How to Turn Your 2019 RRSP Contribution Into $1 Million

Description

March 1, 2019 will mark the annual deadline for Canadians to make contributions to their Registered Retirement Savings Plans (RRSPs).

Canadians are allowed to contribute up to 18% of their earned income from the previous year up to a maximum of $26,500 (in this case, we're talking about your contribution for the 2018 tax year and your taxable earnings in 2018).

But the Canadian Revenue Agency (CRA), which is the government agency in charge of administering and enforcing Canada's tax policy, also allows Canadians to carry forward any unused contribution room from previous years and apply that allowance to the current period.

Don't worry; if you don't have any carry-forward RRSP room to work with this year because you've already maxed out all of your previous year's RRSP allowances, you're way ahead of the game. I'll explain why a little bit later.

But say for argument's sake that you've got the $26,500 space and you want to use it this year to make a contribution to your RRSP.

Not only will that afford you the benefit of a tax break equal to the amount of your contribution, but you could be very well on the way to becoming a millionaire by the time you retire — mind you, that's just with this one year's contribution!

Here's how that might look.

Say you wanted to buy a stake in **Canadian National Railway** (TSX:CNR)(NYSE:CNI) as a secure, long-term buy-and-hold investment for your RRSP account. CNR actually makes a lot of sense for these purposes for a variety of different reasons.

For one, Canadian National Railway is intrinsically tied to the Canadian economy. CNR plays a vital role in helping Canadian businesses ship goods to their customers, and it is also instrumental in facilitating the import and export of goods to and from Canada to international markets.

And because CNR is such an important element of Canada's supply chain, it essentially gives the company greater bargaining power when negotiating contracts and rates with its customers.

That bargaining power helps to give the company greater pricing power, which it can use to manage the variability of its operating expenses — things like employee's wages, capital expenditures to build and repair infrastructure, as well as maintenance expenses and fuel costs.

As evidence of the potential value in such a strong, blue-chip company like CNR, if you had the foresight to buy stock in CNR a little over 10 years ago at the beginning of 2009, you would have seen the value of your investment multiply more than five-fold by the end of 2018, or an annual compounded return of 18.2%.

But granted, even if the next 10 years for CNR don't turn out to be quite as good as the last 10 have been, you don't have to be a rocket scientist to accumulate wealth in the public markets.

If, for example, you were going to take a starting value of $26,500 (equal to the ceiling on this year's RRSP contribution limit) and were to grow the value of that investment at an annual rate of 11% (much less than CNR's 18% over the past 10 years mind you), the value of that $26,500 today will end up being worth more than $1 million in 35 years.

Bottom line

Of course, we all recognize the truth that past performance is no guarantee of future success, but if you're willing to put the hard work in, make regular contributions to your RRSP and invest Foolishly, there's a very good chance that you can become an RRSP millionaire one day.

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