The 3 Best Ways to Invest for Retirement

Description

Canadian pay tons of taxes to the government for public services, such as health care, education, law enforcement, and fire and emergency services. So, when we're given the opportunity for a tax break, we should embrace it!

Investing in your Tax-Free Savings Account

The Tax-Free Savings Account (TFSA) is one of the best tools to help you invest for retirement. Even if you're a student, you can start contributing to your TFSA as soon as you start earning money from a summer job. Early years of savings invested at a reasonable rate of return can roll into a HUGE retirement fund down the road.

For example, if you begin saving $50 a month since you were 18 years old and invested the savings for a rate of return of 7% per year, you'll arrive at $203,794.79 by the time you're 65 years old. Of course, as you progress in your career, you will be able to save and invest much more, resulting in a much bigger retirement fund.

All earnings and income in your TFSA are tax free. You also withdraw tax free. So, it makes perfect sense to start using it to shelter your investments from income taxes as soon as you can save some money.

For long-term investments, investors can consider quality growth stocks like **Alphabet** and **Constellation Software** in their TFSAs.

Buying your home

Real estate is a long-term investment with the mortgage maturity typically at 15 to 25 years. Of course, you could sell before your mortgage matures if you already sit on gains after, say, five years. However, since the capital gain on your principal residence is tax free and real estate prices tend to go up in the long run, you might as well sit on this long-term investment to potentially benefit from a larger long-term capital gain in the future.

In most cases, retirees would have paid off their homes by the time they retire. By then, the market prices of their homes are expected to be much higher than what they paid, including interests for the mortgage. They can then consider selling their homes to switch to a smaller one and enjoy the nice and tax-free capital gain in retirement — perhaps go on some nice vacations.

Contributing to your Registered Retirement Savings Plan

Contributing to your Registered Retirement Savings Plan (RRSP) is another great way to save taxes. Since Canada employs a progressive income tax system, the more money you make, the more income taxes you pay. As a result, it's generally a good idea to contribute some money to your RRSP every year.

It makes sense to contribute a bigger lump sum in a particular year if you end up earning much more in a year. Alternatively, if you anticipate to be in a higher tax bracket in the future, you might refrain from contributing to your RRSP to build up your RRSP contribution room. Your RRSP limit for a particular year is 18% of your previous year's earned income up to a threshold. For 2022, the threshold is $29,210.

You get an income tax deduction when you make RRSP contributions. Your contribution then grows in your RRSP and is tax deferred until you withdraw the amount in retirement, at which time your tax bracket is expected to be lower.

The RRSP is a good place to invest in U.S. stocks that pay out juicy yields of at least 3% in the form of qualified dividends.

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