For the 2nd Year in a Row, 50% of Canadians Are Making a Huge Retirement Mistake

Description

It hasn't been an easy year for Canadian investors. Just when the market starts to rebound, it seems another dose of bad news — or the invasion of an entire nation — sends it for another wild ride.

So, it might not come as a surprise that over half of Canadians are choosing *not* to invest in their RRSP this year — around 52%, in fact. What is surprising, however, is that this is the second consecutive year that the majority of Canadians are sidelining the RRSP.

Some simply can't afford to contribute. Others, however, are choosing other accounts, such as non-registered accounts and TFSAs.

Skipping the RRSP for one year isn't a cause for concern. But if this becomes a habit, Canadians could easily make a major retirement mistake. Here's why.

Tax advantages

Of all the retirement accounts in Canada, the RRSP has the most tax advantages.

For one, the RRSP gives you the benefit of tax deferral. That means you won't pay capital gains taxes when you sell investments for gains. This can be a major advantage for stock investors: what about those shares of **Shopify** that you bought in 2017 for $70 and sold for $1,700 a piece last November? Not a dime is paid to the CRA — at least, not yet.

With the RRSP, you contribute before-tax dollars, meaning you'll pay some taxes when you withdraw money in retirement. The amount you pay depends on your marginal tax rate at the time of withdrawal. Ideally, you won't be making as much income in retirement as you are now, which will put you in a lower tax bracket. As such, you'll pay less in taxes on withdrawals — much less than what you would have paid had you not contributed the money.

But the RRSP bites back: though you might pay taxes in retirement, the CRA allows you to deduct your

RRSP contributions from your taxable income.

That's huge. Contributing to your RRSP could knock you down into a lower tax bracket, which will help you save an immense amount on taxes.

Contribute small amounts

With an RRSP, you can contribute up to 18% of your previous year's earned income, or $29,210 (for 2022), whichever is less. For instance, if you made $100,000 last year, you could contribute a maximum of $18,000 into your RRSP.

But you don't have to max out your RRSP. Unused space rolls over, and even small contributions over time can still keep you invested for your retirement.

One strategy you can use is dollar-cost averaging. This involves investing a consistent amount at regular intervals. For instance, let's say you get paid $2,000 twice a month. With a dollar-cost averaging strategy, you might invest $100 of every paycheque in stocks or funds, around $200 per month. That will allow you to save around $2,400 per year. It's not a lot, true, but when invested for 20 to 30 years, it could end up being more than you think.

You don't even have to invest in stocks. You can invest in ETFs or index funds, both of which track a market. Each share that you buy will provide instant diversification, as ETFs and index funds are simply baskets of stocks.

On this point, investing legend Warren Buffett agrees:

> "If you like spending six to eight hours per work working on investments, do it. If you don't, the dollar-cost average into index funds. This accomplishes diversification across assets and time, two very important things."

Invest consistently

Don't throw the RRSP off the table yet. It's not the most glamorous retirement account out there (you can't hold cryptocurrency in it), but it has tax advantages that can help you save money.

The good thing about Canada's retirement accounts is that you don't have to choose between them. For those who have a low income, you might want to choose the TFSA. Alternatively, if your employer offers an RRSP with a match, definitely take the match. You don't want to leave free money on the table.

At the end of the day, the most important thing is to invest consistently over a long period of time. Sometimes, it might seem counterintuitive to invest, especially in year fraught with bad news headlines and market volatility. But over time, the investments you buy in 2022 will likely gain value. And, in 2032, or 2042, it might not matter what happened this year. At that point, what will matter is your habit of investing money consistently.

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