# 2 Hugely Common RRSP Mistakes to Avoid at All Costs

## Description

Tax-Free Savings Accounts (TFSAs) tend to attract most of the investors' attention, and have outpaced older peers. However, a Registered Retirement Savings Plan (RRSP) is still a great investment vehicle for your retirement years.



If you use it right and make smart investments, a TFSA can help you save and grow enough wealth to make your retirement years very comfortable. However, the most intelligent thing to do is use both an RRSP *and* a TFSA.

An RRSP is a tax-sheltered account that you contribute to using your pre-tax dollars. You don't have to worry about the taxes until you withdraw your money from your RRSP and your savings can grow tax free until then.

Another great perk that comes with regular RRSP contributions is lower yearly taxes, as the amount you have contributed to your RRSP is tax deductible.

Despite these benefits, many Canadians fail to use the true potential offered by an RRSP — usually by making two mistakes.

## The more you delay, the less it will pay

Procrastination is one of the most common RRSP mistakes. Many people think that they will start contributing to their RRSPs when their income reaches a certain level in the belief that it's better to add more copious amounts later than to contribute small quantities today.

What these people miss is that with investment vehicles like RRSP that are designed for long-term investments and growing the wealth over decades, time is just as important as the amount you contribute.

For example, if you start contributing $12,000 a year in your RRSP, on which you earn interest or profit of 3% a year, you will make around $771,000 in 35 years, from which $420,000 is your principal contribution.

On the other hand, if you invest $24,000 a year for 20 years; you would get almost $698,666. Your primary contribution here is $480,000.

Contributing fewer amounts for more years is much better than contributing more for less number of years, so stop procrastinating and start contributing to your RRSP today.

## No risk, no gain

Many people with an RRSP try to play it safe, choosing to depend only upon interests, or highly stable, low dividend stocks. This is a smart move because when you're saving for about three-and-a-half decades, compounding might make up for the low returns you are getting from your savings/investments. But it's also akin to buying a sports car and only using it for grocery runs.

People who worry about ups and downs in stocks should understand that it's a part of the game. When you're holding a stock for decades, a bit of turbulence in the stock price won't ultimately matter.

Take **Enbridge** (TSX:ENB)(NYSE:ENB), for example. Similar to the overall oil sector, it took a severe plunge a few years ago from which it hasn't fully recovered.



But if we look back farther, Enbridge's market value has grown 115% in the past 10 years. So even at a conservative estimate, if you buy into Enbridge today, your investment may be worth two or three times what it is now in a few decades.

This is apart from the killer dividend yield of 6.22% that Enbridge is offering right now. And as a Dividend Aristocrat with 20 consecutive years of dividend increases under its belt, it's highly unlikely that the company will start slashing payouts anytime soon.

## Foolish takeaway

An investment and savings vehicle is only as good as how much you can grow it. RRSP is by its very nature suited for long- term growth of wealth. If you start contributing early and investing boldly, you might well have a strong chance of retiring a millionaire.

**CATEGORY**

1. Dividend Stocks
2. Energy Stocks
3. Investing

**TICKERS GLOBAL**

1. NYSE:ENB (Enbridge Inc.)
2. TSX:ENB (Enbridge Inc.)

**PARTNER-FEEDS**

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

**Category**

1. Dividend Stocks
2. Energy Stocks
3. Investing

**Date**
2025/09/18
**Date Created**
2020/01/03
**Author**
adamothman