Canada Revenue Agency: 2 Smart Ways to Get the Most From Your RRSP

Description

Whether you're close to retirement or light-years away, you should be setting up a Registered Retirement Savings Plan (RRSP). If you can get the most of your RRSP, it can fill the shortfall of the Old Age Security (OAS) and the Canada Pension Plan (CPP).

There are many ways to maximize your RRSP, but here are two of the smartest ways.

Contribute early

Procrastination is the enemy of a retirement planner. Contribution to your RRSP should have begun yesterday. The earlier you can put your money into an RRSP, the sooner it can start working on a tax-deferred basis.

There's no minimum age to set up an RRSP, but you can contribute to the plan until the end of your 71st birthday. In case you're unable to contribute, you can carry forward the unused RRSP contribution.

Your money will not compound with fixed income investments such as bonds or guaranteed investment certificates (GICs). Its value will even erode in the long haul due to inflation. Dividend investing is the way to go.

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM), or CIBC, and **National Bank of Canada** (TSX:NA) or NA can protect your money against inflation and deliver long-term money growth.

Go for money growth

While CIBC is the fifth-largest lender in Canada, its 5.76% dividend is the highest among the well-regarded Big Five circle. This $48.45 billion banking institution witnessed steady progress last year, although the higher loan loss reserves affected its bottom-line results.

Chief Risk Officer Laura Dottori-Attanasio, however, gave the assurance that delinquency rates and write-offs are within CIBC's risk appetite. Also, provisions for loan impairments would be flat in 2020.

The bank's 15.4% return on equity (ROE) in 2019 beat its 15% target, but its full-year net income and earnings per share (EPS) fell by 2.2%. Still, momentum is on the side of CIBC in 2020, mainly because of the double-digit revenue growth and higher asset management fees.

This year, CIBC will continue to streamline operations, optimize efficiency, and change cost structure. More strategic investments in technology are forthcoming, which should support growth as well.

NA, the most dominant bank in Quebec is doing well. Slowly, the valuation gap of this $24.7 billion bank with the Big Five banks is thinning. It's not as popular as its bigger industry peers, although it's a good defensive stock in an economic downturn.

While NA may be lacking in international exposure, Quebec's economy Canada is driving growth. The bank is quick to capitalize on the robust and flourishing economy of the second-most populous Canadian province.

Over the past three years, revenue has been averaging $4.2 billion, while average net income hovers around $1.6 billion. The dividend yield stands at 3.89% with a payout ratio of 41.96%.

In Q4 2019, most Canadian banks reported sluggish growth except for NA. EPS hit the double-digit range, while provision for credit losses did not increase. Also, the bank raised its dividend. Moving forward, expect the bank to deliver strong numbers.

Surefire way

Early contribution and dividend investing are the smartest ways to make the most of your RRSP. Adding CIBC and NA to your account will put you on the right path to a comfortable retirement.

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