Mackenzie
TAX & ESTATE PLANNING

Retirement – On Your Own Terms

Investing in an RRSP is the single most significant financial opportunity available to Canadians today.

Over the past decade, Canadians have become acutely aware of the importance of developing a personal retirement plan to supplement Canada Pension Plan payouts. Registered Retirement Savings Plans (RRSPs) are the best way to make sure you can afford the retirement you want. In fact, they are the single most significant financial opportunity available to Canadians today.

Money inside an RRSP grows tax-free until it is withdrawn from the plan. Ideally, this will be in retirement, when your annual income will be lower and your withdrawals will usually be taxed at a lower rate. RRSPs also generate immediate tax savings, because your contributions are tax-deductible.

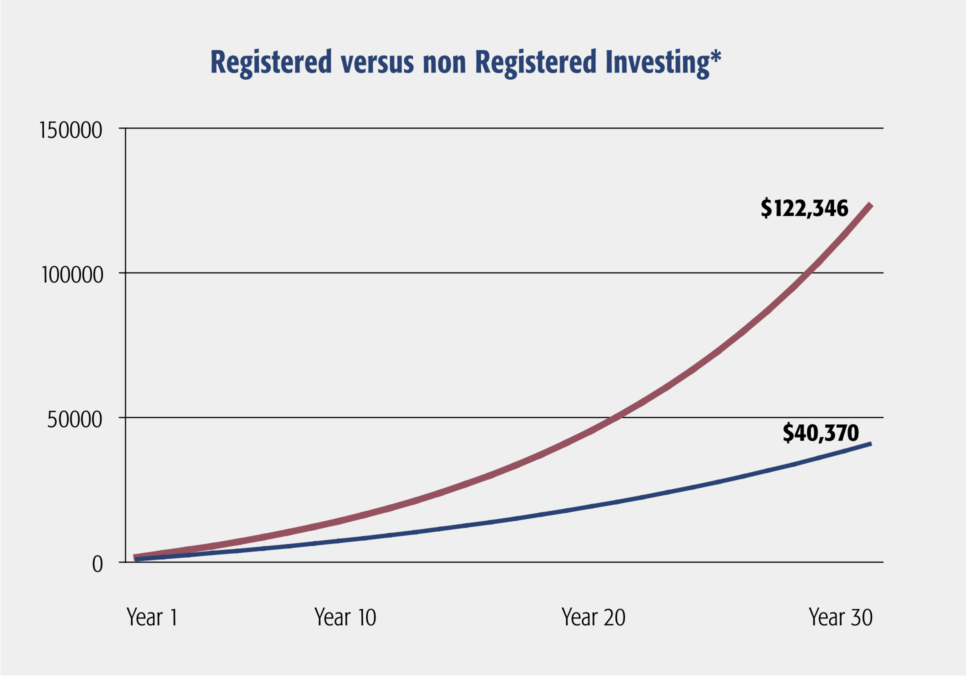
What difference does that make? As you can see in the chart below, it could be a $81,976 difference – or more.

Under current tax rules, if you choose to invest outside an RRSP, you must do so in after-tax dollars. In recent years, you paid at least 40% in provincial and federal income taxes on taxable income above $30,000. In other words, on your last $1,000 of income earned, you retained just $600 after taxes.

If each year, for 30 years, you placed that $600 in an unsheltered investment that earned 8% a year, your retirement nest egg would have an after-tax value of $40,370.

Now let's see what would happen if you sheltered the entire $1,000 from tax by investing it inside an RRSP.

Assuming an investment of $1,000 each year and the same 8% growth each year – which is not subject to tax in a registered plan – at the end of 30 years, you would have accumulated $122,346.



* Registered Investment – $1,000 invested yearly for 30 years (no tax paid)
Non-Registered Investment – $600 invested yearly for 30 years (after tax dollars)

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