The Stan Clark Financial Team's

PERSPECTIVES

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Financial Planning

RRSPs: You can't start saving for retirement too early!

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When you're a millennial, retirement seems far away. But it's going to come eventually – faster than you might think. So, you're best to start saving for your retirement early.

A Registered Retirement Savings Plan (RRSP) helps you do that. The two big advantages of an RRSP are: 1) tax-deductible contributions that lower your taxable income, resulting in less tax to pay; and 2) tax-free growth, meaning you don't pay tax on any of your gains. These two advantages are a huge help in saving for retirement.

Contributions can either come from yourself or your spouse. There are limits on how much you can contribute each year. These limits will be the lower of:

- 18% of your earned income in the previous year, or
- the maximum contribution amount for the current tax year, which for 2016 is $25,370.

You can find your contribution limits on your Notice of Assessment from the Canada Revenue Agency (CRA). If you have been following our millennial articles, you will have learned the tools to budget and save for personal investing. You should therefore have the funds to contribute! However, if you don't have the funds this year, it's still okay. You have the option to carry forward your RRSP contribution room and use it in the future.

You must close your RRSP in the year you turn 71. At that time, you will have the option to withdraw from your RRSP, convert it to a Registered Retirement Income Fund (RRIF), or buy an annuity. You'll pay income tax when you withdraw from the plan.

If you have a spouse who earns a lower income, and/or who is younger than you are, you could benefit from a *spousal RRSP*. With this type of RRSP, the contributor can deduct the contributions, while the money grows tax-free under the spouse's name. By building up the spousal RRSP rather than your own, you can delay the withdrawal of your assets until your younger spouse turns 71. If you make a withdrawal from a spousal RRSP, it will be taxed as income to your spouse, who is presumably in a lower tax bracket, and not you as the original contributor. However, a withdrawal cannot be made within three years of the spousal contribution, or the income will be attributed back to the contributor.

Designating a beneficiary for your RRSP and your Tax-Free Savings Account (TFSA) is an important part of estate planning. It ensures your registered account will not be included in your estate in order to avoid probate taxes.

You'll find plenty of RRSP calculators online to help you get an idea of how much you need to save to fund your retirement. Just make sure the assumptions are realistic. And remember to factor in inflation! Retirement may be a long way away, but keep in mind that when it does come, it can last a long time, most likely decades. For that reason, you'll need a healthy amount of savings to fund your retirement.

As Johnny Lyall mentioned in his previous article about TFSAs, you can arrange for funds to automatically be deposited into your RRSP every pay period. This is an effective technique and simple to follow. As Johnny would say, your future self – that is, your retired future self – will thank you for it. ■

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