
The RRSP Conversation

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With the RRSP contribution deadline of March 2nd fast approaching many people will reflexively make a deposit to their RRSP. Many will use online banking to throw money into the RRSP at the last minute vowing to figure out how to invest it later. But life gets in the way and later never happens and the contribution sits in daily interest account earning little or no interest.

So why contribute to an RRSP anyway? Many argue that using a TFSA is better for young people than RRSPs. Others argue that RRSPs are terrible because of the taxes you have to pay on any withdrawals (yes some C.A.s have said this over the years) in the future./p>

All of these miss the point. The point of making an RRSP contribution is to build your assets over time so that you can use those assets or savings to generate income. This will allow you to stop working and enjoy a passive income that will allow you to maintain a pre-determined standard of living of your choosing whether you get out of bed and go to work or not! No planning or savings means your financial plan is that you get whatever lifestyle you get with no personal preferences or input.

Which of course leads to ongoing debates in the media and financial press about whether it is better to pay down your mortgage or expensive consumer debt versus making an RRSP contribution or whether a TFSA is better than an RRSP. From a technical viewpoint, there are some valid points made on all sides of these debates but they miss the larger and more important big picture.

The big picture is to have people convert their lifetime earnings potential (the earlier you start the better) into actual assets and savings by their age 60-65 so that they don't need to work for their entire lives. That is the true definition of financial independence.

The tax savings from making an RRSP contribution are significant but they are the icing on the cake. The true benefit of an RRSP is the tax-deferred growth on your capital as well as the higher savings that are possible by putting pre-tax capital into your RRSP. These two factors combined give most Canadians a huge boost towards becoming economically self-sufficient in their retirement years.

If you care to test this, do a compound calculation using the same dollars and the same return on investment for an RRSP and a non-registered account, minus an assumed average tax rate of say 25%, over 30-40 years. The RRSP will be much larger than the non-registered program even if you cashed out the RRSP at age 70 and paid 50% in taxes (something no sane person would actually do).

Even if RRSPs were eliminated or if the tax deduction was dropped or modified it would make no difference to your need to build assets and savings over time. It would just become harder.

The beauty of an RRSP contribution is there is a deadline associated with it, just like filing income taxes. Please call us today to review your RRSP strategy and to hear about the many new investment ideas that we have to offer you!

Questions about your RRSP contribution?
Contact our office! [1]

for any error, or omission, or any financial decision.

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