Retirees: Boost Your RRSP Payments the Easy Way

Description

Are you a soon-to-be retiree who has been building RRSP assets and thinking about ways to maximize your payments when the big day arrives?

If you answered yes to either of those questions, you've got your work cut out for you.

While there's always the option of withdrawing more than the minimum, it's not recommended. First, it increases the withholding tax you pay on the withdrawals. Second, if you take a part-time job in retirement and earn a decent amount of money at it, you may pay a tax at your marginal rate that goes well beyond the withholding tax. Either way, this plan runs contrary to the objective of maximizing payments.

So, with the most obvious option for boosting your RRSP payments out of the question, what are you to do?

It all starts with your portfolio strategy.

Diversify with growth stocks and blue-chip dividend stocks

If you really want to boost your RRSP payments, you need to contribute as much as possible and then maximize your returns. The "contribute as much as possible" part speaks for itself. As for maximizing your returns, that's a little more complicated, but diversifying across different asset classes helps you ensure a healthy mix of risk, safety, and reward. One of the best ways to get such a mix is to diversify with growth stocks and blue-chip dividend stocks.

Two examples

To illustrate the power of diversifying with blue chips and growth stocks, let's consider two examples: **Shopify** (TSX:SHOP)(NYSE:SHOP) and **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD).

Shopify is a classic growth stock. Up 166% this year, it has outperformed the market by leaps and bounds. If you'd bought $100,000 worth of SHOP at its IPO and held to today, you'd have well over $1 million. Those kinds of results can really increase your eventual RRSP payments. However, there's a dark side to stocks like Shopify: their big returns don't always last forever. And when they end, they can come crashing down hard. Shopify is currently trading at 45 times sales, which makes it a mighty pricey stock whose party may not last.

So, while you do want some exposure to fast growers in your portfolio, you can't rely on them completely.

This is where the blue chips like TD come into the picture. Up 5.7% this year, TD can't match the kind of returns you can expect from Shopify. However, it provides a solid dividend that serves as a buffer against what happens in the markets. If you buy $100,000 worth of TD shares, you can expect $4,000 worth of dividend payments each year, regardless of whether the stock goes up or down. Not only that, but the company has a long history of raising its dividend, so your $4,000 payout may eventually grow.

No, the dividends you get from buying TD won't deliver what a best-case scenario Shopify play would do. However, this kind of an income is a much safer thing and can serve as a small "safety net" to protect you against risks in the growth part of your portfolio. If you're ultra risk averse, you could even throw some government of Canada bonds into the mix, too.

CATEGORY

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TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:SHOP (Shopify Inc.)
4. TSX:TD (The Toronto-Dominion Bank)

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