Retirees: 3 RRSP Tricks to Keep More of Your Money

Description

If you're retired or soon to be retired, you're probably counting on an RRSP to fund part of your retirement. Unfortunately, it may not be enough.

According to the 2016 census, 65% of Canadian households had at least one RRSP that year. The average balance in those accounts was about $101,000. That's not a lot of money when you're planning for retirement.

In fact, it's even less than it looks. RRSP funds are taxed on withdrawal. The taxes payable depend on your marginal tax rate. If you have a lot of income coming in from outside your RRSP (e.g., from pensions), the taxes could be steep. You really want to avoid paying heavy RRSP taxes if at all possible. The following are three ways to do that.

Invest in a TFSA when you're out of RRSP space

If you're still actively investing in retirement, it's a good idea to invest in a TFSA. The reason is that TFSA returns aren't taxable — not even when you cash them out. The amount of tax you pay on RRSP withdrawals depends on your marginal tax rate. Taxable investment gains push your marginal tax rate higher. By investing in a TFSA, you avoid having that happen. That, in turn, can lower your taxes on RRSP withdrawals.

Hold U.S. dividend stocks in your RRSP

If you hold U.S. dividend stocks, it pays to hold them in an RRSP. The reason has to do with another kind of tax — this one charged by the IRS. The U.S. tax agency normally charges taxes on all dividends paid to foreigners. However, the RRSP gets you off the hook for this tax. The result is a lower dividend tax rate than you'd pay in any other account.

Time your withdrawals

Last but not least, you can keep more money in your RRSP if you time your withdrawals wisely. You may have heard that it's best to wait until you're 71 to withdraw from an RRSP. The reason is that that's the oldest age you can start withdrawing at. Generally, it's thought that putting off RRSP withdrawals as long as possible is ideal, because the older you are, the lower your income likely is.

However, it depends on how much income you're actually earning. If you're a younger retiree earning very little, it may make sense to withdraw earlier, so you spread your withdrawals out over a longer period of time.

We can illustrate how this works by using an example. Let's imagine that you were 55 years old, working part time, and earning $1,000 a month. At that income level, you'd be at the lowest tax bracket in most provinces.

Let's also imagine that you held $1,000,000 worth of **Fortis** (TSX:FTS)(NYSE:FTS) shares in an RRSP. If you started RRIF withdrawals at age 55, you'd only have to withdraw $21,500 of that position and would not pay a lot of tax on it. Not only that, but the dividends paid that year would more than cover the withdrawal — assuming Fortis's yield is unchanged.

If you waited until 71, however, you'd have to withdraw $52,800, would pay steeper taxes on the withdrawals, and would have to sell part of the position to make the withdrawal. So, if your income is already reduced in your 50s, early withdrawals can make sense — especially if you don't want to sell out of your investments.

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