

How RRSPs Turbocharge Your Retirement Savings

To get the most out of your RRSP, it's important to understand how it works. An RRSP on its own doesn't constitute a retirement plan. Think of an RRSP as a special type of savings account that offers tax advantages to help you save for retirement.

Any money you put into an RRSP reduces your taxable income for that year. This is why many Canadians who contribute to their RRSP look forward to receiving a tax refund in the spring. The tax you would have paid on that income gets deferred until you retire. RRSPs are particularly useful when you're in your peak earning years and anticipate being in a higher tax bracket today than when you're retired and no longer working.

While you may see the immediate refund on your tax bill, that's not the only tax benefit an RRSP offers. Your RRSP also provides a tax-free way to grow your savings until you need to withdraw the money and convert it to a Registered Retirement Income Fund (RRIF) by age 71. As mentioned earlier, your RRSP is simply an account; it's how you decide to invest within that account that matters. RRSPs can hold a variety of investment vehicles, including stocks, bonds, mutual funds, exchange-traded funds and GICs. How you invest will depend on your goals and risk tolerance. Any investments you hold in your RRSP can grow and take advantage of the potential for tax-free compounding.

Maintaining a well-diversified portfolio can help you mitigate risk and volatility, and ultimately help you achieve your retirement goals. The mix of investments that make the most sense for you will depend on a variety of factors, such as your ability to save, your risk tolerance and your goals. Depending on those factors, two people of similar ages and incomes could have very different portfolios. An Investment Advisor can help you decide on the right asset mix and develop strategies to help you save for retirement and your other goals.

Key features of RRSPs

- Generally used for retirement savings.
- Annual contribution limit of 18% of your previous year's income to a maximum of \$26,500 for the 2019 tax year, minus applicable pension adjustments, plus any unused contribution room from previous years.
- Contributions are deductible from income.
- Investments grow tax-deferred (tax is paid when the funds are withdrawn).

RRSPs work well when they're used for their intended purpose – retirement. With a few notable exceptions, making early withdrawals from your RRSP can result in a hefty tax bill. If you need to save for shorter-term priorities like a kitchen renovation or a new car, consider alternative savings vehicles that don't impact your retirement nest egg, such as a Tax-Free Savings Account (TFSA).

Typically, one in four Canadians contributes to their RRSP each year, making a median contribution of \$3,030.¹ Even small amounts can help. Setting up a regular contribution and investment plan will take the stress off the tax deadline and set you on the path to a comfortable retirement.



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¹ <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1110004401>

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