The Registered Retirement Savings Plan (RRSP) is a Canadian savings program that has been helping us prepare for our post-work lives since it was introduced over 60 years ago. Make sure you are getting the most out of your RRSP; here are 5 common mistakes to avoid:

1. Withdrawing early

One of the biggest mistakes Canadians can make is withdrawing funds from their RRSP before retirement. If you withdraw funds early, you lose that contribution room and the tax-deferred growth with it. While all withdrawals are subject to withholding tax of 10% to 30%, you will likely pay a higher marginal tax as the money withdrawn will be added to your income for the year.

2. Contributing too much

It’s great to plan for your future, but putting too much into your RRSP can be a problem. Over contributions to an RRSP can cost you a penalty of 1% per month on contributions that exceed your RRSP deduction limit by more than $2,000. You can contribute up to 18% of your previous year’s earned income, up to a maximum of $27,830 for 2021, plus any unused contribution room from previous years. If you have additional savings, also consider a Tax-Free Savings Account, which offers a cumulative total contribution room of $81,500 starting in 2022.

3. Starting too late

Time is on your side when it comes to contributing to an RRSP—contributing early and on a regular basis can help you build your savings easily and automatically. The best news for those just starting out is that you don’t need a lot of money to make a lot of money. Monthly contributions—boosted by the power of compound growth—can accumulate significantly over time.

4. Being overly risk averse

Depending on how old you are, there may be decades before you reach retirement. While volatility can be stressful, especially when reading news headlines, over longer periods, the variance between the highs and lows shrinks considerably and you’re more likely to come out ahead. Maintaining a longer-term perspective and taking a diversified approach to investing aligned to your risk tolerance and time horizon is often the best approach.

5. Failing to revisit the plan

It’s not enough to open an RRSP and make a lump-sum contribution. On an annual basis you should evaluate your retirement goal—when you want to stop working and how much annual income you’ll need to do so comfortably—and adjust your plan if needed.

To help you avoid these RRSP mistakes and to develop a personalized plan for your retirement, contact your Scotia Wealth Management relationship manager today.
1 Provided the Home Buyers’ Plan or Lifelong Learning Plan rules are compiled with, withdrawing under those two plans will not result in withholding tax and income inclusion.

2 Rates in Quebec differ (5%-15%) — Canada Revenue Agency