Don’t Forget to Contribute to Your RRSP Before the Deadline!

Description

The deadline for contributing to your Registered Retirement Savings Plan (RRSP) for the 2017 fiscal year is March 1. If you haven’t already made your contribution, you should hurry up before it’s too late. Contributing to an RRSP has big advantages.

An RRSP offers you the opportunity to enjoy tax-free compounding of income on investments kept inside the plan. Your investments will only be taxed when you ultimately start withdrawing the funds. You should ideally not withdraw funds until your retirement years, by which time you will probably be in a lower tax bracket compared to when you contributed the money.

The most immediate advantage you get when making an RRSP contribution is the upfront tax deduction.

You can save in an RRSP every year a maximum of 18% of your pre-tax earned income from the previous year, up to a ceiling that is raised a bit every year. For 2017, that’s $26,010.

For example, if you live in Ontario and earned $100,000 of taxable income in 2016, you will be eligible to contribute $18,000 to your RRSP in 2017. At a combined federal-provincial tax rate of 43.41%, that would give you a tax deduction of more than $7,800. You can then reinvest your refund into your RRSP to increase its value.

In what should you invest?

After contributing to your RRSP, you will have to decide what to invest your money in. It is important that you diversify your investments to lower your risk.

If you want to have enough money saved for your retirement, it is also important to invest in companies that are well established and solid financially, and that have good growth prospects over the long term.

Canadian Tire Corporation Limited (TSX:CTC.A) is a good choice for an RRSP. This defensivestock performs well in all economic cycles. The share price has a 15-year compound annual growthrate (CAGR) of 13.6%.

Canadian Tire earned a fourth-quarter profit attributable to shareholders of $4.10 per share, up 18.5% from a year ago and beating analysts' expectations of $3.80. The retailer's performance was boosted by strong demand for its apparel and home products in winter weather categories. Earnings are expected to grow at an annualized rate of 11.6% over the next five years.

Canadian Tire pays a quarterly dividend of $0.90 per share for a yield of 2.02%.

Buying an insurance company is also a great idea, as insurers will benefit from rising interest rates. **Sun Life Financial Inc.** (TSX:SLF)(NYSE:SLF) is a great choice in the sector. The share price has a 15-year CAGR of 6.9%.

The life insurer reported fourth-quarter EPS excluding one-off items of $1.05, up 15.4% from a year ago and beating analysts' forecast of $1.02. Sun Life has made acquisitions in Asia, which helped to drive growth and diversify from domestic markets where competition is intense. Earnings are expected to grow at an annualized rate of 9.4% over the next five years.

Sun Life pays a quarterly dividend of $0.455 per share for a yield of 3.4%.

Buying a bank stock is also a good investment for your RRSP, as banks are solid financially and pay sustainable dividends. **National Bank of Canada** (TSX:NA) is a great buy in that sector. The share price has a 15-year CAGR of 11.6%.

Adjusted to exclude one-time items, the bank profit was up 15% to $1.40 a share in the fourth quarter — two cents higher than analysts' expectations. National Bank is focused on increasing efficiency and is transforming its operations to improve growth in all sectors. Earnings are expected to grow at an annualized rate of 11.2% over the next five years.

National Bank pays a quarterly dividend of $0.455 per share for a yield of 3.9%.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. TSX:CTC.A (Canadian Tire Corporation, Limited)
2. TSX:NA (National Bank of Canada)
3. TSX:SLF (Sun Life Financial Inc.)

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