Investor Insights

Boost Your Retirement Savings with an RRSP

For most Canadians, the Registered Retirement Savings Plan (RRSP) is foundational to long-term financial security. In this article we'll look at the key features of RRSPs and the many benefits that make them so popular.

How RRSPs work

You can contribute to an RRSP from the first time you have qualifying earned income until December 31 of the year you turn 71. For any given tax year, you can make contributions during the calendar year or up to 60 days after that. As an example, for the 2024 tax year you can make contributions throughout 2024 or in the first 60 days of 2025.

The maximum annual RRSP contribution is 18% of your earned income for the previous tax year, up to the allowable limit. For instance, the RRSP contribution limit for 2024 is $31,560, an increase from the 2023 tax year limit of $30,780. You'll find the annual limits posted on the Government of Canada website.

Also note the following:

- If you don't make the maximum contribution in a particular year, the unused room is carried forward indefinitely.
- If you belong to a workplace pension plan, your pension adjustment (PA) will reduce the amount you're allowed to contribute. The PA amount appears on your T4 tax slip.
- Some employers offer full or partial contribution matching (e.g., if you contribute 4% of your salary to your pension, your employer might match with a 2% contribution). Check with your employer for details.
- If you overcontribute to an RRSP by more than $2,000 (based on your CRA Notice of Assessment), you'll face a penalty of 1% per month for as long as the excess amount remains in your account.
- You can make a tax-free withdrawal from your RRSP for a down payment on your first home. The Home Buyers' Plan (HBP) has specific rules and repayment terms, so speak with your advisor to see if it's suitable for you.
- If you're going back to school full time, the Lifelong Learning Plan (LLP) lets you borrow up to $10,000 a year from your RRSP, to a plan maximum of $20,000. As with the HBP, you must adhere to the Government of Canada's LLP rules and repayment terms.
- You may contribute to your spouse's or common-law partner's RRSP if you're the higher income earner. You'll receive a tax deduction that may lower your tax bill. Consult with your advisor so you're aware of the various rules related to spousal RRSPs.

Key RRSP benefits

RRSPs offer an immediate tax break, as your contribution amount is deducted from the year's gross income, which means less income tax to pay. Many people take the tax savings and invest it or use it to reduce their debt. Either way, you'll strengthen your financial position.

Also, any growth in your RRSP from capital gains, dividends or interest will remain tax deferred until you begin making withdrawals in retirement. This feature lets you compound growth in your RRSP without immediate tax consequences, so your money works harder for you and helps build wealth faster for retirement.

RRSPs are flexible as well. You can invest in stocks, bonds, mutual funds, ETFs, GICs and more. For added convenience, consider a pre-authorized contribution (PAC) plan. Once you decide how much to invest, at what interval and in which financial products, the money will be automatically invested according to your instructions. For example, your PAC might allocate $250 per month to a certain mutual fund.