

## RRSP Basics



While RRSPs have been around since the 1950s, many people still don't know much about them or get them confused with other registered accounts.

This article will clear up the confusion and help you to decide if an RRSP is right for you. These are

some of the most typical questions we hear about RRSPs:

### What is an RRSP?

The Registered Retirement Savings Plan (RRSP) was introduced in 1957 to incentivize people to save for retirement, especially the self-employed and those without a company pension plan.

It's evolved to become a valuable retirement savings tool for many Canadians. The RRSP is a registered plan that provides tax-deferments and tax-shelter for your savings.

### Why would I choose an RRSP?

A key reason to invest in an RRSP is that all contributions are tax-deductible. Any amount you invest in an RRSP reduces your net income for tax purposes. It will effectively lower the amount of tax you have to pay that year, bringing you a lower tax bill or a refund. Let's say you earn \$65,000 and put \$10,000 into your RRSP. Your net income will be reduced to \$55,000 for tax purposes.

Another big draw is that your RRSP investments grow tax-free. You won't be taxed on any investment growth, including capital gains, interest and dividend payments. You keep all of your investments' growth, which helps your savings to grow faster.

The main drawback is that you are taxed when you withdraw funds. Once you retire and need to start taking out money, you'll need to switch your savings over to a RRIF (Registered Retirement Income Fund).

Withdrawals from your RRIF are counted as income and taxed accordingly. However, you should be in a much lower tax bracket when you withdraw those funds than when you made the contributions, so you should pay less tax.

### How much can I contribute to an RRSP?

You can contribute up to 18% of your earned income, up to a [maximum amount of \\$26,500](#) for 2019. If you contribute to a company pension plan, the amount you can contribute will be less.

However, you can carry unused contributions forward to the following year. Your most recent Notice of Assessment from the Canada Revenue Agency (CRA) shows how much you can contribute to your RRSP this year.

### What types of RRSPs are there?

You can take out an Individual RRSP for yourself, where you would make all the contributions and benefit from it. You can also contribute to a spousal RRSP whereby you get the tax break, but your spouse benefits from the savings. This makes sense if your spouse earns less than you and/or doesn't have a pension, because they will probably withdraw the money while in a lower tax bracket than you.

You can also choose a self-directed RRSP, which allows you to choose the investments you hold within your portfolio.

### What investments can I hold in an RRSP?

You don't have to hold just cash accounts in RRSPs, you can hold all sorts of investments, including:

- Stocks
- Mutual funds

- Exchange traded funds (ETFs)
- Guaranteed investment certificates (GICs)
- Savings bonds
- Mortgage-backed securities (e.g. REITs)

There are some restrictions, however, on what investments can be held, for example, stocks have to be listed on designated stock exchanges. You can see the list [here](#).

### How do I set up an RRSP?

You will need to set up an RRSP through a financial institutions, such as a credit union, bank, trust or investment firm.

Your Cornerstone financial advisor can help you to set up an RRSP and let you know which investments can be held within it. Call 1.855.875.2255 today to book an appointment to start saving for your retirement.