Retirement Planning: 3 Simple RRSP Investing Tips for You

Description

The earlier you begin your retirement planning, the better. The reason is simple. The earlier you plan, the sooner you save and the longer your money can work for you.

The RRSP can be a helpful tool in your overall retirement plan. Here are some RRSP investing tips to help you grow a bigger retirement fund.

Only withdraw from your RRSP for three reasons

The RRSP is designed to help you save for retirement. It's a key component of your retirement fund. Therefore, generally, you want to get into the habit of only depositing into your RRSP(s) to let your retirement fund grow for decades.

Only withdraw for three potential reasons.

First, under the Lifelong Learning Plan (LLP), you can withdraw up to $20,000 in total for full-time training or education for yourself, your spouse, or your common-law partner. This amount won't be counted as income. However, as the Government of Canada website explains, you'll have to repay your RRSP the amount you withdrew — usually over a 10-year period. "Any amount that you do not repay when it is due will be included in your income for the year it was due."

Second, under the Home Buyers' Plan (HBP), first-time homebuyers can withdraw up to $35,000 (with no withholding tax) from their RRSP(s) to buy or build a home. You are expected to pay back the amount to your RRSP over 15 years.

So, if you took out $35,000 from your RRSP through the HBP, you need to pay back about $2,333 over 15 years. Similar to the LLP, if you miss a payment, it will be counted as taxable income for that year, which would increase your tax bill.

Third, some people might choose to withdraw from their RRSP during a year in which they have low income. That could make sense because the tax bill would be lower.

For the first two cases, if you miss a payment, not only do you need to pay income tax for the amount, but you'll also lose that original RRSP contribution room, which eats into your retirement fund. For example, $2,333 invested over 30 years for a 7% return will become $17,759.

Focus on long-term investments

Since the RRSP is for building your retirement fund, you want to focus your RRSP in long-term investments, namely stock investing. Blue-chip dividend stocks like **Royal Bank of Canada**, **Fortis**, **Pfizer**, and **TELUS** are a more secure stock investing strategy.

Besides, a dividend portfolio could allow you to make a smoother transition in retirement when you need to withdraw funds periodically. If you're making enough income from your dividend stocks, you can simply withdraw dividend income.

There's a minimum withdrawal factor. According to this **Sun Life** article, the minimum withdrawal factor for an RRIF is 5.28% at age 71, and the factor gradually increases.

Remember that if you don't need the money, you can transfer stocks out of your RRSP/RRIF to your other accounts in-kind. Although the withdrawn amount is counted as income and you'll be paying tax on it, you won't be forced to sell your stocks. Certainly, if during retirement, there's a big market correction, you would want to transfer in-kind to avoid selling stocks at a bad price.

Don't invest for interest income

Some investors argue to earn interest income in registered accounts such as RRSPs because interest income is taxed at the marginal rate. However, interest rates are so low that quality fixed-income investments neither provide sufficient income nor attractive long-term total returns.

Unless you have a massive nest egg and accept low income/returns for the ultimate safety of your capital, you should probably avoid investing for interest income.

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