



3 RRSP STRATEGIES YOU NEED TO KNOW

Lisa Lyttle BMgmt CFP FCSI CPCA

Owner of Lyttle Planning & Elements Group

NOVEMBER 2015

RRSP Strategies

I'm going to show you how to get 20 - 66.66% more into your RRSP every year without saving any more money!

Here are 3 RRSP strategies you need to know:

The GOOD:

Put money into your RRSP. Period.

Most Canadians don't.

23.4% of taxfilers in 2013 according to Stats Canada contributed to an RRSP!

And fair enough, if you aren't making much in the way of income, I wouldn't recommend it and would use an alternative account for saving – however, most Canadians don't even save on a regular basis in any account – RRSP or not!

So here's the point: **Save**. Save monthly if you can – dollar cost averaging is always best!

If you are in the top marginal tax bracket, it is one of the few tax deductions available to you if you are an employee.

IMPORTANT – Don't miss this paragraph! HERE ARE THE NUMBERS: I'm going to use an example of a client saving \$10,000 into RRSPs a year for all my examples. If you put in \$10,000 to your RRSP and you are in the top marginal tax bracket (approx.40%) you will get a refund of approx. \$4,000 in Alberta – varies province to province and by how much income you actually make. Any accountant can help you calculate this amount for your personal tax situation or your financial planner can do that as well. The money in your RRSP grows tax deferred until you pull it out, and then it is taxed fully as your income at that time.

The BETTER:

Wanna spice up your savings? This is an easy boost in your RRSP savings, still only saving \$10,000 a year.

Figure out how much you are getting back as a tax return. In the example above, you were getting back \$4,000.

Because you know you are getting that \$4,000 as a tax refund, why not invest it when you get it. If you do re-invest your return money and continue to do that over the years, you will now invest \$14,000 every year, instead of the \$10,000 you are saving up.

It will boost your savings by about 40% – that’s HUGE over the years. See the chart at bottom of article.

Or if you really want to buy that new toy or go on a trip – why not re-invest at least half of it, and blow the rest like you normally do. You will still get a 20% boost on your savings.

The BEST:

Ready to rock and make your portfolio extra hot? This is the ultimate RRSP strategy to boost your savings and make your portfolio sizzle!

Same \$10,000 saved. Same example, but this time, we know already that we are going to put in \$10,000 and get refunded \$4,000.

So what do you do?

You get an RRSP Loan for \$6,666.66 during that current tax year.

You invest \$10,000 plus the \$6,666.66 for a total of \$16,666.66 into your RRSP.

Your tax refund is \$6,666.66, which we use to pay off the RRSP loan we took out.

Here’s the fancy math formula that provided us with the loan amount needed to equal the tax refund:

$$\frac{(\text{cash on hand} \times \text{marginal tax rate})}{(100\% - \text{marginal tax rate})} = \text{LOAN AMOUNT}$$

$$\frac{(\$10,000 \times 40\%)}{(60\%)} = \$6,666.66$$

An example: Let’s say it’s December 2015. You have your \$10,000 RRSP money saved in your bank account (or if you are smart, you’ve been investing a little every month dollar-cost-averaging!) Either way, you call me up – yes, your trusted financial advisor and I will hook you up with an RRSP loan from one of MANY financial institutions (RRSP loans are easy to get, very inexpensive and very short term – typically 2-3 months in duration, from the time you take it out, until you file your return and get your refund and pay it back.)

Then you take out an RRSP loan for \$6,666.66.

Then you file your taxes.

You receive a tax refund in the amount of \$6,666.66 because you put into your RRSP \$16,666.66! (\$10,000 you had plus loan of \$6,666.66).

Then you pay back your loan with your tax return.

That's a boost of 66.66% into your retirement savings! (See chart below to see how your retirement saving look over time!)

The loan for a couple months may cost you \$40-\$100 (about \$22 a month at 4%) interest only payments on a loan of \$6,666.66. Small Potatoes!

I'm not sure why Canadians don't take advantage of this strategy. For 2 reasons most likely: instant gratification with tax return "free money" and my industry does a bad job of taking the time to go over all your options. To be fair, advisors are usually dealing with all the last minute RRSP contributors anyways!

THE BOTTOM LINE: In all 3 scenarios – you still saved \$10,000. No more, no less.

This also works with any amount you have saved for your RRSP. It works if you are contributing \$3,000 or \$5,000 or \$20,000! (Percentages differ based on your tax bracket and how much income you earn– but the idea is the same.)

As an advisor, I can arrange RRSP loans as small as \$1000 – so there are no excuses for you not to boost your RRSP savings by doing either BETTER or BEST strategies!

WANNA SEE THE FINAL NUMBERS???

(I'm assuming you invest this money once annually with 6% annual compound growth at the end of the year and for a client saving \$10,000 every year, utilizing the 3 strategies with a marginal tax bracket of 40%)

	GOOD	BETTER	BEST
Year 1	\$10,000	\$14,000	\$16,667
Year 2	\$20,600	\$28,840	\$34,334
Year 5	\$56,371	\$78,919	\$93,953
Year 10	\$131,808	\$184,531	\$219,684
Year 20	\$367,856	\$514,998	\$613,105
Year 25	\$548,645	\$768,103	\$914,427

The Small Print: The information contained herein is based on certain assumptions and is for illustration purposes only. While care is taken in the preparation of this chart, no warranty is made as to the accuracy or applicability in any particular case. Please speak to your accountant and/or financial advisor regarding your own tax situation or before you implement any of these strategies. You need to have sufficient contribution room available to utilize these strategies.

NEED RRSPs? Have RRSPs and want to boost your RRSP savings and utilize these strategies?

CONTACT ME & I'll make sure you get a MAXIMIZED RRSP PLAN!

403.875.0123 or lisa@lyttleplanning.ca