Six tips to help you avoid the RRSP scramble next year

Instead of waiting until the last moment to contribute a lump sum on March 1, it's better to create a plan and make monthly payments

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Tick tock. Have you made your registered retirement savings plan (RRSP) contributions for 2018 yet? March 1 marks the last day the Canada Revenue Agency (CRA) allows Canadians to sock away money in an RRSP to take advantage of tax deductions today and tax-sheltered growth for tomorrow.

The bad news? If you've waited until now, you're likely scrambling to make that contribution. The good news? There's actually still time to contribute without a lot of drama, even if you wait until the evening of March 1 to move your money.

What's more, simply by making an RRSP contribution – even of the last-minute variety – puts you ahead of the 3 to 5 per cent of Canadians who miss the deadline entirely and don't save at all, according to census data.

"It's pretty scary how many people are expecting their Canada Pension Plan (CPP) and Old Age Security (OAS) to make up their retirement income. They should be supplementing your income in retirement, not the other way around," says Paul Shelestowsky, a senior wealth advisor for Meridian Credit Union's branch in Niagara-on-the-Lake, Ont.

Here are six tips to help you contribute to your RRSP, and avoid the RRSP scramble next year, too.

1. Know your numbers

First things first. It's important to know how much the CRA allows you to contribute. This year not much has changed. Any Canadian under 71 can contribute as much as 18 per cent of the prior year's income, to a maximum of $26,230. What's more, any unused RRSP contribution room from previous years is carried forward and can be used, too. That way, if you suddenly come into a nice inheritance or unexpected work bonus, you can contribute more than this year's maximum without incurring a penalty.

Not sure how much unused room you have? Take a look at your most recent notice of assessment. The number is easy to spot. Or visit the CRA's My Account website. You'll find that information there.

"Every situation is going to be different," says Shelley Smith, a financial planner at TD Wealth in Toronto. "You're going to have to take a look and see, 'okay, how much room do I have?'"

2. Is an RRSP best?

Sure, there's a lot written these days about whether the RRSP beats the tax-free savings account (TFSA) as the numero uno retirement- savings option. So it's no wonder some would-be savers find their stomachs in knots before making any kind of investment decision at all, particularly if they haven't taken some time to educate themselves about options.

So, here's a quick and dirty way to choose what's right for you: Ask yourself how much money you earn.

For anyone making $40,000 or less a year, the TFSA is your friend. Not only can you mine the funds later without penalty, funds grow tax-free. RRSPs, however, are a good bet for anyone making about $60,000 and up. They help defer taxes now and, hopefully, when the money is used later, you'll be in a lower tax bracket so the funds can be withdrawn at a lower rate.

"For most people who are saving for retirement, if they're in the higher-income range, the RRSP is a pretty clear way to go," says Noel D'Souza, a Toronto money coach with Money Coaches Canada, who serves clients across Canada.

3. Stop procrastinating

Not only does waiting until the very last minute mean you'll lose out on tax-deferred growth and compounding for those extra 364 days, procrastination creates stress come deadline time, Mr. D'Souza says. Feeling too rushed can cause some people to decide contributing just isn't worth the hassle.

"I would also say a lot of people feel more anxiety when they're investing a big lump sum. They're asking themselves, 'Is this the right time to put it into the market?'" he says, explaining that the most recent market volatility is causing heart rates to soar already.

4. Regular is better

Instead of waiting until the very last moment to contribute a large lump sum on March 1, it's better to create a plan and make monthly contributions in 2019.

"It's predictable. It's easier on your cash flow," Mr. Shelestowsky says. "It's a lot easier to come up with $415 a month than it is $5,000 once a year, right?"

Not only that, making consistent payments means you're taking advantage of dollar cost averaging – you automatically buy more units when they cost less, and fewer when they cost more. Statistically, investors who invest monthly come out ahead compared to once-a-year investors.

5. It's okay to park it

Here's something many investors don't know: Just because you're contributing to an RRSP account, that doesn't mean you have to invest that money right away. Many financial institutions offer some kind of park-your-money option while you decide what to do with it.

For instance, Meridian Credit Union offers a boost on an RRSP savings account – for four months, investors will earn 3.25-per-cent interest while they formalize their investing plans.

Mr. Shelestowsky admits he's been working a lot of 12-hour days leading up to the RRSP cutoff, so that breathing room makes some practical sense.

"I want my clients to make a contribution, but I want to make sure that we're putting them in the best investments for their risk and objectives," he says.

Still, Mr. D'Souza cautions there's a downside to this option. Some people could forget about their cash and earn a low rate of return for far too long. "You don't want to reach that next RRSP deadline and still have that money sitting in that default cash bucket," he explains. Instead, make your decision within a few weeks or months.

6. The last possible minute

Technically, you could contribute to your RRSP at 11:59 p.m. on March 1 and still make the deadline. And that's certainly an option if you're simply moving money online within a single financial institution. (You may have to click a button indicating you've already confirmed your RRSP limit before you can invest.) But if you're needing to move money between institutions, make a call earlier in the day to ensure those funds will transfer on time.

Just don't expect to roll into your bank's local branch at 11:45 p.m. to set up that transaction. So much investing happens online now, the days of extended hours for RRSP procrastinators are over.

Mr. Shelestowsky remembers the last time he burned the midnight oil on RRSP night at one branch a number of years ago.

"It was a ghost town from eight until midnight," he says. "Our regular hours are more than enough to capture everybody who wants to come in that day."