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RETIREMENT

Five common RRSP mistakes to avoid while saving this year

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It's been 60 years since the RRSP was introduced as a retirement savings tool. But that doesn't mean Canadians have learned all the lessons of the past. Here's a look at five common mistakes investors make with their RRSPs:

Dipping into the funds:
Carol Bezaire, the vice-president of tax, estate and strategic philanthropy at Mackenzie Investments, says the No. 1 blunder is dipping into an RRSP for expenses other than retirement income.

"People are making random withdrawals out of it for vacation or whatever," she says. "And what they end up with in April is an unexpected tax bill."

Financial institutions withhold some of the withdrawal — between five and 30 per cent depending on the province and total sum — and, depending on a person's marginal tax rate, there may be more owed come tax time.

The two exceptions are for the first-time homebuyers' plan and lifelong learning plan. No tax is withheld for withdrawals for those purposes and investors don't count them as income. However, you must repay the money over a period of time.

Sometimes people forget, says Bezaire, and then have to declare the amount owed that year as income on their tax return.

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Putting in too much money:
There are limits to how much one can invest in an RRSP.

For people without a company pension, it's 18 per cent of what they earned the previous year to a maximum of $26,010 for 2017 plus any unused contribution room from previous years.

For people with a pension plan, the amount is less.

"Watch what you're putting in, especially if you've got more than one way of contributing," says Bezaire, adding it's easy to lose track of the total when contributions are made into multiple accounts.

Canadians can contribute $2,000 above the limit over their lifetime, but anything beyond that is penalized typically with a one per cent tax per month on any excess funds.

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Starting too late:

Neil Macdonald, managing director at Scotia Asset Management, says the earlier people start squirrelling away money for retirement, the better.

“Time is on your side when you’re young and time can be a dramatic enabler of a good, robust and rich retirement,” he says.

Macdonald says he understands it may be hard to begin saving early for those in part-time, precarious jobs. He suggests a good starting point is when a person is making a regular, predictable income.

People don’t need to have large sums of money to start investing, he says, adding that as little as $25 a month can open up some opportunities.

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Taking on too little risk:
Someone starting at age 40 still typically has at least 25 years until retirement and even when in retirement could live for another couple of decades.

That’s why they should consider their investments long-term holdings and not take their foot off the gas too much, says Macdonald.

“Too little risk in retirement is risky,” he says, adding that the split of cash, fixed-income and equity assets in a portfolio may stay the same over time. But the makeup of each segment could change.

For a 60-year-old investor, that may mean focusing more on dividend-paying stocks, he says, rather than growth-oriented investments more likely to result in capital gains that could have been a part of their portfolio when they were younger.

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Not revisiting the plan:
It’s not enough just to open an RRSP and make a yearly, lump sum contribution, Macdonald says.

A person should evaluate their retirement goal — when they want to stop working and how much annual income they’ll need to do so comfortably — and progress toward reaching it annually, he says.

Based on their progress, investors can make adjustments to help them reach their goals.