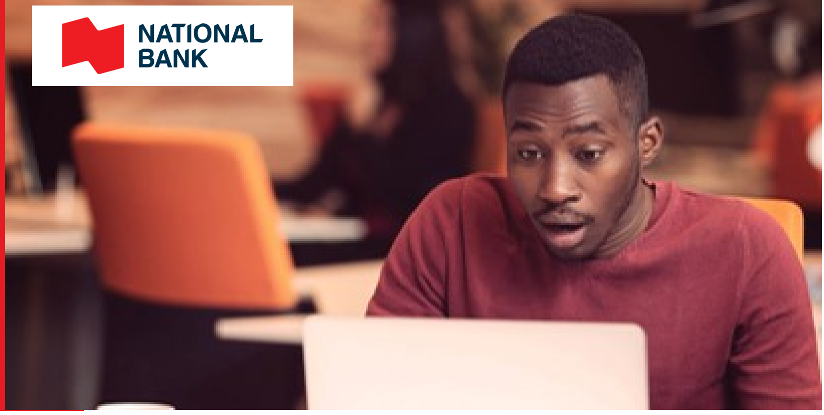
RRSPs in a nutshell



RRSP, TFSA, RESP, RRIF, spousal RRSP: so many acronyms and financial terms can become numerous and confusing—a veritable maze of complex financial concepts. It's as if it's supposed to be complicated.

But all you really need is a bit of financial knowledge to plan important life projects, like buying a property, travelling the world, or retiring comfortably. To navigate through the maze, you just need to be able to spot and understand a few concepts. Take RRSPs, for example. Rest assured, they're not all that complicated! Let's start at the beginning.

A Registered Retirement Savings Plan, or **RRSP**, is a bit like a box or a bucket. You put the money you want to save in this container, like you would put it into a piggy bank. This piggy bank, however, has a special feature for tax purposes–the money that goes into it can be deducted from your income. So you pay less income tax! And another huge bonus—the return on this money, like interest, dividends, and capital gains, isn't taxable in your yearly tax returns!

The money in the box will be taxed eventually. You'll pay income tax when you withdraw it. But (and this is where it gets interesting), you could be paying less tax in 20 years than in the year you put the money in the container.

For example, if Max has to pay $1,000 in income tax on some of his earnings in 2021, he might only have to pay $600 on the same amount 40 years later if he puts it all in his RRSP. Not bad, right? Not to mention the returns he could accumulate tax-free during the same period of time.

That's because, here in Canada, we have a progressive tax system **with tax brackets**.

As a rule of thumb, someone who earns $100,000 a year **pays more taxes** than two people who each earn $50,000 a year, provided they live in the same province and are eligible for the same deductions. It's as if 1 + 1 doesn't equal 2.

The idea is that if you contribute money to the RRSP "box" when you're earning more money and take it out of the box during a year when you're earning less, **you'll pay less tax**.

Types of investments

As you're now aware, an RRSP isn't a type of investment. It's a box that holds them. This means that you have a host of choices for your RRSP. You can have a savings account, stocks, guaranteed investment certificates… and since having too many choices can be like not having enough, we're here to help you find what works best for you.

Limits

There's a maximum amount you can put into your RRSP. Otherwise, it would be too good to be true. The maximum amount you can put in your RRSP "box" is indicated on your federal notice of assessment. That's the document you receive after filing your income tax.

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