Seven tips to make the most of your RRSP

Saving for retirement doesn't have to be challenging

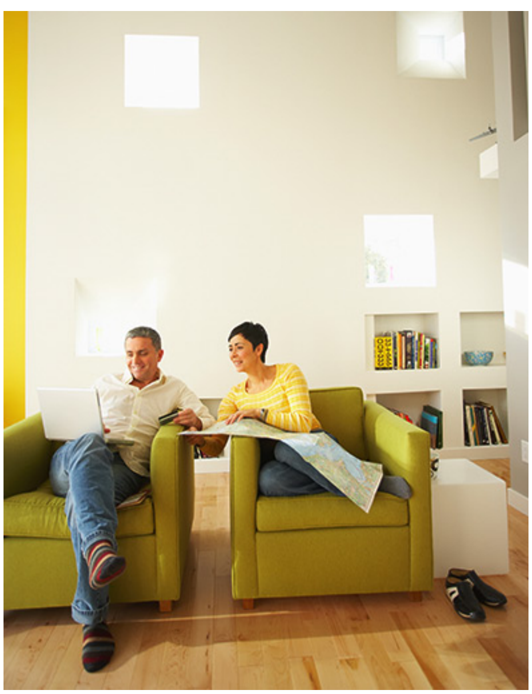
Here are seven tips from Fidelity's tax and retirement expert Peter Bowen.

1. Plan your retirement goals.

What kind of lifestyle do you want to live in retirement? Start making goals now, and meet with your financial advisor to ensure your security as you enjoy a long and fulfilling retirement.

2. Invest early for higher growth.

Investing in your RRSP well in advance of retirement means that your money has more time to benefit from tax-sheltered growth. Since money invested in an RRSP is taken from pre-tax earnings, making contributions can reduce overall income taxes by deferring them to a later date, at which time you may be in a lower tax bracket.



3. Leverage your tax refund.

Making contributions to your RRSP is most beneficial when your marginal tax rate at retirement is expected to be lower than your tax bracket during your working life. Remember that RRSPs aren't tax-free, they are tax-deferred – so as tempting as it might be to spend your tax refund, reinvesting it will work to your long-term advantage.

4. Contribute now, deduct later.

You don't have to claim deductions on your RRSP contributions in the same year that you make them. If you are expecting a future increase in taxable income that will push you into a higher tax bracket, you can defer claiming deductions until later to benefit from a higher tax refund.

5. More room to invest in your future.

Excess contribution room left over from contributions made under the annual limit can be carried forward indefinitely for use in future years. Take advantage of the additional contribution room to invest more toward your retirement and benefit from a larger tax refund.

6. Choose the account that's right for you.

Depending on your short- and long-term goals, investing in a Tax-Free Savings Account (TFSA) might be better suited for you. Contributions made to a TFSA are not tax deductible – you won't receive a tax refund – however, withdrawals aren't taxed either. The money you invest will grow tax-free for as long as it remains in the account.

7. Lighten the tax load.

Income splitting is a way for couples to reduce overall taxes in retirement. In the case of RRIFs, this can be done if you are 65 or older (some types of pension income can be split before age 65). It involves shifting up to 50% of eligible pension income from a higher-income spouse to a lower-income spouse. Income splitting can also be achieved before age 65 through the use of spousal RRSPs, although you need to watch out for attribution rules.