The #1 RRSP Blunder That Could Leave You With No Money

Description

The Registered Retirement Savings Plan (RRSP) is a vital tool for Canadians who want to retire with a decent financial standing. It is a savings program that was launched over 60 years ago to help us live a comfortable life after retirement. Contributing to your RRSP as early as possible is critical to help you make the most of it.

The RRSP is effectively an investment account. It helps you grow your retirement savings. Registered with Canada's federal government, you can enjoy some fantastic tax benefits from your RRSP. Perhaps one of the most significant advantages it offers is that the contributions you make to your RRSP can be deducted from your taxable income, lowering the amount you need to pay in taxes that year.

Tax-Free Savings Accounts (TFSAs) are growing in popularity since their introduction. They allow you to grow and withdraw your investments tax-free, but they do not offer the tax deductions the RRSP does. Additionally, contribution limits on TFSAs are typically much lower than RRSPs.

As beneficial as your RRSP can be, there is one mistake some Canadians make that can ultimately damage their retirement savings goals. I am going to discuss the error and what you can do to avoid it.

Withdrawing before you retire

There might come a time in your life that you have a significant expense to deal with. When that happens, many Canadians make the blunder of withdrawing funds from their RRSPs, and this mistake can become extremely costly for you.

The RRSP fund is taxed at a marginal or withholding tax rate every year. If you earn a decent income, the marginal tax income you are liable to pay will be quite high. The federal income tax rate on earnings exceeding $62,000 is 29%. Add provincial taxes to that, and you are looking at a potentially devastating loss of funds to taxes. For instance, the taxes applied in Quebec can take out 40% without even earning six figures.

If you withdraw funds from your RRSP before retiring, you may end up paying a significant amount more in taxes on the withdrawals.

What is the solution? A sound investment in solid stocks and holding the shares in your TFSA can do the trick.

A solution to your RRSP problem

Nobody sets up an RRSP with the intention of withdrawing funds earlier than they should. Usually, last-minute withdrawals come with high unexpected costs. I would urge you to devise a better way to deal with unforeseen expenses by setting up savings you can withdraw tax-free at any time.

The TFSA presents you with the option you need here. Instead of putting all your savings in an RRSP, consider contributing a share of it to your TFSA and invest in a stock like **Suncor Energy** (TSX:SU)(NYSE:SU). Suncor is one of my favourite stocks.

The company is a significant entity in Canada's energy sector. Its shares have more reliable pricing as compared to other companies. The company's share prices are less susceptible to fluctuation due to its integrated structure.

The company's shares are trading at $42.72 per unit as of this writing, up 20.24% in the past 12 months. Suncor is also paying dividends at a juicy 3.93% yield.

Foolish takeaway

Holding Suncor stocks in your TFSA will give you the room you need to leave your RRSP alone. The company's capital gains and dividend income can offer your portfolio substantial growth. In case of rainy days coming your way, you can rely on the tax-free withdrawals from your TFSA rather than ruining the advantage your RRSP offers when you withdraw from it at the right time.

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