What Are You Doing With Your RRSP Contributions?

Description

The contribution deadline for this year's Registered Retirement Savings Plan (RRSP) is March 1. So, you still have a month to make contributions if you want to reduce your income tax for the 2017 tax year.

Without tax penalties, you can withdraw as much as $20,000 (a maximum of $10,000 in a given year) from your RRSP under the Lifelong Learning Plan and withdraw up to $25,000 to help pay for your down payment on your home as a first-time home buyer.

However, you must pay back the withdrawals over time. For the Lifelong Learning Plan, you have to pay back at least 10% of the borrowed amount every year.

It's good to know that it's an option to borrow from your RRSP for education or buying or building your first home. However, RRSPs are probably best for saving and investing for retirement. Inside an RRSP, your investments grow in a tax-deferred environment. When you make withdrawals and spend them, you are interfering with the compounding process.

When you make withdrawals during retirement, the amount is taxed as income. So, it makes sense to aim for the highest returns in RRSPs.

Since stocks can deliver relatively high returns in the long run compared to other investments, you might consider investing stocks in your RRSP (given you can stomach the risk).

Dividend stocks

If you're a conservative investor, you might consider investing in dividend-growth stocks, which are typically more stable and have a track record of growing their earnings or cash flow.

Pembina Pipeline Corp. (TSX:PPL)(NYSE:PBA) is attractive after dipping more than 10% from the $46-per-share level. It trades at a multiple of about 12.6, while it's expected to grow its cash flow per share at a double-digit rate for the next few years. Moreover, it pays out about 65% of its cash flow asa monthly dividend.

At under $41 per share, Pembina offers a yield of 5.3%. Investors can consider scaling in to the stock. Interest rate hikes may continue weighing on the stock, so you can get a lower average cost basis by building your position over time.

You can also invest in U.S. dividend stocks in your RRSP to get the full dividend from the foreign investments. Investing in the U.S. can help diversify your portfolio. Just remember not to overpay for your stocks.

Starbucks Corporation (NASDAQ:SBUX) should be a good long-term investment at current levels. It's still expected to grow at a double-digit rate. Investors can consider scaling in to Starbucks at current levels.

Investor takeaway

The important thing is to make contributions to your RRSP (especially if you're in a high tax bracket) and invest for your retirement. Consider good-value, quality dividend stocks such as Pembina and Starbucks today and especially on any further dips.

CATEGORY

1. Dividend Stocks
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TICKERS GLOBAL

1. NASDAQ:SBUX (Starbucks Corporation)
2. NYSE:PBA (Pembina Pipeline Corporation)
3. TSX:PPL (Pembina Pipeline Corporation)

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