Guide to RRSP investing

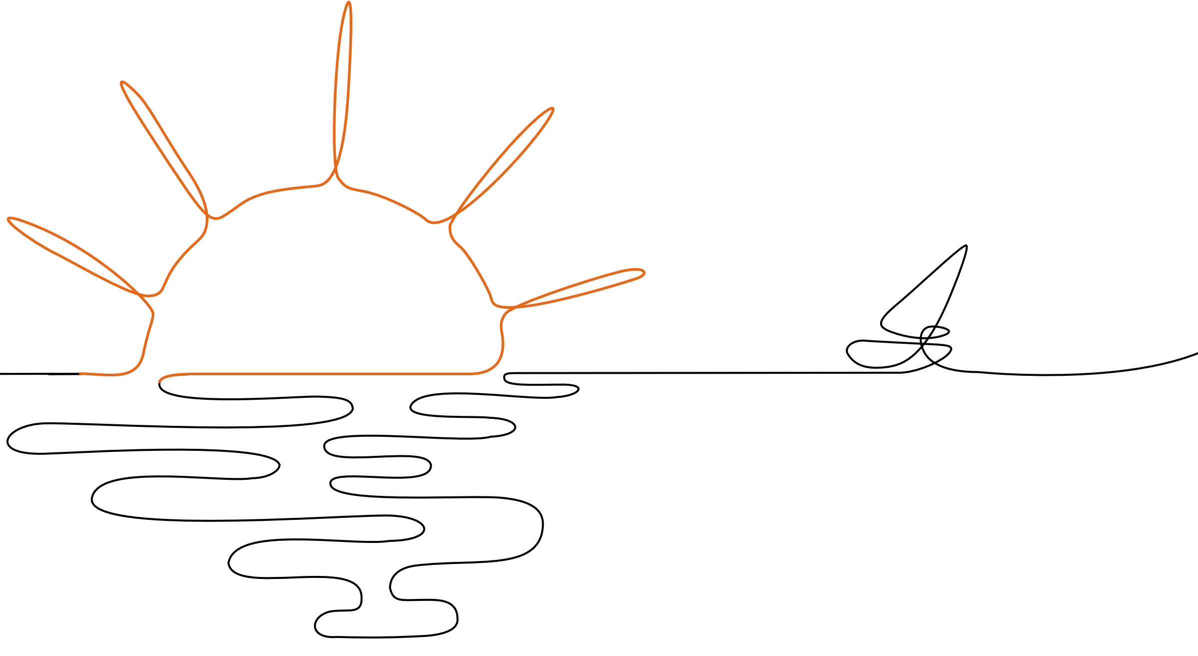
The Registered Retirement Savings Plan (RRSP) is a tax-deferred account designed to help you save for your retirement. This short guide will introduce you to the advantages and flexibility of RRSPs, show you how they compare with other types of accounts, and show you how to get started with your own self-directed RRSP portfolio.

Qtrade Direct Investing®

Because of their tax advantages, registered retirement savings plans (RRSPs) are an **important tool** in the **retirement planning toolbox** for Canadians.

RRSPs – accounts designed to help you save for retirement – are popular with Canadians because of their tax advantages. When you contribute to an RRSP, your contribution amount is tax deductible from your current earnings. That means you'll either pay fewer taxes on your annual return or receive a larger tax refund. In addition, any investment income you earn in your RRSP is tax deferred, meaning that the income remains tax sheltered until you withdraw the funds.

This guide will introduce you to the rules, advantages and flexibility of RRSPs, show you how they compare with TFSAs, and provide ideas for getting started with your own self-directed RRSP portfolio.



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We're here to help you. Call 1.877.787.2330 or 604.605.4199, or send an email to directinvesting@qtrade.ca

The Basics

What is an RRSP?

A registered retirement savings plan (RRSP) is an account designed to help you save for your retirement. It's one of the most popular accounts in Canada because contributions you make to an RRSP provide a tax deduction on your current earnings, and the investment income in the RRSP remains tax sheltered until you withdraw the funds. The aim is to defer the taxes payable on your income until retirement, when you're usually in a lower tax bracket. RRSP contributions let you save on your taxes both now and later. The sooner you start contributing to your RRSP, the better, in order to take advantage of the power of compounding.

Eligibility

In order to open an RRSP, you have to be a Canadian resident and have a Social Insurance Number. Technically, there is no minimum age to open an RRSP. To start contributing to an RRSP, you must have earned income and have filed a tax return with the Canada Revenue Agency. However, at Qtrade, you must be the age of majority in the province where you reside when you open an RRSP.

You can contribute to your RRSP until December 31 of the year in which you turn 71. After that, you must withdraw the assets, convert them into a registered retirement income fund (RRIF) or purchase an annuity. If you're past the maximum age to contribute to an RRSP, consider investing in a tax-free savings account (TFSA), which also has tax advantages, but has no maximum age limit for contributions.

RRSP contributions

RRSP contributions are deductible from your earned income. To be eligible for an RRSP deduction in a specific taxation year, you can make contributions anytime during that calendar year, or up to 60 days into the following year.

To illustrate, if you contributed $5,000 to your RRSP on July 15, 2023, you would be able to claim it as a tax deduction on your 2023 tax return. If you contributed that $5,000 on February 15, 2024, you could claim it as a tax deduction on either your 2023 or 2024 tax return.

Contribution limits

There are limits to how much you can contribute each year to your RRSP or to your spouse's RRSP. Your allowable contribution room is the lower of:

- 18% of the earned income reported on your tax return for the previous year
- The maximum annual contribution limit for the year, which is set by the government (for the 2023 taxation year, the maximum is $30,780)
- The remaining limit after any employer-sponsored pension plan contribution (known as your "pension adjustment", found on your T4 or T4A slip).

Since 1991, the government has allowed RRSP holders to carry forward unused RRSP contribution room. If there are income-earning years in which you filed a tax return but did not make an RRSP contribution, you can use that room to catch up on your contributions. Your excess RRSP contribution room is listed on your previous year's Notice of Assessment, or by logging in to the Government of Canada's My Account.

Excess contributions

There are penalties levied by the Government if you contribute too much to your RRSP. You will be charged a tax of 1% per month on excess contributions that exceed your RRSP deduction limit by more than $2,000. However, you can avoid the excess contribution penalty if you withdraw the excess amount from your RRSP before the end of the month when the excess contribution was made.

For more information on excess contributions, please visit the Government of Canada's web page.

Withdrawals

While contributions to an RRSP can provide tax advantages, withdrawing the funds also has tax implications. Any withdrawal from your RRSP (except in the case of the Home Buyer's Plan or Lifelong Learning Plan) is subject to withholding tax and is treated as taxable income in the year it is withdrawn.

The financial institution where you hold your RRSP will withhold a percentage of the amount withdrawn.

- 10% on withdrawals up to $5,000 (5% in Quebec)
- 20% on withdrawals between $5,000 and $15,000 (10% in Quebec)
- 30% on withdrawals over $15,000 (15% in Quebec)

So, if you made a $7,500 withdrawal from your RRSP, you would only receive $6,000. That's because there would be 20% withholding tax applied ($7,500 - $1,500 withholding tax = $6,000). In addition, you would now have to report that $7,500 as income when you do your taxes for that year.

Withdrawals from a spousal RRSP

Be aware that if spousal RRSP contributions are withdrawn within three years, you as the contributor must pay the tax on that income, rather than your spouse. If the money has been in the spousal RRSP longer than three years, it is claimed by and taxed at your spouse's tax rate.

RRSPs have proven popular with Canadians

While RRSPs were slow to catch on when they were introduced, in 1987 (30 years after their introduction) 20% of Canadian tax filers socked away just over $9 billion in contributions to an RRSP. By 2021, Canadians contributed a total of $56.1 billion, more than six times the amount. Even adjusting for inflation, Canadians made approximately triple the amount in RRSP contributions in 2021.

Types of RRSPs

Individual RRSPs

An individual RRSP is one registered in your own name. You make the contributions and withdrawals; you direct the investments and gain the tax advantages yourself.

Spousal RRSPs

A spousal RRSP is one that is registered in the name of your spouse (including common-law partner). They direct the investments within the RRSP, but you make the contributions to it, and get the tax deduction benefit on your own tax return.

When you contribute to your spouse's RRSP, you reduce your own contribution limit, but receive the deduction on your taxes. If your spouse earns a lower income than you, that deduction could make a bigger difference on your tax return than on theirs.

Contributing to a spousal RRSP can help you and your spouse split your income more evenly in retirement. This could be helpful if you earn more money than your spouse and you're likely to be in a higher tax bracket when you both retire. It could also help if you have a pension plan from your job and your spouse does not. However, if your spouse's income will be in line with yours in retirement, a spousal RRSP is unnecessary.

Be aware that if spousal RRSP contributions are withdrawn within three years, you must pay the tax on that income. If it's been in the spousal RRSP longer than that, it is claimed by and taxed at your spouse's tax rate.

Locked-in RRSPs/LIRAs

If you leave a job that included pension plan savings, you can transfer those pension funds to a locked-in retirement account (LIRA) or locked-in RSP (LRSP). These plans can hold the same types of investments as regular RRSPs, but you can't make any further contributions to them. You also cannot withdraw funds under normal circumstances, as they are designed to help fund your life in retirement. Depending on your pension jurisdiction (provincial or federal) there may be provisions that allow for early withdrawal from locked-in plans. For more information, please refer to the pension board for your pension's jurisdiction.

Self-directed RRSPs

A self-directed RRSP, available through brokerages and investment firms (like Qtrade Direct Investing), gives you the freedom to oversee the investments in your RRSP. You make all the decisions about which investments to buy or sell and manage your account when it's most convenient for you. A self-directed RRSP might be for you if you're a want access to a broad range of investment options, are comfortable managing your investments, and have the time to do so.

Note: *A self-directed RRSP can be an "individual", "spousal" or "Locked in" RRSP.*

Group RRSPs

Your employer may offer a group RRSP as a benefit to help you save for retirement. Your employer would instruct you to open an individual RRSP at a financial institution of their choice (all employees in a group RRSP are held at the same financial institution), which would dictate the range of investment options available to you.

As a member of a group RRSP plan, you would make your RRSP contributions through your employer, deducted automatically from your pay. Some include a matching program where your employer matches or adds to your own contributions.

Group RRSPs vary significantly from employer to employer with respect to contribution and withdrawal rules, so make sure you understand how your group RRSP works.

The benefits of RRSPs

Beyond the simple advantages of saving and investing your money to fund your retirement, an RRSP provides other benefits.

Short- and long-term tax advantages

In the short term, your RRSP contributions can reduce the amount of tax you pay on your annual return. Longer term, when you withdraw from your RRSP at retirement, you're usually in a lower tax bracket, and therefore, will pay less tax on those withdrawn funds.

Tax-sheltered investment income

Any income, dividends and capital gains you earn on your investments while in the RRSP will be tax sheltered. You don't have to pay taxes on those earnings until they are removed from the RRSP.

Wide investment choices

RRSPs can be almost any type of investment account, ranging from a simple savings account or guaranteed investment certificate (GIC) to mutual funds, exchange-traded funds (ETFs), and stocks and bonds. If you have a self-directed RRSP, you can hold a wide range of investments within one RRSP account.

There are a few restrictions for registered accounts to be aware of. Anything held in a registered account, such as an RRSP, must be an "investment in properties (except real property), including money, guaranteed investment certificates, government and corporate bonds, mutual funds, and securities listed on a designated stock exchange."

Some investments you cannot hold in an RRSP include real estate and commodity futures contracts. For more details on what the Canadian government considers a "qualified investment" for registered accounts, please visit the CRA website.

Flexibility

Your RRSP savings can be used for other things than just your retirement, whether you're using it for a home purchase or furthering your education.

The Home Buyers Plan (HBP) lets you withdraw up to $35,000 from your RRSP to buy or build a qualifying home. To qualify, you must be considered a first-time home buyer, be a Canadian resident, and intend to occupy the home within one year of buying/building it. You won't have to pay tax on the withdrawal as long as you pay back the funds to your RRSP over a period of 15 years.

For more information, please visit the Government of Canada's web page.

The Lifelong Learning Plan (LLP) allows you to withdraw from your RRSP to pay for full-time training or education for you or your spouse/common-law partner. You can withdraw up to $10,000 per calendar year, to a total of $20,000. You won't have to pay tax on the withdrawals as long as you pay back the funds to your RRSP over a period of 10 years.

For more information, please visit the Government of Canada's web page.

RRSP compared to TFSA and FHSA

It's important to understand how the RRSP differs from the TFSA or first home savings account (FHSA), all three of which are registered saving plan types. All three are great vehicles for saving and investing money to achieve your financial goals, and they can all hold a wide range of investments. The best way to leverage these account type options depends on your particular objectives and priorities. To help equip yourself to make sound decisions for your self-directed accounts, consider the following points of comparison.

Comparing the rules

	RRSP	TFSA	FHSA
Minimum age	No minimum age; but you must have reported income to CRA	You accrue contribution room starting in the year in which you turn 18. Depending on which province you live in, you can open a TFSA—which is a financial contract—at age 18 or 19	Minimum age is 18 years old
Maximum age	You must close your RRSP by the end of the year in which you turn 71. (Most people convert their RRSP to a RRIF or purchase an annuity.)	No limit—maintain and contribute to your TFSA for as long as you live	You can hold FHSA for a maximum of 15 years, or until the end of the year you turn 71 (whichever comes first)
Contribution limit for 2024	18% of 2023 income up to a maximum limit (this changes each year), less any company-sponsored pension plan contributions	$7,000	Annual limit is $8,000; lifetime limit $40,000
Carry forward unused contributions	Yes, but stops in the year in which you turn 71	Yes, indefinitely	Yes
Need earned income to contribute?	Yes	No	No
Re-contribute withdrawn funds	No	Yes	Yes
Tax treatment of contributions	Deductible	Not deductible	Deductible
Tax treatment of earnings within the account	Tax deferred (taxed when withdrawn)	Tax free	Tax free if funds are used to buy a home; otherwise taxed as income in year withdrawn
Tax treatment of withdrawals	Taxable income, for the year in which the funds are withdrawn	Tax free	Tax free if used for home purchase; otherwise taxed as income in year withdrawn
U.S. dividend income subject to withholding tax	No	Yes	Yes
Penalty for over-contribution	1% per month but only if you exceed the $2,000 lifetime overcontribution limit	1% per month	1% per month

Which is best for achieving your investing goals?

For some common saving and investing goals, here are some options to help you consider how a TFSA and/or an RRSP might be part of the solution for your situation.

TFSA	Goal	RRSP
Savings are easily accessible. Withdrawals from your TFSA are tax free and can be recontributed later. Can be used in combination with the RRSP Home Buyers' Plan.	Real estate purchase	Under the Home Buyers' Plan (HBP), if you are a first-time home buyer, you can borrow up to $35,000 from your RRSP. If you have a spouse, you can each borrow up to $35,000. The borrowed amount must be paid back within 15 years.
Can help provide additional funding for education for you or anyone else. You can gift withdrawals to your children, with no tax consequences, to supplement savings from a Registered Education Savings Plan.	Going back to school	Under the Lifelong Learning Plan (LLP), you can borrow up to $10,000 per year (up to a maximum $20,000) from your RRSP to support your or your spouse's (but not your children's) qualifying full-time education program, based on specific criteria. The borrowed amount must be repaid within 10 years.
Ideal for saving for purchase goals, since withdrawals are tax free.	Vacation or a big-ticket item	Since withdrawals are part of your taxable income, using RRSP assets for big-ticket purchases is not ideal.
Can be used to complement your funded RRSP and provide tax-free income.	Getting ready for retirement	RRSPs are a popular retirement savings vehicle due to the preferential tax treatment and related account features.
TFSA earnings remain tax-free after your death. You can also name a beneficiary on your TFSA account(s) to ensure the money goes to them on your death.	Leaving a legacy	An RRSP can be transferred easily to your spouse or to a qualified beneficiary with few tax implications.

Retirement planning: Finding the right balance

As you formulate your plan for using your self-directed RRSP and/or TFSA to save and invest for retirement, consider your current and future taxable income, your spousal situation, and whether you'll need to access funds for your first home or education. Here are three scenarios to consider:

You're in a low tax bracket, but expect to earn more in the future.
If you direct savings to a TFSA now, you can save your RRSP contribution room to use later, when you're in a higher tax bracket. At that point, your RRSP contributions may generate a larger tax refund than they would now.

You believe your tax bracket in retirement will be lower than it is currently.
RRSP contributions give you a tax break now, and your withdrawals in retirement may be taxed at a lower rate. Consider prioritizing your RRSP in order to minimize your income tax, and then if you are able, use your TFSA as a second source of savings

You have a generous pension plan, or for other reasons expect to enjoy a comfortable retirement lifestyle.
Consider making it a priority to maximize your TFSA contributions. Your TFSA will provide tax-free income in retirement. By comparison, withdrawals from an RRSP or a RRIF are taxable and, combined with other income sources, could push your taxable income high enough to trigger a clawback of your Old Age Security pension.

RRSP loans

Many financial institutions offer RRSP loans, letting you borrow money to contribute to your RRSP. While this can help you lower your taxable income (to get a lower tax bill or a larger tax refund), you also have to pay interest on the loan. Usually, RRSP loans are short term. You borrow the amount you want to contribute to your RRSP that year, make your contribution, and pay back the loan over a 12-month period. The intent is to get a larger tax refund, with which you can pay back all or part of the loan.

However, it will cost you less to simply budget for a monthly RRSP contribution rather than a monthly payment to your loan. Consider setting up automated contributions to your RRSP instead of taking out a loan.

There are also longer-term RRSP loans available, where you borrow a larger amount to catch up on your accumulated unused RRSP contributions, usually paid back over terms up to 10 years. While this allows you to catch up on your missed contribution room, you may be paying more in interest than you earn on your investment.

Estate planning advantages

You have the ability to decide who gets the money from your RRSP when you die. You designate a "beneficiary". It can be anyone—your spouse, your children, a friend, a registered charity. (Quebec is an exception; there, RRSPs must pass through the deceased person's estate.) The designation of an RRSP beneficiary can be very helpful in estate planning.

There are advantages to designating **your spouse or common-law partner** as your beneficiary. When you die, and your RRSP is rolled into their RRSP (or RRIF), you won't pay any tax on the money on your final tax return. The surviving spouse pays tax when they withdraw the money. This type of tax-advantaged transfer also applies to a financially dependent child or grandchild.

If you designate **anyone else** as a beneficiary (such as a child, friend or charity), upon your death, the money will be de-registered, and will not remain tax sheltered. The Canada Revenue Agency will tax the total value of your RRSP on your final tax return before your beneficiaries receive the proceeds.

If you hold more than one RRSP, make sure that you designate a successor or beneficiary for each ofyour RRSPs. You can change those designations at any time. If you don't specify a beneficiary, the money will become part of your estate, will be subject to probate fees and will not remain tax- sheltered. For the precise rules pertaining to RRSPs and estate planning, visit the Government of Canada's web page.

Asset allocation for your RRSP

Asset allocation is the foundation of any investing strategy, whether your portfolio is in an RRSP, another registered account, or a non-registered investing account. Asset allocation—the particular mix of stocks, bonds and cash-based investments in your portfolio—is widely considered to be the most important determinant of long-term investment performance. Most successful investors maintain a specific target weighting for each asset class, based on four key factors:

Basic investment objectives

- **Safety** will be your main objective if you are using your RRSP savings for an important expenditure in the near future (for example, if you're close to retirement or using the Home Buyer's Plan or Lifelong Learning Plan).
- **Income** may be your primary objective if you are in a phase of life where you need your investment to help pay your living expenses. However, an RRSP is a savings vehicle rather than a payout vehicle. Income-oriented investment objectives are more appropriately applied to a RRIF.
- You are a **growth** investor if your primary objective is capital appreciation over time.
- Your objective may be a hybrid, for example safety/income, or income/growth.

Time horizon

How much time is there between now and when you will need to access the funds held in your RRSP? The key consideration is that the potential impact of market volatility is greater in the short term than it is over the long term. With a shorter time horizon, safety is much more important. With a longer time horizon, you can choose more growth-oriented investments.

In an RRSP, you're saving for your retirement, so most RRSP investors would have a relatively long time horizon. However, you would have a shorter time horizon if you're getting close to retirement, or if you plan to use your RRSP savings to access the Home Buyers Plan or Lifelong Learning Plan.

Tolerance for risk

Your tolerance for risk—whether aggressive, conservative, or somewhere in-between—determines how much growth potential you pursue with your investment portfolio. It's a fundamental principal that to earn a higher return, you have to be comfortable taking on more risk.

- **Stocks** have historically had higher risk but higher long-term returns than bonds or cash-based investments.
- **Bonds** are generally less volatile than stocks but offer more modest returns.
- **Cash** and cash equivalents, such as GICs and money market mutual funds, are the safest investments, but offer the lowest returns.

Level of involvement

If you have enough time and enjoy following the markets, researching companies and learning how to evaluate the quality of individual securities, then you can choose to build an RRSP portfolio of individual securities.

If you have less time, or simply prefer to spend your time on other pursuits, you can still maintain control of your self-directed RRSP portfolio by choosing ETFs, professionally managed mutual funds or complete portfolio solutions.

Getting started with a self-directed RRSP: Step-by-step guide

- Complete our online application from your desktop or mobile device.
- Fund your account using an Electronic Funds Transfer or bill payment from your banking account; or by transferring assets from another investment account.
- Start investing!

Transfer to Qtrade

If you want to move existing RRSP assets from another broker to Qtrade Direct Investing, Qtrade will pay you up to $150 to cover any transfer-out fees. For terms and conditions of that offer, and for help with your transfer, visit our Account Transfer page.

Further reading

For more RRSP-related topics, visit the RRSP section of the Canada Revenue Agency website.

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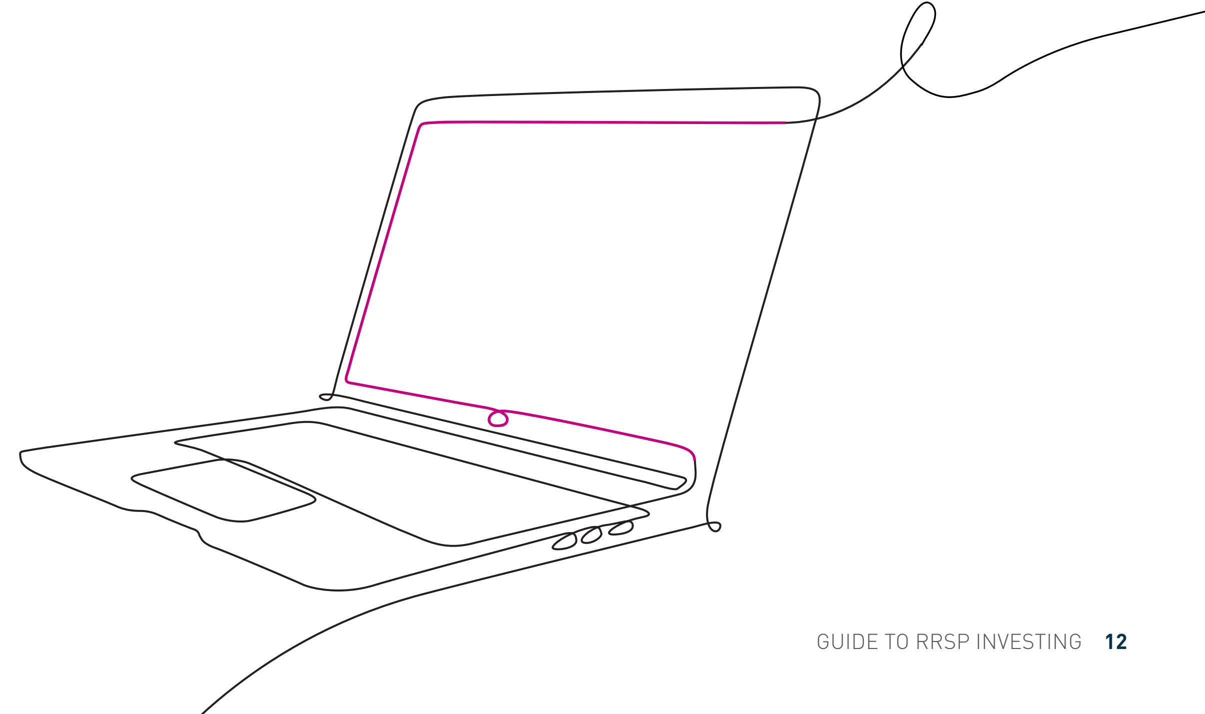

How to open a Qtrade Direct Investing account

There are three steps to get your account up and running, so you can start investing:

1. **Complete our online application** from your desktop or mobile device.
2. **Fund your account** using an Electronic Funds Transfer or bill payment from your banking account; or by transferring assets from another investment account.
3. **Start investing!** www.qtrade.ca/apply

You can move money into your brokerage account from your banking account via electronic funds transfer, or by using your credit union's or bank's bill payment functionality.

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