

The 7 Benefits of the Registered Retirement Savings Plan (RRSP) and

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The Registered Retirement Savings Plan (RRSP) is an excellent tool to save for your retirement.

Canadians can generally rely on the “three pillars of retirement” for generating income to support their lifestyles during their senior years.

The first pillar refers to government benefits like the Old Age Security (OAS) and Guaranteed Income Supplement (GIS). The second pillar refers to the Canada Pension Plan (CPP) and Quebec Pension Plan (QPP).

Workplace pensions that may be set up as group RRSPs or registered pension plans, personal RRSPs, tax-free savings accounts (TFSA), and non-registered investment accounts comprise the third pillar.

What is an RRSP?

An RRSP is a tax-advantaged savings account registered with the government that enables you to save for retirement.

The primary benefit of an RRSP is that it allows for tax-deductible contributions and tax-deferred investment growth. Combining these two features means you can grow your retirement nest egg faster during your working years and defer taxation to a time in the future when you will likely be in a lower tax bracket.

The government announces a contribution limit that is 18% of your earned income from the previous year, up to a maximum limit that is updated annually. For 2023, the maximum RRSP contribution limit is \$30,780.

The Benefits of an RRSP

The RRSP is a useful element of retirement planning, and its main benefits are explained below.

1. RRSP Contributions are Tax-Deductible

When you contribute money to your RRSP, you can deduct that amount from your total income when filing your taxes for the year. This lowers your taxable income, resulting in immediate tax savings.

For example, if your gross income for the year is \$100,000 and you contribute \$15,000 to your RRSP, your taxable income for the year becomes \$85,000. If you are in a 35% tax bracket, this could save you \$5,250 in taxes (i.e. \$15,000 x 0.35).

You are not required to deduct your RRSP contributions each year. You can decide to carry forward your contributions and deduct them later. For example, in a future year when you are in a higher tax bracket.

2. RRSP Earnings Grow Tax-Deferred

Your RRSP funds are allowed to grow tax-free until you make withdrawals. This tax advantage means your investments can compound faster since you won't be paying taxes on income, capital gains, or

