

## **Why RRSPs are vital to your retirement**

An RRSP is a generous gift for you from the government. In exchange for your willingness to save for your retirement in a registered plan, the government is willing to . . .

- Let you deduct your contribution from your taxable income, letting you reduce the taxes you pay each year by as much as \$8,000
  - Let you grow your money in the plan tax-deferred

For these two reasons, an RRSP is one of the most powerful and beneficial financial tools you'll find anywhere. This is why they are used by just about everyone and for many are the foundation of their retirement income.

Here's how an RRSP works.

The first thing you do is establish your RRSP account at a financial institution or brokerage house. You can then contribute money to your RRSP up to an annual limit. You're then entitled to deduct the amount of your contribution from your gross income. That reduces the tax you have to pay.

For example, if you contribute \$5,000 to your RRSP and your tax rate is 40%, you'll save \$2,000 in taxes. Or looking at it in another way, the \$5,000 that you added to your savings only costs you \$3,000. However you look at it, it's a great opportunity that you should take advantage of every year.

And here's the second gift the government gives you. All the investments in your RRSP plus all the earnings they generate are allowed to grow tax-deferred. Your investments enjoy compound growth in a tax shelter and that's hard to beat.

Of course, you do have to pay tax on this money eventually, but when you do pay tax, it will likely be at a much lower rate than when you made your contributions. The theory is that you'll be retired, your income will be much lower and you'll pay tax at a lower rate.