

HOW TO USE an RRSP TO Save for Retirement

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The Registered Retirement Savings Plan (RRSP) is a great tool for saving toward retirement.

It supports a variety of investment assets and enjoys tax deferral on returns earned until you start making withdrawals.

While you can also use other investment accounts, such as the Tax-Free Savings Account (TFSA) and non-registered accounts, the RRSP allows you to deduct contributions from your taxable income.

RRSPs and Retirement Savings

The contribution room to an RRSP is 18% of your earned income from the previous year, subject to a maximum limit set by the Canada Revenue Agency.

Contributions reduce your taxable income, and you can claim a tax deduction in the contribution year or carry it forward to future years.

Capital gains, dividends, and income earned on your RRSP are not taxed until they are withdrawn. This allows your investments held within your RRSP to grow tax-deferred, potentially helping you grow your portfolio faster, compared to a taxable account.

When you eventually make withdrawals from your RRSP (presumably in retirement), you will be taxed at your marginal tax rate.

Getting Started With RRSPs

To be eligible to open an RRSP, you must have earned income, have a social insurance number, and must file tax returns in Canada.

You can generally open an account at most financial institutions, including independent wealth management firms, credit unions, banks and brokerage firms.

If you have filed a tax return, your notice of assessment will show your RRSP contribution room as of the beginning of the year. Keep track of your contributions throughout the year to avoid over-contribution penalties.

Before investing in your RRSP or other investment accounts, you should assess your risk tolerance. For example, are you comfortable with high-risk investments that offer potentially higher returns, or do you prefer a more conservative approach?

In general, your investment strategy will be impacted by your investment timeline, goals, and risk tolerance.

RRSP Investment Options



Your RRSP can hold a variety of investments, including:

Stocks: Investing in individual companies can offer high returns but comes with higher risk.

