Wealth Management Planning

The Power of RRSP's for the Present and Future

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Recent indications suggest that many Canadians feel they will require a larger amount of money to fund a comfortable retirement. This may be attributed to people living longer, the rising cost of necessities, or people wanting to have enhanced retirement lifestyles. Regardless of the reason, an RRSP (Registered Retirement Savings Plan) is a powerful tool that can save you taxes now and help your investments grow in the future.

Why should you contribute?

Two important reasons to make regular RRSP contributions:

- **Lower the amount of tax you pay now.**
- **Opportunity for investments to compound tax-free over time.**

Given that you gain RRSP contribution room based on earned income from the previous year, it makes sense to contribute when your income is increasing, and you are in higher tax brackets. If you are no longer earning income or are in a low tax bracket, utilizing a TFSA (Tax-Free Savings Account) or non-registered investment account may be more beneficial. We can help determine the best account type based on your situation.

The RRSP allows your investments to grow and compound by sheltering any investment income from taxation. As an example, $10,000 invested today at 6% for 20 years would be worth over $32,000 in an RRSP, versus approximately $20,000. in a taxable non-registered account. The longer your investment timeline, the greater the effects of compounding will work in your favor.

When should you contribute?

You can make contributions to an RRSP at any time. However, for current-year tax deductibility, there is a deadline 60 days into the year. The **deadline this year is March 1, 2023**. Contributions made by March 1 can be used to reduce your taxes for 2022. It can make sense to get an initial idea of your tax situation before determining how much of a final contribution to make. Another successful strategy is to make regular automatic contributions (weekly, bi-weekly, monthly) throughout the year and then top up at the deadline for additional tax savings.

How much can you contribute?

RRSP contribution room is based on earned income from the previous year up to a maximum. The limit for **2022 is 18% of income up to a maximum of $29,210**. For 2023, the limit will increase to $30,780. If you have not made the maximum amount in previous years your RRSP room rolls over creating unused RRSP contribution room. You can find out your current year and full available room on your latest CRA Notice of Assessment or by logging into your MyCRA account online.

When can you access your RRSP?

The RRSP acts as a personal pension and is typically not touched until retirement. If a situation arises where money is required due to unforeseen circumstances, your RRSP can be accessed. However, any withdrawals from an RRSP prior to retirement are taxed as income at your marginal tax rate. When you do retire and require a steady stream of income your RRSP can be converted to a RRIF (Registered Retirement Income Fund), and a minimum withdrawal will be required each year. The latest possible date to **convert to a RRIF is at the end of the year you turn 71.**

We believe these are important key opportunities to take advantage of within your personal tax situation. Thornmark is open to help ensure your goals and strategies are aligned.

We look forward to helping you achieve more with your planning and investments. Please reach out to Thornmark at:

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