Discover what your RRSP can do for you

Learn the top 8 reasons to contribute to your RRSP this year.
By Anne Bokma

RRSPs are the single best retirement savings vehicle available to Canadians, yet almost one-quarter of us don''t bother to get into the driver's seat and use them to steer our way to a financially sound retirement. To ensure your retirement plans aren't at risk of stalling, here's a refresher on the top eight reasons why you should contribute to an RRSP.

1. Make your golden years more golden: The first and foremost reason to sock money away in an RRSP is to help ensure you have a comfortable retirement. "Being old and poor isn't much fun," says Sheila Walkington, a money coach co-founder of the Women's Financial Learning Centre in Vancouver. "You don't want to get to age 65 and be caught without enough savings."

2. An immediate tax break: When you contribute to an RRSP, you won't pay any tax on that money until you eventually withdraw it (ideally when you are retired and in a lower tax bracket). "Most of us are more motivated by the tax savings than by the retirement benefits because the savings are immediate and we hate paying taxes," says Walkington. How big your tax refund from your RRSP contribution will be come April depends on the tax bracket you are in. The higher your income, the bigger your refund. For example, at a marginal tax rate of 48 per cent, a $5,000 contribution will mean a reduction/refund of taxes of $2,400.

3. Tax-deferred growth: Since contributions are tax sheltered, you don't pay any tax on the income earned (interest, dividends or capital gains) inside an RRSP until you withdraw the funds. Because of this, investments in an RRSP can grow faster than those outside an RRSP, where the income earned is taxed in the year it is earned.

4. The magic of compound interest: The money in your RRSP grows exponentially by continually earning interest on itself. By starting to invest early – and contributing regularly – your returns will grow faster with each passing year.

5. The power of dollar-cost averaging: When you contribute to your RRSP on a monthly, instead of annual, basis, you can reap the benefits of dollar-cost averaging. By investing a fixed amount on a regular basis (say $300 a month) you buy more units when prices fall and fewer units when prices are rising. This means you get more bang for your buck when stock prices fall because you can lower the average price you pay for the units and increase the number of units you can purchase.

6. Help with your first home: The Home Buyers Plan allows you to access up to

$25,000 from your RRSP savings for a down payment on your first home, and you won't have to pay tax on the withdrawal. However, the money must be repaid over 15 years.

7. Upgrading your education: The Lifelong Learning Plan allows you to borrow up to $20,000 from your RRSP to go back to school. You have 10 years to pay back the money. "This is an easy way to access money that you have saved over time to retrain yourself," says Walkington.

8. An emergency fund if you need it: While most financial experts strongly advise against ever withdrawing from your RRSP before retirement, there may be circumstances – job loss for example – when tapping into your RRSP is a necessity. It’s good to know the money is there if you really need it.