RRSPs

Life's brighter under the sun

Your **2020** guide to
Registered Retirement Savings Plans

8 simple things you need to know about RRSPs:

1 What's an RRSP?

2 How much can you contribute?

3 Why does it pay to invest in your RRSP year-round?

4 What's the difference between an RRSP and a TFSA?

5 Should you join a group plan?

6 What is a spousal RRSP?

7 4 more things you can do with your RRSP

8 Next steps

Your **2020** guide to
Registered Retirement Savings Plans

1

What's an RRSP?

Simply put, a **registered retirement savings plan** (RRSP) is a special type of plan that helps Canadians save for retirement. Contributions you make to an RRSP are tax-deferred. This means you won't have to pay taxes for the growth on the investments in your RRSP until you take the money out.

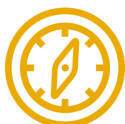
RRSP contributions are also tax deductible. So any money put into an RRSP (up to the annual limit) can reduce your taxable income for that year. What's the annual limit? It's a percentage of your earned income plus unused contribution room from earlier years.

Did you know?

You can hold a variety of investments in an RRSP, including:

- ✓ **Stocks**
- ✓ **Guaranteed investment certificates**
- ✓ **Bonds**
- ✓ **Mutual funds**

Income earned inside an RRSP isn't subject to tax until it's withdrawn. That's why RRSPs are a powerful way to save for retirement.



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2

How much can you contribute?

For 2020, the annual contribution limit is the lesser of $27,230 or 18% of your earned income for the previous year. But there are a few important things to keep in mind:

a. Unused contribution room

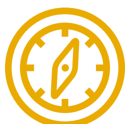
Haven't contributed the maximum in previous years? Then you could have unused RRSP contribution room to carry forward. This will bump up the amount you're allowed to contribute.

Don't forget

The RRSP deadline for 2019 is March 1, 2020

Contributions made in the first 60 days after a calendar year-end can be claimed on your tax return for the previous year.

How can you find out how much unused RRSP room you have? It's listed on the notice of assessment the CRA sent you last year after processing your tax return.



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b. Contributions to a pension plan

Are you a member of a pension plan at work? To calculate your RRSP deduction limit, you have to subtract your "pension adjustment" (PA). Once again, the CRA does this for you on your notice of assessment. There's no need to worry about this the first year you join a pension plan. Why? Because your PA for one year reduces your RRSP deduction limit for the following year.

c. Over-contributions

You're allowed to cumulatively over-contribute up to $2,000 to an RRSP without penalty. (Although you won't receive a tax deduction for the excess amount.) But what if you go over that? The CRA may charge you 1% per month on the excess amount. However, if you withdraw the extra funds right away and send a letter to the CRA explaining that it was a legitimate mistake, you may be able to obtain a waiver of the excess contribution tax.

Did you know?

You can contribute to an RRSP as long as you have employment or other earned income. You can do this until the end of the year you turn 71.

Let us help

Find out how much you'll need to save for retirement.

Calculate now >

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Why does it pay to invest in your RRSP year-round?

Do you wait until the deadline to contribute to your **RRSP** every year? You're smart to save for your retirement – but there's a smarter way to do it. Here's how: contribute to your RRSP regularly throughout the year.

Let's say you make smaller contributions throughout the year. For example, you contribute $500 each month instead of $6,000 at the deadline. Then you'll get the same tax benefit, but the investments within your RRSP could grow faster. That's because they'll have a longer time to increase in value.

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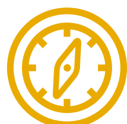
You might find it hard to come up with $500 every month. But say you make regular contributions throughout the year via payroll deduction. Then you can apply to your employer to reduce the tax deducted from each paycheque. The amount you save will help you make your monthly contributions. Contributing a lump sum at the deadline may give you a big tax refund. But that just means you've been paying too much tax all year long. Instead of getting one big refund at tax time, you can make regular monthly contributions through payroll deductions. This way, you can see the same tax reduction spread out over the whole year.

Making regular contributions to your RRSP means you can reap the benefits of tax-deferred growth over a longer period. So you won't have to make investment choices under a time crunch. And, if you make the deductions from your bank account or paycheque automatic, you won't even have to think about it.

Let us help

Saving for retirement in an RRSP? You can plan smarter. How? By knowing how much retirement income to expect from the Canada Pension Plan/Quebec Pension Plan. Estimate your monthly CPP/QPP income, and find out what factors will affect it.

Calculate now >



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What's the difference between an RRSP and a TFSA?

Confused about the best savings option for your needs? You're not alone. The federal government introduced the **tax-free savings account** (TFSA) in 2009. Since then, Canadians have considered whether a TFSA or an RRSP is the best place to stash their cash.

Both provide tax advantages. For example, there's no tax payable on investment growth on funds held inside either account. But each has its own set of rules.

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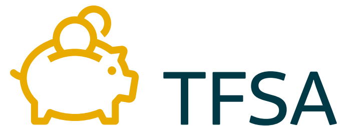
The main things to consider are when and how you want to use the funds. It's also important to understand a few of the key differences between the two options:

RRSP

- ✓ Your contribution limit is based on a percentage of your prior year's earned income from the previous year, up to a specified maximum.
- ✓ Contributions are tax-deductible.
- ✓ There is no tax payable on investment growth retained in the plan.
- ✓ Withdrawals are subject to income tax.
- ✓ Withdrawals can only be replaced as deductible contributions if you have sufficient additional contribution room, or as non-deductible contributions if you are making repayments per the terms of the Home Buyer's Plan or Lifelong Learning Plan.



TFSA

- ✓ You may contribute:
  - $5,000 for each year from 2009 to 2012;
  - $5,500 for 2013 and 2014;
  - $10,000 for 2015;
  - $5,500 for 2016, 2017 and 2018; and
  - 6,000 for 2019 and 2020.
- ✓ Contributions are not tax-deductible.
- ✓ There's no tax payable on investment growth retained in the account.
- ✓ Withdrawals aren't subject to income tax.
- ✓ You can re-deposit any withdrawals in the same calendar year if you have unused contribution room.

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What's the difference between an RRSP and a TFSA?

When it comes to saving for retirement, RRSPs are pretty hard to beat. Your contributions can reduce your annual income tax. And, you can save substantially on the overall amount of tax you pay. (That's assuming you'll be in a lower tax bracket when you withdraw funds from the RRSP.)

But they're usually not a good option for short-term savings. Why? Because money withdrawn from an RRSP will increase your annual income. This may result in your having to pay more taxes.

TFSAs can supplement RRSPs. Have you maxed out your RRSP? TFSAs can provide you with another great way to shelter a portion of your investment earnings from income tax.

TFSA withdrawals aren't subject to tax. That's why they're also a good option for saving for shorter-term goals such as:

- the down payment on a home,
- a vacation or
- an emergency fund.

Do you have adequate savings? Then it's usually advisable to contribute to both an RRSP and a TFSA. To help determine the best savings strategy for your needs, consider:

1. **Your savings goals**
2. **When you expect to withdraw the funds**
3. **How likely you are to withdraw the funds sooner for other needs**

RRSP calculator

What would happen if you took money out of your RRSP?

Calculate now ›

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5

Should you join a group plan?

Does your employer offer a group RRSP at work? Signing up for one can provide huge benefits.

Starting is easy. A small contribution is usually all you need to begin investing. You can also make lump-sum contributions or transfer money from another financial institution at any time. (That's assuming your plan allows it.)

Does your employer offer automatic payroll deduction? Consider signing up. It can increase your chances of investing regularly.

Did you know?

Contributing regularly to a group RRSP that invests in mutual and segregated funds can help even out market ups and downs. How? When the unit price goes up, your dollar buys fewer units. But when the price drops, your dollar buys more.

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Tax breaks

Contributions to your RRSP can reduce the income tax you pay. Find out if you can contribute through payroll deductions. That way, your contributions are invested before tax is deducted. This allows you to realize the savings on the spot.

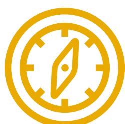
Income tax on investment earnings in your group RRSP, as in an individual RRSP, will be deferred until you withdraw them. Ideally, you won't have to withdraw those funds until after you retire and are in a lower tax bracket.

It can also cost less to manage your funds in a group RRSP. When you buy in bulk, you get a better deal. The same concept applies to a group RRSP. When a large group of plan members choose from the same list of funds, your employer can negotiate competitive fund management fees.

Other benefits

If you have more than one RRSP and don't want to manage multiple accounts, consider consolidating. Many plans allow you to move over other registered savings into your group RRSP at any time. This can potentially help you manage all of your investments in one place and keep your management fees low.

A group plan can help you save for retirement, provide a welcome tax break and cost less than a non-group plan.



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What is a spousal RRSP?

Contributing to your common-law or married spouse's RRSP can help build your partner's retirement nest egg. At the same time, you can lower the amount of tax that you pay together.

A tax break now

When you contribute into a spousal RRSP, you get the tax deduction. As an example, let's say you earn significantly more than your spouse. You'll get a bigger tax break by contributing to a spousal RRSP, than your spouse would get by contributing to their own RRSP.

Whether you contribute to your own RRSP or to a spousal RRSP, your contribution counts against your own RRSP deduction limit. What's your deduction limit? It's the maximum RRSP contribution you can claim as a deduction on your income tax return for the current year. However, your contribution to a spousal RRSP doesn't affect your spouse's contribution limit.

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A tax break later

A spousal RRSP can also give you a tax break down the road, during retirement. As an example, let's assume once again that you're the spouse with the higher income when retired. You've decided that you need to withdraw a total of $5,000 a month, as a couple, from your RRSPs. Thanks to the additional funds you've contributed, your spouse can withdraw a bigger share of that $5,000 from their RRSP. This will allow you to withdraw less from yours and face a lower inclusion of high-tax income.

It's important to note that spousal RRSPs are subject to a number of rules. After you've made a spousal RRSP contribution:

- The money belongs to your spouse. They control the account and when the money is withdrawn. It's also taxed as their income as long as certain conditions are met.
- You can contribute to an RRSP until December 31 of the year the RRSP owner turns 71. So what if you're over 71 and can no longer contribute to your own RRSP? If your spouse is younger, you can both still benefit from your spouse's tax-sheltered RRSP. And what if you still have earned income and RRSP contribution room? You can keep putting money in a spousal RRSP, claim a tax deduction for the combination and enjoy tax-deferral while your spouse's RRSP grows, until they turn 71.

When you're considering a spousal RRSP, it's important to look at your and your spouse's current financial situation. Then, you can project what your finances may look like at retirement. As everyone's financial circumstances are different, it's always a good idea to consult a financial professional.

Here's how a spousal RRSP could result in an income tax reduction for your family in total:	**Total income tax**
You withdraw the entire $5,000 per month x 12 = $60,000, taxed at 26%	**$15,600**
You withdraw $4,000 per month x 12 = $48,000, taxed at 26%	$12,480
Your spouse withdraws $1,000 per month x 12 = $12,000, taxed at 15%	+$1,800
	$14,280*

* This is only an example; consult a tax specialist to see how it can best work for you.

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4 more things you can do with your RRSP

Check out some of the other ways you can use your RRSP to achieve your financial goals:

1. Buy your first home

RRSPs give first-time home buyers the ability to co-ordinate their RRSP strategy with their home purchase. How? With the Home Buyers' Plan. It allows you and your spouse to each borrow up to $35,000 from your RRSP to buy your first home. What happens when you borrow money from your RRSP under the Home Buyers' Plan? You must pay the money back over 15 years. This period begins in the second year after the year you withdrew funds from your RRSP. (The relevant form is the T1036.)

Visit the **Home Buyers' Plan** website for more information.

2. Go back to school

You can use an RRSP for retirement or to buy your first home. Or you use it to fund your or your spouse's education under the Lifelong Learning Plan (LLP). You can withdraw an annual maximum of $10,000 toward your LLP; total lifetime LLP withdrawals are limited to $20,000. Any withdrawals for the purpose of training or

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education are tax free. That's provided you use the government form RC96.

For more information, visit the **Lifelong Learning Plan** website.

3. Reduce tax deductions at source

Many people who contribute to RRSPs either throughout the year or right before the deadline wait until they file their tax returns to claim their RRSP tax deductions and get their refunds.

Getting that refund can feel pretty great. But what you're actually doing by waiting is giving the government an interest-free loan with your hard-earned money.

How do you avoid that? You can contribute via payroll deduction to a workplace plan (if your employer offers one). This way, the necessary adjustments to the tax deducted will be made at source.

What if you have an RRSP that's not through your employer? You can also file a request with the CRA to arrange for your employer to withhold less income tax from your paycheque. Either way, the tax refund is effectively spread out over the whole year and the tax savings – which can be reinvested – is available sooner.

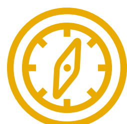
4. Contribute now, save tax later

Just starting off in your career? Hoping your income will be much higher in the future? You might be tempted to let your RRSP contribution room build up for a while. But that would mean missing out on years of tax-deferred investment growth. Instead, you can start contributing now, but carry the deduction forward to use when your income – and your tax savings – will be greater. Use Schedule 7 to let the CRA know that you've contributed but have decided not to deduct it that taxation year. This lets CRA properly track your remaining RRSP contribution room and carry forward the deduction amount.

RRSP vs mortgage calculator

Should you pay off your mortgage or contribute to your RRSP? Use this simple tool to find out.

Calculate now ›



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Next steps

Calculate if your retirement savings are on track

Will you have enough money set aside at retirement to make ends meet?

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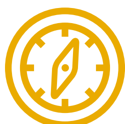

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