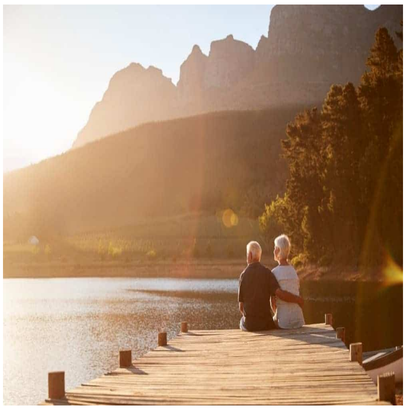

3 Keys to Retiring Rich

Description

Do you want to retire rich?

If so, you've got a long road ahead of you. There's no quick and easy path to becoming wealthy. But it can be done. Through diligent saving and investing, it's possible to build a large retirement nest egg that rewards you handsomely in your golden years. In this article, I'll explore three keys to retiring rich based on [advice from Canadian tax experts].

Contribute to an RRSP

The single, most important thing you can do to retire rich is to shelter your income from taxation. According to David Rotfleisch, a renowned tax lawyer, the best way to do that is to contribute to an RRSP. In a recent *Financial Post* interview, he said "you should be putting the max you can in an RRSP." He went on to say that that's the best tax-sheltering strategy anybody can take advantage of.

Why are RRSPs so important? There are three reasons:

1. They give you a tax deduction on contribution.
2. They let you grow and compound your investments tax free.
3. You don't have to withdraw until age 71 — when you're likely to have a lower tax rate.

For all these three reasons combined, saving and investing in an RRSP can go a long way toward helping you retire rich. Indeed, many Canadians rely exclusively on RRSPs for sheltering their investment income from taxation. But it's not the only option for doing so, as you'll discover shortly.

Open a TFSA

If you haven't done so yet, opening a TFSA is a great step you can take to help you retire rich.

A TFSA, like an RRSP, lets you grow your investments tax-free.

Unlike an RRSP, however, TFSAs let you *withdraw* your money tax-free, making them far more flexible.

Let's just imagine for a second that you held $50,000 worth of **iShares S&P/TSX 60 Index Fund** (TSX:XIU) in a TFSA. XIU is an exchange-traded fund (ETF) that yields 2.5%. On a $50,000 position, you get $1,250 in dividends from it per year. Depending on your marginal tax rate, you could be looking at hundreds of dollars in taxes every year. In a TFSA, however, you pay nothing. It's the same story with capital gains. If you realize a 20% return on a $50,000 position in XIU, you have a $10,000 gain. $5,000 of that is taxable. You could be looking at up to $2,500 taxes if you're in the highest tax bracket. But again, you pay none of those taxes in a TFSA, which perfectly illustrates how the TFSA helps you to retire rich.

Pay attention to mortgage rates

A final tip to help you retire rich is to pay attention to the interest rate on your mortgage.

The reason interest rates are so important is because they determine whether you're better off paying down your mortgage or investing your money instead.

If you have an extremely low-interest mortgage (say, 2%), you're probably better off investing. Your stock market gains are likely to get way ahead of what you pay in interest. But if you're unlucky enough to have a high interest mortgage, you should pay that down as fast as possible, because those interest payments will really add up to a lot over 30 years.

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