The Number 1 Retirement Mistake Canadians Are Making Now

Description

If you are a mid-career Canadian or are nearing retirement, you might be making a mistake that several Canadians have been making. **Fidelity Investments Inc.** is an investment management fund that takes care of approximately $2.5 trillion in assets. It conducted a survey late in 2019 to understand what their biggest retirement mistake was.

Most of the Canadians that they surveyed did not consider picking the wrong stocks or poorly managing their asset allocation as their biggest mistake.

Just over 70% of the respondents of Fidelity Investment's survey said they made the mistake of not investing in a retirement tax shelter like a Registered Retirement Savings Plan (RRSP) or a Tax-Free Savings Account (TFSA).

More than half of them considered this as the most significant mistake they have made. Even if you have an RRSP or TFSA, you might not be using them properly.

Understand how they work and what they offer

Both the RRSP and TFSA offer you several tax benefits that make them excellent accounts for accumulating retirement funds. There are, however, a few rules you need to understand once you have a TFSA or an RRSP.

You contribute post-tax money into the TFSA. It means you pay your taxes on the money before you contribute your funds to the account. Once you invest in a TFSA, you no longer need to pay taxes on earnings from your assets in the account. No withdrawal fees or maintenance charges for the account either.

RRSPs are the opposite. You will need to pay taxes on funds you withdraw from RRSPs, but you get a tax break from the account. Any contribution you make to your RRSP is deducted from your total taxable income.

There are several intricacies regarding both accounts that you should understand so that you can fully utilize the accounts. This includes understanding the contribution room, taxes on withdrawals, and unused contribution room.

Earning passive income

One of the best ways to maximize the benefits of both the TFSA and RRSP is to use their tax-sheltered status to earn passive income without incurring income tax. While you can use your accounts' contribution room to store cash, you will have more of an advantage if you use the accounts to store income-generating assets.

Dividend-paying stocks with a decent yield and reliable payouts like **Fortis Inc.** (TSX:FTS)(NYSE:FTS), for instance, are exceptional choices to make passive income through TFSAs and RRSPs.

Fortis is among the best defensive stocks trading on the **TSX**. The diversified utility company has regulated gas, electric, and electric transmission operations. It also has a long-term contracted hydroelectric power generator as well as a natural gas facility. It provides utility services to customers across Canada, the U.S., and the Caribbean.

The essential nature of this company's operations gives it better insulation from the effects of a recession, whether it is due to economic reasons or the current global health crisis. People need their utilities regardless of the situation, which means Fortis will continue to generate revenue and finance its dividends.

Fortis is a buy-and-hold dividend-paying stock that can offer you substantial returns through its payouts in your TFSA and RRSP. At writing, the Fortis stock is trading for $50.62 per share with a 3.77% dividend yield.

Foolish takeaway

Using your TFSA and RRSP to store income-generating assets can substantially grow your wealth without incurring taxes for the Canada Revenue Agency to collect. Over time, your tax-free passive income can accumulate to create a massive retirement fund you can enjoy during the best years of your life.

I think the Fortis stock could be the perfect way to begin building a portfolio in either a TFSA or RRSP.

CATEGORY

1. Dividend Stocks
2. Investing

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1. NYSE:FTS (Fortis Inc.)
2. TSX:FTS (Fortis Inc.)

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