The Number One Retirement Mistake You're Making Today

Description

If you're hoping to retire in the future or have already retired, you may be making a huge mistake. **Fidelity Investments Inc.**, which manages roughly $2.5 trillion, recently surveyed thousands of people to discover what their biggest retirement mistake was.

It turns out that these people didn't regret picking the wrong stocks or mismanaging their asset allocation. In reality, the mistake was much simpler.

According to the survey, 72% of respondents reported that not investing in a retirement tax shelter, such as an RRSP or TFSA, is a mistake. More than 50% of characterized it as a *major* mistake.

If you don't already have a TFSA or RRSP, this article is a must-read. If you already have one of these accounts, then congratulations, but there are still things you can do to get even more value out of these tax shelters.

Want to retire comfortably? Pay close attention to these critical tips.

Open an account

Of course, the first step is simply to open a TFSA or RRSP account. It's free to do so, and most brokerage accounts will give you the option, so it's unlikely you'll even need to change investment managers.

Before you move onto the next step, make sure to complete this one. Seriously. Human behavior often avoids complexity. Take it one step at a time.

You don't need to have the money right away or know where you'll be invested. All you need to do right now is make sure you have an account open, ready to be used.

Understand the rules

There are a few key rules that you need to understand once you have a TFSA or RRSP.

First, know the difference between each account. With a TFSA, you contribute using post-tax dollars. That is, you pay taxes on the money first, usually after earning it from your job, then you contribute the funds.

The benefit is that once invested, you never have to pay taxes on the dividends or earnings again. RRSPs work in the opposite way.

You'll have to pay taxes once you withdraw the money, but you get a tax break today by deducting your contribution value from your pre-tax income.

Second, there are contribution limits. This year, you can contribute up to $6,000 into a TFSA, but it's critical to note that your contribution room never goes away.

If you didn't contribute last year, or any year previously, you can add that space to this year's contribution room. RRSPs work in a similar way.

That is, contributions are limited to 18% of your previous year's earned income (up to $26,500) plus any unused contribution room from earlier years.

Finally, you can withdraw from a TFSA at any time, for any reason, and any withdrawals add to your contribution room.

Those are benefits that RRSPs lack. The withdrawal rules for RRSPs are more complicated with varying degrees of tax consequences. If you want simplicity and flexibility, TFSAs are the way to go.

Automate your life

The biggest mistake is not having a retirement account. The next biggest mistake is not *contributing* to your retirement account.

Sacrificing for the future can be hard, especially if that future is decades away. The best trick you can use to up your contributions is recurring deposits.

Most brokerage accounts allow for this. For example, you can have $500 withdrawn from your chequing account *automatically* each month, with the proceeds moving to your TFSA or RRSP. This removes all manual labor and ensures you'll be investing throughout the market cycle.

Don't worry about getting fancy with your asset allocation. Start with simple, long-term stocks like **Canadian Utilities Limited** (TSX:CU).

Canadian Utilities has paid a rising dividend for more than 30 years, and its business model ofproviding rate-regulated energy to Canadian consumers has resulted in a reliable, cash flow positivebusiness.

Regardless of where you choose to invest, however, be sure to do so with a TFSA or RRSP using automatic contributions.

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1. TSX:CU (Canadian Utilities Limited)

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