69% of RRSP Investors Are Doing This Right, According to BMO (TSX:BMO)

Description

Many people make the mistake of delaying their retirement planning for the latter half of their lives. And while it's still better to be late than never starting at all, understanding the value of time is important.

Between the two most popular investment savings vehicles, the RRSP and the TFSA, the RRSP is better suited for long-term investment goals, like saving and investing for retirement.

This is something that more and more people have started to realize. The number of people with an RRSP has grown significantly since 2018. According to a recent report by the **Bank of Montreal** (TSX:BMO), 69% of people have an RRSP now. That's a drastic increase of 9% from 2018's 60% RRSP holders. This shows that more Canadians are taking in the longer view of things.

And it's not just the increase in the number of RRSP holders. The amounts people are keeping in their RRSP accounts are increasing as well. The current average of funds in an RRSP is $111,922. Just to give you a perspective of how time works in your favour, this amount, with 7% returns each year, can grow to over a million dollars in 33 years.

The report reflected some other perceptions about retirement as well. Only about half the people thought they would be completely debt-free by the time they retire. Only about 40% had an estimated amount in mind that they would need for a comfortable retirement, and the magic number fell somewhere between $1 million and $1.7 million. But just having cash in your RRSP and earning interest is not enough to get you near those numbers.

Let's say you start with $100,000 and put another $10,000 in your RRSP every year. Even if you are getting a generous 2.75% interest on your capital, you will have about $834,600 in 35 years. While it's a decent number, it's a severe underutilization of the potential of your capital.

The alternate

The alternate is wise investments. Take BMO, for example. The bank's current dividend yield is a juicy 4.6%. BMO is a dividend aristocrat that has been increasing its payouts for eight consecutive years. It increased dividends by 26% in the past five years.

In terms of market value, the bank had been relatively stagnant for three years. But if we stretch back further, the five and 10-year compound annual growth rates are impressive numbers of 7.7% and 9.5%, respectively (dividend-adjusted). Let's assume a modest growth rate of 6% and apply the same strategy that we did for putting in cash, i.e., $10,000 every year.

The 35-year growth might over $1.8 million. And your dividend payouts will pick up the bulk of your yearly contributions. Even after tax, this nest egg has the potential to carry you through your retirement years quite comfortably.

Foolish takeaway

Using your RRSP the right way isn't the only piece of the puzzle. You will see some monthly income from OAS and CPP as well. And you might also have decent growth in your TFSA, which won't cost you a dollar in tax. The aim is to plan your retirement finances the right way and start investing as early as possible. Even small investments over a large period can make a substantial difference in the end.

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