Strategies for Your Retirement Savings Plan

A formalized savings plan that uses a registered plan, such as a Registered Retirement Savings Plan (RRSP), Tax-Free Savings Account (TFSA) or a Registered Retirement Income Fund (RRIF), is one of the soundest ways to realize your retirement goals. Here are some strategies you can use to maximize the benefits of your RRSP, TFSA and RRIF.

Grow your savings with a TFSA

A TFSA is a multi-purpose, tax-efficient savings account that complements your existing retirement savings plan. Your TFSA contributions grow tax-free and can also be withdrawn on a tax-free basis at any time, and used for any purpose (i.e., a new car purchase, renovating your home, starting a small business, helping fund a child's education or saving for retirement). TFSAs have now become one of the most important personal savings vehicles since the introduction of the RRSP.

TFSAs also provide income splitting opportunities. If you have maximized contributions to your TFSA and have excess funds to invest, you can give money to your spouse, partner or adult children to make a contribution to their own TFSA. This strategy allows you to help family members build assets, without having to worry about the income being attributed back to you.

RRSP contribution options

An RRSP is a tax-deferred plan designed to help you save for retirement. With an RRSP contributions are tax deductible, and once in the plan continue to grow on a tax-deferred basis until the funds are withdrawn. Any money withdrawn from the RRSP is taxed in the year of the withdrawal. At retirement, the money in the plan may be rolled into any of the available RRSP maturity options, where they continue to be tax sheltered, except for withdrawals made from the plan each year – which are treated as income.

Make an "in-kind" contribution – If you don't have enough cash to make your RRSP contribution, consider contributing qualified securities that you already own, rather than selling the securities and contributing the cash proceeds. Please note that you will be responsible for paying the tax on any accrued gains on the securities at the time of the contribution (except if made from a TFSA). In addition, it is generally not recommended to contribute securities that will trigger a capital loss, as the eligible offset towards a capital gain will be disallowed.

Consider an RRSP loan – If you do not have enough money to make your full RRSP contribution this year, or you want to take advantage of any unused RRSP contribution room, consider an RRSP loan. By applying the tax refund generated by your RRSP contribution to the balance of the loan, you should be able to pay off the entire loan within the year. Since interest on the loan is not tax-deductible, paying off the loan as quickly as possible should be a priority.

TFSA vs. RRSP

The timing of your RRSP contributions is important. If you're younger or are just starting out in your career, consider delaying your RRSP contributions until you're in a higher tax bracket. Instead, contribute to a TFSA for tax-free growth. Later, when you are subject to a higher tax bracket, consider withdrawing funds from your TFSA to make your RRSP contribution. This way, you're able to capitalize on the tax deduction and can use your income tax refund to replenish your TFSA.

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For Canadians in the top marginal tax bracket, it's important to maximize your RRSP contributions. If you do not have enough funds to make both an RRSP and TFSA contribution, consider maximizing your RRSP contribution each year to take advantage of the income tax savings, and then use your tax refund to make a TFSA contribution for additional tax-free growth.

Tax-deferred savings options when retired

Stay in control with a RRIF – When it's time to mature your RRSP, a RRIF is your best choice if you want to continue to manage your investments and give yourself maximum flexibility in terms of structuring your retirement income. You are required to withdraw a minimum amount each year and can choose when and how your withdrawals are paid. If you do not need the required minimum withdrawal amount for everyday spending, consider contributing the required withdrawal to a TFSA to continue sheltering future investment earnings from tax.

Contribute after age 71 – If you have earned income after age 71, and have a spouse who is still eligible to have an RRSP, you may want to contribute to a Spousal RRSP and continue to take the tax deduction for your contributions. If your spouse no longer has an RRSP, there is a one-time opportunity to make an additional RRSP contribution in the year you turn 71. Further, you may also contribute to a TFSA after you are no longer eligible to make RRSP contributions.

Investment strategies for your registered accounts

Expand your investment choices – With your RRSP, TFSA or RRIF, your investment choices go beyond GICs. Qualified investment options include mutual funds, exchange traded funds (ETFs), stocks, bonds and GICs. By examining all of your investment alternatives, you can often increase your return by one or two percentage points with only a marginal increase in risk. A $5,000 annual contribution that grows at six per cent, rather than four per cent, is worth over $40,000 more after 20 years.

Consider international investments – Canada represents less than three per cent of the world's capitalization. Investing in foreign securities can reduce risk and increase returns in your portfolio.

Pay yourself first – It can sometimes be difficult to come up with one large, lump sum RRSP contribution. By setting up a pre-authorized contribution plan and making monthly or quarterly contributions, saving for retirement will be easier. A systematic contribution plan lets you take advantage of dollar cost averaging, allowing you to buy more units/shares when the price falls and fewer when it rises – averaging the cost over time.

Hold interest bearing investments in registered plans – Since interest income is taxed at your highest marginal tax rate, consider holding interest bearing securities in your registered accounts, where they grow tax deferred (RRSP, RRIF) or tax-free (TFSA).

For more information, speak with your BMO financial professional.

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