Maximizing your RRSP Contributions

Your RRSP is the key to beating inflation, saving taxes and ensuring a financially healthy retirement. Unless you are maximizing your RRSP contributions each and every year, you are likely cheating yourself out of significant benefits at retirement. In order to take advantage of tax-free compounding over time, it is vital to contribute as much money every year as you can, and as early as possible. If you're among the many Canadians who have trouble coming up with your maximum contributions every year, following are some strategies to help you increase the overall amount of your contribution.

Know Your Contribution Limit

If you are not a member of a pension plan, your limit is 18% of your previous year's earned income to a maximum of $21,000. If you are a member of a pension plan, your limit is 18% of your previous year's earned income to a maximum of $21,000 less your pension adjustment (PA) and your past service pension adjustment (PSPA). Your RRSP contribution limit can be found on the Canada Revenue Agency (CRA) assessment from your previous year's tax return.

Carry Forward

You are allowed to carry forward any unused contribution room from 1991 onwards. This means that if you had one or more years when you did not make your maximum contribution, you can carry forward this amount indefinitely and add it to your contribution amount. For example, if in 2009 your maximum contribution level was $21,000 but you contributed $18,500, the extra $2,500 that you could have contributed that year is carried forward to your amount for your 2010 contribution.

So, if your 2010 contribution is $22,000, you could contribute as much as $24,500.

The $2000 Over contribution

Current legislation allows for amounts of up to $2000 over and above your contribution limits to be contributed to your RRSP. While this legislation is in place to allow for contributors to freely contribute without worrying about going over their yearly contribution amount, many investors have taken advantage of this extra room and have purposely over contributed to their plan. The benefit is the number of years of compounding that the extra money will have in the RRSP.

Year in Plan	**Average Annual Return**		
	8%	10%	12%
20	$9,322	$13,445	$19,293
30	$20,125	$34,899	$59,920
40	$43,449	$90,519	$186,102

The over contribution can also be a good strategy for parents or grandparents who wish to contribute to an RRSP for a child who is 18 and over and who has sufficient earned income to set up an RRSP. Because the RRSP is in the child's name, income attribution rules are not applicable. Assuming the funds are invested at 8% over 40 years, this $2,000 can grow to over $40,000!

ScotiaMcLeod®

RRSP Loans

Consider borrowing the necessary funds for a contribution. Although interest on loans used to make RRSP contributions is not tax deductible, the taxes saved on the RRSP contribution and on earnings in the RRSP will usually more than compensate for the interest paid.

Contributing "In Kind"

One of the benefits of a self-directed RRSP is the ability to make non-cash contributions, or contributions in kind. For example, if you presently own Canada Savings Bonds outside of your RRSP, you can deposit them as a contribution into your RRSP. Certain equities, bonds and mutual funds are also available. When you make a contribution in kind, CRA considers that you have sold the asset at its fair market value (although you really haven't), and any resulting capital gain will be subject to tax. Any loss from a contribution in kind will be declared for tax purposes.

Contribute Early

Another way to maximize your RRSP contribution is to contribute as early as possible in a given calendar year. By making your annual contribution in January of each year rather than waiting until the end of February of the following year, your RRSP assets will enjoy an extra 14 months of tax-deferred growth every year. This can mean a difference of thousands of dollars over time.

Contribute Often

If you can't make your contribution in a lump sum at the beginning of the year, consider a Pre-Authorized Contribution (PAC) plan. A PAC plan allows you to make monthly contributions to your RRSP, which will significantly increase the growth of your RRSP over time. The minimum monthly investment required for ScotiaMcLeod's personally tailored PAC Plan is $100 per month. These contributions can be invested in any of the wide range of options available with your self-directed RRSP, including your choice of mutual funds. Remember that when it comes to RRSP investing, the effect of tax-deferred compounding over time cannot be underestimated and the sooner you get those funds working for you, the better off you will be.

For more information, contact your ScotiaMcLeod advisor.

ScotiaMcLeod®