Ten common RRSP mistakes

No matter what the markets are doing, Registered Retirement Savings Plans (RRSPs) are still one of the best ways you can save for long-term goals such as retirement. So take full advantage of them, and avoid making the following mistakes:

1. **Missing a contribution**
   Skipping just one annual contribution of $5,000 could reduce the value of your RRSP by almost $17,000 at the end of 25 years (assuming a 5% annual rate of return). It's important to contribute every year to take advantage of tax-sheltered compounding growth.

2. **Waiting until the last minute**
   Avoid scrambling to contribute just before the RRSP deadline by arranging for pre-authorized amounts to be regularly deducted from your chequing account throughout the year. You'll get the advantage of dollar cost averaging, improve your ability to max out your RRSP every year and get tax-deferred compound growth working for you earlier.

3. **Rushing the decision**
   If you're rushing to meet the deadline, it's easy to make a bad investment choice or none at all. If you're not sure, make your RRSP contribution in cash. Then, later, when you've carefully evaluated your options, transfer your 'parked' money into an appropriate investment.

4. **Thinking only cash**
   If you don't have enough cash on hand to contribute then consider moving investments from your non-registered plans to your RRSP. This 'in-kind' contribution can be made with various investments deemed eligible. Remember you'll have to report any capital gains earned on your investments up to the date of the transfer.

5. **Over-contributing**
   You're allowed a $2,000 lifetime over-contribution. If you exceed this, you may be subject to penalties of 1% per month. So before making a contribution check the Notice of Assessment the Canada Revenue Agency (CRA) sent you for your allowable contribution room.

6. **Dipping in prematurely**
   Cashing in a portion of your RRSP has significant tax consequences unless you're doing so through the Home Buyers' Plan or Lifelong Learning Plan. First we're required to immediately withhold between 10% and 30% of the amount withdrawn and forward it to the CRA on your behalf. Plus, your total withdrawal must be reported as income and taxed accordingly. In the end, the cash you're left to spend may only be half of the amount initially taken out. So, cash in your RRSPs only as a last resort.

7. **Forgetting to update beneficiaries**
   If you've had any major changes in your life remember to update your designated beneficiary.

8. **Not consolidating**
   Spreading your RRSP accounts across multiple investment firms may result in additional account fees and over-complicate the tracking of your investments. To make proper recommendations, anyone advising you should have a full understanding of all your holdings and their combined diversification and risk.

9. **No income splitting with your spouse**
   If you're the family's higher income earner you can invest some or all of your contributions in your spouse's RRSP and claim the tax deduction. The big benefit comes at retirement when more equalized nest eggs can reduce your combined tax bite and mean more cash to live on.

10. **Not getting advise**
    Talking to a financial advisor on a regular basis can help you stay on top of your progress, your investments and your options.

Are you making any of these mistakes? Call us today (780) 425-4058 to make an appointment to discuss some personal strategies that can help you make the most of your RRSPs.

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