RETIREMENT PLANNING
Mapping The Road Ahead

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When it comes to investing for your retirement, Registered Retirement Savings Plans (RRSPs) are the best place to start. There's gold in RRSPs. The combined benefits of reducing taxable income now and the expectation of tax-sheltered compounded investment returns over the long term provide a compelling reason for investors to make the most of these savings plans. There are a number of tactics you can use that will help you realize the full wealth-building potential that these plans can provide. What follows are a few tips for AOLS members on how to make the most of every dollar you invest.

Maximize Contributions

Your RRSP contribution limit for 2006 is 18% of your earned income for 2005 up to a maximum of $18,000. You can add to this amount any unused contribution room which is noted on your Income Tax Notice of Assessment.

Borrowing to Maximize Contributions

If you do not have money on hand to maximize your RRSP contribution then in some instances borrowing may make sense. RRSP loans are approved fast, the financing cost is low and RRSP contributions are tax deductible. A smart idea is to apply your income tax savings towards paying down consumer loans with higher financing costs.

Contribute to your RRSP instead of Paying down your Mortgage

A common question asked of financial advisors during RRSP season is, "Should I contribute to my RRSP or pay down my mortgage?" Unless you have other liquid assets, then contribute to your RRSP. Experience has shown that if your mortgage is paid off too quickly, then you will upgrade to a more expensive house and acquire another mortgage. You may be house rich however, if you unfortunately are in between jobs and low on cash, it will be impossible to borrow money from the bank. If you had RRSPs you could sell them to raise cash and help make your monthly mortgage payments. And if you kept your mortgage and RRSP at different institutions, your mortgagor would never know of your financial situation.

Insure your RRSP

If you maximize your RRSP contributions, this will provide a secure income in your pension years. If you are unfortunate and become critically ill during your income accumulation and RRSP contribution years this event could cause you to withdraw money from your RRSP early. To avoid this occurrence, a smart retirement plan strategy will include critical illness insurance protection. This plan will provide you with the necessary capital if you were to become critically ill, and also supplement your retirement income if you do not make a claim.

Contribute Monthly

According to human nature, "the more you make, the more you spend." So "pay yourself first" before you spend all your money. Making monthly contributions to your RRSP is a disciplined way to "pay yourself first."

Contribute Through Work

Many employers realize the importance of promoting cost-effective workplace pension plans for their employees. If your employer does not have a corporate pension plan or Group RRSP then make sure they get one. Then the financial advisor hired by your firm will help you make smart decisions to maximize your pension income.

I would encourage you to review these RRSP strategies with your current financial advisor or contact me and I would be pleased to map out the opportunity for you.

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