



Millennials: How to Take Full Advantage of That “RRSP” Thing

Description

It can be hard for millennials to think about retirement when they're around 30. Trust me; I know, being somewhere near my 30s (I'll never tell). But the one thing I will say is that it is never, ever, ever too early to start thinking about retirement.

And it's never too early to act on it.

So, while millennials may be more interested in investing in a Tax-Free Savings Account (TFSA), do not miss out on the advantages of a Registered Retirement Savings Plan (RRSP). In fact, there are far more advantages than millennials may even realize.

Why invest in an RRSP *right now*?

While an RRSP is designed to create income for retirement, there are benefits to investing in it right now. The biggest that you'll see year after year comes down to taxes. For every dollar that you invest into your RRSP, that dollar is taken off your taxable income at the end of the year.

This is *huge*. Why? If you invest enough, without going over your limit, then you can actually bring your income *into a new tax bracket!* Let's say you live in Ontario and make \$60,000 in 2022. It's likely you'll owe about \$9,942 to the government from 20.5% in federal taxes and 9.15% in provincial taxes.

Yet if you invested \$11,000 you would at least be brought down to just 15% in federal taxes, though provincial stays the same. That would mean just \$6,693 in taxes were owed in 2022!

This is by far the best reason to invest in your RRSP. Your tax income can add to your income each and every year through a tax refund. However, there are also first-time home buyers benefits and other means of using your RRSP funds tax free, as long as you pay it back in a few years.

Then there's the returns!

Let's say you want to keep up with investing that \$11,000 each year in your RRSP. What it comes down to is choosing the right investment. Now, I'm certainly not saying to put your eggs in one basket. Millennials should absolutely meet with their financial advisor to come up with a personal solution. But for the sake of this example, let's use just one stock.

A [great option](#) would be **Toronto-Dominion Bank (TSX:TD)**. It has one of the largest market capitalizations of the Big Six banks, with provisions for loan losses during a downturn like this one. Plus, it continues to grow through partnerships, and plenty of loan options for clients.

Now, let's look at what a 20-year investment in TD stock could get millennials, adding \$11,000 each year and [reinvesting](#) dividends.

Year	Shares Owned	Annual Dividend Per Share	Annual Dividend	After DRIP Value	Annual Contribution	Year End Shares Owned	Year End Stock Price	New Balance
1	123	C\$3.84	C\$472.64	C\$11,523.22	C\$11,000.00	237.17	C\$100.55	C\$23,848.3
2	237.17	C\$4.20	C\$997.02	C\$24,861.13	C\$11,000.00	343.84	C\$112.62	C\$38,722.9
3	343.84	C\$4.60	C\$1,581.29	C\$40,328.60	C\$11,000.00	443.78	C\$126.13	C\$55,975.3
4	443.78	C\$5.03	C\$2,232.74	C\$58,241.71	C\$11,000.00	537.68	C\$141.27	C\$75,958.7
5	537.68	C\$5.50	C\$2,959.50	C\$78,961.78	C\$11,000.00	626.18	C\$158.22	C\$99,076.8
6	626.18	C\$6.02	C\$3,770.62	C\$102,901.60	C\$11,000.00	709.84	C\$177.21	C\$125,790.
7	709.84	C\$6.59	C\$4,676.15	C\$130,532.56	C\$11,000.00	789.15	C\$198.47	C\$156,627.
8	789.15	C\$7.21	C\$5,687.31	C\$162,392.68	C\$11,000.00	864.57	C\$222.29	C\$192,187.
9	864.57	C\$7.88	C\$6,816.55	C\$199,095.72	C\$11,000.00	936.5	C\$248.97	C\$233,158.
10	936.5	C\$8.63	C\$8,077.71	C\$241,341.54	C\$11,000.00	1005.3	C\$278.84	C\$280,320.
11	1005.3	C\$9.44	C\$9,486.19	C\$289,927.78	C\$11,000.00	1071.28	C\$312.30	C\$334,566.
12	1071.28	C\$10.32	C\$11,059.06	C\$345,763.14	C\$11,000.00	1134.74	C\$349.78	C\$396,911.
13	1134.74	C\$11.29	C\$12,815.29	C\$409,882.39	C\$11,000.00	1195.93	C\$391.75	C\$468,511.
14	1195.93	C\$12.36	C\$14,775.94	C\$483,463.33	C\$11,000.00	1255.08	C\$438.76	C\$550,684.
15	1255.08	C\$13.52	C\$16,964.34	C\$567,846.07	C\$11,000.00	1312.39	C\$491.42	C\$644,928.
16	1312.39	C\$14.79	C\$19,406.39	C\$664,554.70	C\$11,000.00	1368.03	C\$550.39	C\$752,946.
17	1368.03	C\$16.18	C\$22,130.77	C\$775,321.98	C\$11,000.00	1422.17	C\$616.43	C\$876,675.
18	1422.17	C\$17.70	C\$25,169.28	C\$902,117.06	C\$11,000.00	1474.96	C\$690.41	C\$1,018,31
19	1474.96	C\$19.36	C\$28,557.13	C\$1,047,176.98	C\$11,000.00	1526.5	C\$773.25	C\$1,180,37
20	1526.5	C\$21.18	C\$32,333.34	C\$1,213,042.14	C\$11,000.00	1576.93	C\$866.04	C\$1,365,68

As you can see, based on historical data, investors could have a \$1.37 million RRSP in just 20 years! Now that's not guaranteed, of course. Nothing is. But it certainly shows how a steady investment can get millennials set up for retirement.

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