Registered Retirement Savings Plan – RRSP

Targeted tax-deferral that lays the foundation for a secure retirement

The registered retirement savings plan is designed to assist with long-term savings, generally funding toward your retirement years. Qualified investments for RRSPs include deposits, guaranteed investment certificates, stocks, bonds, mutual funds and segregated funds. As the owner of the plan, you are known as the annuitant. Here are some important facts about RRSPs:

What are the key tax features?

A number of tax features come into effect when your retirement savings are 'registered' for tax purposes.

- RRSP contributions are tax-deductible in the year for/in which they are made
- Income within the RRSP is not taxed in intervening years, deferring tax until withdrawal
- Withdrawals are taxed in the year taken, leading to lower tax if you are at a lower bracket at that time.

How much can you put into your RRSP, and when?

Annual contribution room is 18% of the previous year's earned income, to an indexed dollar maximum.

- For the 2021 tax year, the dollar maximum is $27,830, reached at 18% of 2020 income of $154,611
- If you over-contribute, a 1% per month penalty applies to the excess while it remains in the RRSP
- Unused room may be carried forward to use in future years, up to the end of the year you turn 71
- To claim a deduction, contributions must be made in the year, or within 60 days after year-end
- You may contribute to your own RRSP, or to a spousal RRSP of a spouse/common law partner (CLP)

Can you access the funds in your RRSP without triggering tax?

You may borrow from your RRSP, but if you don't repay on time, any unrepaid amount becomes taxable.

- Home Buyer's Plan (HBP) – Qualified first-time homebuyers may each take up to $35,000 for a home purchase. Repayment is required over 15 years, beginning the 2nd year after the withdrawal year
- Lifelong Learning Plan (LLP) – You may withdraw up to $10,000 per year to a maximum of $20,000. Repayment is over 10 years, starting 2nd year after ceasing to be a student or the 5th year after withdrawal

How do you draw from your RRSP to fund your retirement spending?

There is no minimum age to begin withdrawing from your RRSP, but it can't be later than the end of the year you turn 71, and no contributions are allowed to your RRSP after that date. There are three ways to draw down your RRSP.

1. Cash-in your RRSP – The entire cashed-in amount will be taxable that year, which could push you up into higher tax brackets, so this is not usually desirable except for a small RRSP
2. Purchase an annuity – Annuities pay a guaranteed fixed amount for life or a set number of years. Payments are often made monthly, with the total annual receipts taxable each year

3. Transfer to RRIF – You must take a minimum amount out of a RRIF each year (except the first/transfer year), although you can take more. Amounts taken are taxable each year

What happens if you pass away?

The default treatment on death is for the RRSP to be paid to the annuitant's estate and included as taxable income in the annuitant's terminal year, January 1st to the date of death. Simple steps to avoid this result:

- Designated beneficiary on the plan – An annuitant can name a beneficiary to receive the RRSP directly, rather than it falling into the estate. The income inclusion still applies unless a rollover is available
- Rollovers – If you name a spouse/CLP, financially dependent minor child/grandchild, or financially dependent disabled child/grandchild, the plan may roll tax-deferred to the recipient's registered plan

For more information about registered retirement savings plans, please consult your financial advisor and tax professional.