Is your retirement plan behind schedule?

Contributing to your RRSP early and investing regularly throughout the year can have a significant impact on its long-term value.

For example, let's assume that Jane Early began investing in her RRSP at age 25, and contributed $1,000 per month for 10 years. Let's also assume that Suzy Late began investing in her RRSP at age 35, contributed $12,000 once a year in December for a total of 26 years.

In this scenario, assuming an annual rate of return of 8%, Jane will have saved $380,000 more than Suzy – even though she contributed a lot less!

Time is undoubtedly your greatest ally as an investor. But what if your retirement date is fast approaching, and you haven't taken full advantage of your RRSP?

There are several things you can do to catch up.

Maximize RRSP contributions

If you have unused RRSP contribution room, consider an RRSP loan to maximize your tax-sheltered retirement savings. Generally, this strategy is most effective if you can re-pay the loan within one year or less.

Contribute after age 69

Your RRSP must be converted to a RRIF or annuity at age 69. However, if you still have earned income – such as wages, royalties, or business revenue – you may be able to contribute to an RRSP in the name of your spouse if they are under age 70. In addition to providing an immediate tax deduction, this strategy is an effective way to split your future retirement income with your spouse, and reduce your combined tax bill.

Over-contribute

Your RRSP contribution limit in the current year is based on your earned income for last year. However, you can over-contribute by up to $2,000 and pay a penalty of 1% per month on the excess funds. Compared to the benefits of added tax-deferral, it may be worthwhile to pay this penalty.

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Contribute “in kind”

Your RRSP contribution does not have to be made in cash. You can also contribute securities that you already own to your RRSP “in kind”. You will continue to own the security, however, you will have to declare any capital gains accrued at the time of the transfer and will not be able to declare any capital loss. Consult your tax advisor about whether this will work for you.

Take advantage of foreign opportunities

Should it become law later this year, RRSP accounts will no longer be restricted to having a maximum of 30% of their book value invested in foreign securities. Since Canadian markets represent only about 3% of the world’s investment opportunities, it could make sense to take advantage of this freedom. Global exposure can enhance returns and also reduce the volatility of your portfolio. Contributing to your RRSP regularly is one of the best ways to turn your retirement goals into reality. The earlier you start, the better – but it’s never too late.

A ScotiaMcLeod advisor has the knowledge, resources and team of experts to help you implement retirement strategies that suit your current situation, and help you reach your future goals.

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