

5 Reasons to Contribute to an RRSP

As the name suggests, a Registered Retirement Savings Plan (RRSP) is designed to help you save for retirement – and who doesn't want to have the money they need to enjoy life after they finish working?

However, many Canadians don't have an RRSP or do not contribute regularly. Some people may lack the financial ability to contribute every year, while for others, it's a matter of not fully appreciating the key benefits of RRSPs.

For the latter group, here are five great reasons to make regular RRSP contributions.

1. **Get immediate tax relief.** Income taxes support critical programs in our communities, but nobody wants to pay more tax than they must. When you contribute to your RRSP, the dollar value of this contribution is deducted from your gross income, which results in a smaller tax obligation when you file your annual income tax return. If you're into instant gratification, RRSP contributions fit the bill.
2. **Accelerate long-term growth.** If you're also into securing your financial future, then once again, RRSPs can deliver. Whether your RRSP holds stocks, bonds, mutual funds, exchange-traded funds or other investment vehicles, the growth you generate via dividends, capital gains or interest income is tax deferred. So, instead of losing some of your growth potential because of tax payments, all the money in your RRSP continues to compound. Over the long term, it could make a huge difference in how much wealth you build.
3. **Grow your family's wealth.** Sometimes one spouse or common-law partner earns much more income than the other. To reduce your overall family tax bill, consider a spousal RRSP that lets the higher earner contribute to the lower earner's RRSP (subject to contribution limits and other rules). When it's time to start withdrawing RRSP funds – no later than December 31 of the year you turn 71 – the combined tax obligation will be lower than if each partner contributed only to their own RRSP.
4. **Borrow from your RRSP.** Making withdrawals from your RRSP typically results in income tax owing for the year in which you withdraw. There are two notable exceptions, however. You may borrow from an RRSP to make a down payment on your first home, or to pay for certain education costs. You won't face a tax obligation if you pay back the withdrawn money according to a specific schedule. Ask your advisor about how borrowing from your RRSP works, and whether it's something you should consider.
5. **Create an income stream in retirement.** Saving regularly in your RRSP and contributing the annual maximum amount (or as close as you can get) pays off when it's time to retire. An important benefit of RRSPs is being able to convert them, tax free, into another tax-favourable vehicle like a Registered Retirement Income Fund or an annuity. You'll only pay tax when you make withdrawals. For most people, their income tax bracket is lower in retirement than when they were working, so your tax obligation should be reduced and you'll have a healthy income stream available to enjoy retired life.

Take advantage of RRSPs

Now that you're empowered with knowledge about the key benefits of RRSPs, it's time to open your first plan or contribute whatever you can to an existing plan. Your advisor has the expertise in RRSPs and the knowledge of your specific financial situation to guide you on what contribution amount is right for you and which investments are most suitable. Also consider setting up a pre-authorized contribution plan (PAC) that automatically invests a set amount in your RRSP on a regular basis, in the investment product(s) of your choice. PACs help you save for the future in a convenient and consistent manner.

The deadline is March 1, 2022 to make an RRSP contribution for the 2021 tax year, so it's important to take action now.

Contact us today to learn more about how we can build a suitable retirement savings plan based on your unique needs.

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