3 Important Tips for RRSP Investors

Description

A **Royal Bank of Canada** poll released on January 21, 2022, showed that 53% of Canadians are now using their Registered Retirement Savings Plans (RRSPs) to invest for retirement. However, will rising prices and the ongoing COVID pandemic prevent Canadians from contributing to their RRSPs this year?

The most surprising insight about the poll is that the focus of young Canadians has shifted to investing because of the threat of inflation. Because basic living expenses are on the rise, 85% of the younger investors worry about striking a balance between their present financial situation and saving for the future.

An RRSP is a special type of savings account because you can invest in income-producing assets like stocks, bonds, mutual funds, GICs, and ETFs within the account itself. However, RRSP users should always bear in mind that the account isn't simply a vehicle to save for retirement.

The following are three important tips for RRSP investors so they won't miss out on the other benefits of optimizing the account.

1. Instant tax benefit

Another tax season is coming and instant tax benefit is one of the salient features of investing in an RRSP. Because RRSP contributions are tax-deductible, a user benefits financially on the same year of the contributions. A key date to remember is March 1, 2022, the deadline to contribute for the 2021 tax year.

The Canada Revenue Agency (CRA) sets the contribution deadline 60 days after the end of the year. Don't miss the deadline as you won't be eligible for tax deductions. Also, the contribution limit for 2021 is 18% of total income but not to exceed $27,830.

2. Early withdrawal is costly

RRSP withdrawals have consequences, so most users don't make unnecessary or early withdrawals to avoid paying withholding taxes off the bat. Some retirement planners say it's the perfect roadblock because users lose potential money growth besides the bigtime cost.

3. Tax shelter until retirement

Another advantage of investing in an RRSP is the tax-free money growth. While taxes are inevitable when the time to withdraw the funds comes, your marginal tax bracket should be lower after retirement. Remember that as long as you don't make any withdrawals, all interest, dividends, and capital gains in your RRSP are tax-sheltered.

Eligible investments

Most RRSP users prefer dividend stocks over other financial instruments because of higher returns and recurring income streams. **Toronto Dominion Bank** (TSX:TD)(NYSE:TD) and **Fortis** (TSX:FTS)(NYSE:TF) are top-of-mind choices in the past and in the present.

Canada's second-largest bank has a dividend track record that is 165 years and counting. The top-tier utility stock boasts bond-like features and has raised its dividends for 48 consecutive years. TD trades at $105.17 per share (+9.4% year-to-date) and pays a 3.44% dividend. Fortis is cheaper ($60.01 per share) and yields 3.59%.

The dividends of both companies should be safe and sustainable for years. TD's 13% dividend increase announced in December 2021 will take effect at the end of Q1 fiscal 2022. Fortis has a corporate guidance of 6% average annual dividend growth through 2025.

Fixed contribution

Retirement planners recommend investing in an RRSP to secure your financial health in the future. If you can't max out the contribution limits, try to invest a fixed percentage of your income annually. You'll reap the rewards when you retire.

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