lower tax bracket in retirement."

Meanwhile, a younger individual who is just out of school might prefer a TFSA. "They're going to get more benefit from using an RRSP as their income increases. People who are younger have different savings goals, whether it's a down payment for a house, or a car, and they can pull out from a TFSA and have less of a tax burden."

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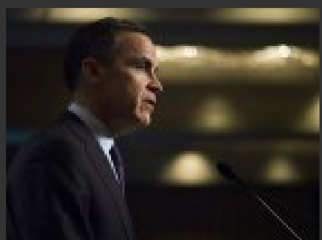

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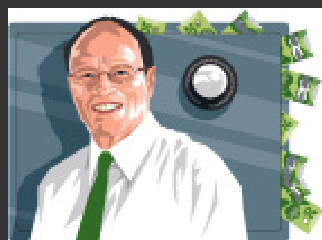

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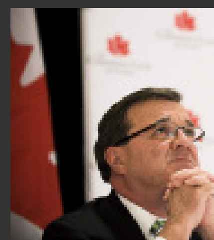

Canada's wanir

deliver one-two punch of policy decisions... crimping Alberta's budget as price gap... growth puts ba budget at risk

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**Kelsey** · 6 days ago

RRSP's are a financial planner's best friend and created for them by the federal governmer fees for doing nothing especially where mutual funds are involved. The investor gets shodd their money such as in 2008 the financial planner keeps collecting fees. And the investors r back in retirement (unless one decides to leave Canada for a year in which case it is all tax likely disqualify the investor from OAS. I for one am not sold on RRSP's. Anything that is go useless to citizens. For TFSA's, interest is not taxed, OAS remains possible and you don't h Canada for a year.

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**The Wet One** → Kelsey • 6 days ago

Good thing you're not writing our criminal laws or regulating our banking sector Mr. Ar
government created is typically useless to citizens.

6 ^ | 1 ∨ • Reply • Share ›

**Karla** • 4 days ago

My god, I wish I had the problem of having to worry about putting too much money into my F

2 ^ | ∨ • Reply • Share ›

**GarrettP** • 6 days ago

A strategy that I use is to make the highest RRSP contribution I can and put the tax refund i
TFSA. Using this strategy the government is providing me with an interest free loan which I
free.

If I withdraw the funds from my RRSP in 20 years at a lower tax rate, I'll see a tax savings on
my RRSP (currently paying at the highest rate). If the tax rate is the same, I have my TFSA
tax free gains will more than offset the gains in my RRSP.

The point of it all is to increase my immedate capital that I can invest.

2 ^ | ∨ • Reply • Share ›

**Kelsey** → GarrettP • 6 days ago

The problem is it could be a much higher tax rate in 20 years from now. Get away fror
programs that serve the interests of financial advisors.

4 ^ | 1 ∨ • Reply • Share ›

**charles** • 5 days ago

Personally I'd like to know if I contribute to my RRSP and then withdraw in a future year, do
room back (like a TFSA)?

1 ^ | ∨ • Reply • Share ›

**Rob Ford's Underwear** → charles • 5 days ago although those are actually more akin to a loan to yourself from your RRSP that has t

This should be an absolute last resort except in special circumstances.

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guest · 6 days ago

Should not any article on 'the basics' include a statement of 'what the benefit of an RRSP is from'? The expert's comment are clearly misleading enough to be wrong.

( "You might pay a couple hundred dollars in interest (when you borrow for a contribution), of dollars back on your return ." and "The benefit of an RRSP is that contributions reduce y

See the discussion and math proofs at http://www.retailinvestor.org/... . The contribution tax anyone in any circumstance. It is a loan that must be paid back, along with all the income it can be compared to the interest costs of a loan. It is not a 'reason' to use the RRSP shelter

The benefits of an RRSP come from three sources.

1) The benefit everyone gets equals the $taxes that would have been paid on the investme account. This exactly equals the benefit of a TFSA.

2) If the tax rate applied to the withdrawal is greater (or less than) the tax rate applied to co (benefit) equal to the $ withdrawn multiplied by the difference in rates.

3) If there is delay in claiming the credit there is a penalty equal to the future value of the in earned by the tax credit during the delay.

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Michael → guest · 6 days ago

As an accountant I spend a good chunk of my time this year going over some RRSP c tell my clients?

1) Always get advice from more than one source

2) Remember that 'financial planners' are well intentioned and usually well informed

3) Remember that 'financial planners' are salespeople who make money from your mo

4) If cash flow is a problem at all in your daily life, then you need to work on getting thi

pumping cash into a long term savings vehicle

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john67 · 5 days ago

Probably the most important question that wasn't asked was how much of a return does cor bring?

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Fishyguy · 5 days ago

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THANK YOU!!! Drives me nuts that people don't know this.

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