

How to Open a Registered Retirement Savings Plan (RRSP)

Want to begin saving for retirement but don't know exactly where to start? Here is a step-by-step guide on how YOU can open up your very own RRSP.

What is an RRSP?

A Registered Retirement Savings Plan is a tax-deferred bank account which helps Canadians both save for retirement and reduce the amount of taxes paid yearly. Money put into RRSP is tax-deductible, meaning that any money contributed to your RRSP can be written off as if you didn't earn that income. For example, if you made \$50,000 in a given year and put the maximum amount of money allowed into your RRSP [18% of the pre-tax income you made in the previous year or the total amount allowed of \$26,500 (as of the 2019 tax year) whichever amount is smaller], you can write that \$9,000 off and report that you made \$41,000 in income. These benefits make saving for retirement enticing to those in low and medium-income brackets. Additionally, if you didn't max out your contributions in previous years, you can catch up on those contributions

It's important to remember that years from now when you've retired and are ready to take that money out, you will have to pay taxes on it. However, these tax-rates will be significantly lower due to your age and retired status. Secondly, RRSPs have a yearly withdrawal limit (\$27,230 as of 2020) so you'll be capped in regards to how much money you'll have access to at any given time.

Contribution Limits and Carry-Over

As previously mentioned, the maximum contribution amount allowed is 18% of your previous years' pre-tax income or \$26,500 (though that total amount changes yearly). If you haven't maxed out your contributions in previous years, that leftover amount can be carried forward into the current years' contributions. For example, if you made \$50,000 in the previous year and only contributed \$6,000 to your RRSP, the remaining \$3,000 you could have contributed (due to the 18% of pre-tax income limit) will be added onto your contribution limit for next year. So, your contribution limit for the following year will be \$12,000.

If you happen to over-contribute to your RRSP, you have options to remedy the situation. You can either: withdraw the contribution (and pay the taxes on the full amount) or designate the over-contribution to carry forward for next year (reducing the amount you can contribute to your RRSP in the following year).

The Process:

Doing Research

There are countless financial institutions, and all of them offer packages for RRSPs. It's crucial for prospective clients to find packages that offer low service rates, reliable customer service from professionals, and no minimum account investments for maximum flexibility. Consult your current banking institution about their RRSP packages but also be open to moving your money to a place that will take better care of you. You can do surface research on various RRSPs by searching for policies on the internet or directly calling banks and credit unions.

Applying for an RRSP

After you've chosen your bank or credit union, you can contact an advisor to set up the principles of your account. Your advisor will ask you questions about your current financial situation and your intended goals for the account.

Some questions you may be asked during the appointment:

- Your previous knowledge about investing
- Your aspirations for your account
- Your income from the previous year, be sure to bring your Notice of Assessment from the Canadian Revenue Agency to dictate exactly how much you can contribute to your new RRSP
- If your workplace offers a pension plan
- A beneficiary who will receive any leftover funds in your RRSP when you pass away

Opening an RRSP

There are two ways to open your RRSP, choose the one that fits your lifestyle.

At a Branch:

Setting up a physical meeting with a financial advisor is helpful if you're unsure about certain components of your RRSP and the overall budgeting you will need to do to live within your means. The advisor will do the legwork of opening the account, all you need to do is provide information about your contribution limit and the schedule of your intended contributions. Your advisor is there to tailor your account to your specific needs so ask tons of questions while they're setting up your account.

At Home:

You can also open an RRSP without ever having to leave the house. Simply sign onto a banking website and open the account directly from their site. You can transfer funds, pay bills, set up new accounts, and make contributions without needing to take time out of your day to meet someone. Banking online is a simple solution to many of the monotonous issues that come from having to set up physical meetings at

branches, so consider switching to your bank's website or downloading their specific banking app to conduct your business.

Summary

Opening an RRSP is simple when you have measurable goals and a strong commitment to following through with your plan. Consulting informed professionals and staying up-to-date on financial trends are paramount to realizing your retirement dreams and building a foundation that will lead to you retiring with a sizeable nest-egg. Continue to learn about finances, budgeting, and investing to ensure your money works for you while you progress through your career.

If you're interested in learning more about Registered Retirement Savings Plans, check out these links:

Business.FinancialPost.com – Here's how much you should contribute to your RRSP for each stage of your career

<https://business.financialpost.com/personal-finance/retirement/rrsp/heres-how-much-you-should-contribute-to-your-rrsp-for-each-stage-of-your-career>

Retirehappy.com – RRSPs the proper way

<https://retirehappy.ca/proper-use-of-rrsps/>

Virtualwealth.ca - RRSP basics – the ABCs of RRSPs

<https://www.virtualwealth.ca/en/resources/articles/rasp-basics.html>

