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# Getting Started with Your RRSP



For almost all Canadians, an RRSP is the single best, easiest, and most efficient way to save for retirement. RRSPs also offer one of the best ways to reduce the tax you pay. Saving money is difficult for most people. Don't make a tough job impossible by missing out on the tax benefits that come from contributing money to — and investing inside — a registered retirement savings plan (RRSP).

To make the most out of RRSPs, it's wise to know not only how to use them, but also how they work and how to make the most of their many benefits.

# Understand How RRSPs Work

The phrase *registered retirement savings plan*, or *RRSP,* is perhaps the best-known financial term in the country. Unfortunately, it’s also one of the most often misunderstood. For example, many people think of an RRSP as an investment, but it is not. An RRSP is a special type of account inside of which you make — and hold — investments. What makes an RRSP special is that you save on taxes when you put money into it. And there is no tax on the profits you make on your investments as long as they’re inside your RRSP.

- When you open an RRSP, you’re making a deal with the government. By registering your retirement savings plan, you agree to put money away for your retirement and not spend it. The government — quite rightly — wants to help (and motivate) you to save money for your retirement. In return, the government gives you two valuable benefits:
- Money that you contribute to your RRSP is deductible from your taxable income. Therefore, any income you contribute to your savings plan is not taxed, potentially saving you thousands in income tax every year.

- The government lets the savings in your RRSP grow tax-free. Any profits your RRSP investments earn are not taxable until you collapse your plan and withdraw the funds.

The benefits of tax-deductible contributions and tax-deferred growth combine to supercharge your retirement savings. Following is a look at the powerful effect they can have on your ability to save for the future.

## The benefits of tax-deductible contributions

Money you contribute to an RRSP can be deducted from your income before your income tax is calculated for the year. Say you made $50,000 and contributed $5,000 to your RRSP. If you claimed that $5,000 as a deduction on your tax return, your income tax would be calculated as though you had made only $45,000 that year.

Suppose you're in a 42-percent tax bracket. If you contribute $1,000 to your RRSP, you save yourself $420 in taxes. So the *real* out-of-pocket cost of a $1,000 contribution is only $580. Contributing $1,000 to your RRSP leaves you only short $580 in after-tax money you can put your hands on.

The tax savings from contributing to an RRSP are substantial regardless of your tax bracket, as Table 1-1 shows.

| Where | Investment Amount | Tax Rate | Tax Reduction | After-Tax Cost in Dollars |
|---|---|---|---|---|
| Outside RRSP | $5,000 | All | $0 | $5,000 |
| Inside RRSP | $5,000 | 25% | $1,250 | $3,750 |
| Inside RRSP | $5,000 | 34% | $1,700 | $3,300 |
| Inside RRSP | $5,000 | 42% | $2,100 | $2,900 |
| Inside RRSP | $5,000 | 46% | $2,300 | $2,700 |
| Inside RRSP | $5,000 | 50% | $2,500 | $2,500 |

**Table 1-1**: *Short-Term Benefits of Tax-Deductible RRSP Contributions*

## The payoff from tax-deferred compound growth

When you put your money into an RRSP, any profits you earn with that money aren't taxed until you take the money out of your plan. That means you can reinvest 100 percent of those profits, and they in turn can earn their own profits, unrestrained by taxes.

When interest and earnings on investments aren't taxed, the full value is added to the original amount. This new, larger amount then earns further gains, which again are added to, or compounded with, your investments. This phenomenon is called *compound growth,* and over time it will lead to your retirement savings growing exponentially.

Just how well does compound growth work? A good guideline to remember is the "Rule of 72." Take 72, divide it by your rate of return, and the result is the approximate number of years it will take for your investment to double in value. For example, an investment earning 7 percent will double in about 10 years ($72 \div 7 = 10.28$). If you're lucky enough to make 10 percent, you will double your money in about 7 years ($72 \div 10 = 7.2$).

The benefits of tax-deductible contributions grow — substantially — over time. Suppose you're 35 and you invest $5,000 of your salary this year outside an RRSP. Assuming that given your province's tax rate you're in a combined federal and provincial tax bracket of 40 percent, the Canada Revenue Agency would first take $2,000 in tax, leaving you with $3,000. You invest that $3,000 in a mutual fund that earns a 10-percent compound return. After 30 years, you would have amassed a tidy $52,000. (This amount doesn't take into account the taxes you would likely have to pay each year on the distribution of capital gains, dividends, and interest, which would further reduce your average compound return outside an RRSP.)

Now, how would the numbers look if you had contributed that money to your RRSP? Because the CRA doesn't take any tax off your contributions, you can invest the full $5,000. Right away, that puts you $2,000 ahead. (In the real world, of course, you would have had the tax already taken off your income as it was earned. But you would then receive a $2,000 tax rebate for your $5,000 contribution, so at the end of the day, the real cost is only $3,000.)

If you invest that $5,000 in the same mutual fund inside an RRSP earning an average 10 percent compound return for 30 years, you're left with $87,000, or almost $35,000 more than you would have if you had put the money in a mutual fund. Table 1-2 shows just how valuable a tax-sheltered RRSP contribution can be to the long-term growth of your savings.

| Where | Pre-Tax Savings | Available for Investment (with 10% growth) | Value in 30 Years |
|---|---|---|---|
| Inside RRSP | $5,000 | $5,000 | $87,000 |
| Outside RRSP | $5,000 | $3,000 (after-tax) | $52,000 |

**Table 1-2:** *Long-Term Payoff of Tax-Favoured RRSP Contributions*

As Table 1-2 demonstrates, the more money you invest to begin with, the more money you end up with for any given investment.

# How to Get Motivated to Make RRSP Contributions

To help stem your appetite for a large expense that you may desperately want but not necessarily need, it can help to get a firm grip on the substantial payoff from contributing to an RRSP.

For example, suppose you were able to put $6,000 every year into your RRSP and earned an average return of 9 percent. After 30 years, you would have accumulated an impressive $817,845.

But what if you put in only $4,500 annually, using the extra $1,500 to give yourself a week in the sun? Your total would still be a respectable $613,384. But look at it another way. Indulging yourself a little today will cost you more than $200,000 in your retirement. Are your sunfests really worth having $200,000 less when you retire?

TIP

Do you find it tough to come up with anywhere near your maximum allowable contribution when the RRSP deadline comes around? Try an automatic deduction plan. You can tell your financial institution or RRSP holder to take a certain amount out of your bank account every few weeks — for example, when your paycheque comes in. You likely won't miss the money, and you'll be surprised at how much more you can put away.

In spite of the benefits of an RRSP, many people choose to ignore them. It's always easy to find reasons for justifying this attitude. How many of the following excuses have you heard . . . or used?

**“I’m too young.”** Actually, no. You’re not at all too young. In fact, the younger you are, the more profitable RRSPs are! Sure, retirement is many years away. But look at your RRSP contributions as a form of savings. Over the years, you’ll receive great satisfaction in having those funds tucked away where the Canada Revenue Agency (CRA) can’t get at them and where they’ll eventually grow by leaps and bounds. And conversely, you’re never too old for an RRSP as long as you or your spouse is younger than 71 years old and you have earned income.

**“I might want to buy a house in the future.”** Good news! You can tap the money you’ve saved inside an RRSP to help you buy or build a home by using the Home Buyers’ Plan. You can borrow up to $35,000 from your RRSP under the plan, and the money does not have to be added to your income (like a regular withdrawal would), so it’s not taxed. You do, however, have to repay the money you’ve withdrawn over 15 years, beginning in the second year after you’ve taken the money out.

**“I have a big mortgage.”** A mortgage is a long-term financial commitment, but it will slowly decrease with each payment. If you can set aside even a small amount — as little as $50 each month — you can begin building an RRSP, which will move in the opposite direction as your mortgage, growing in value as the mortgage shrinks. Imagine the day when your mortgage is finally paid off and your RRSP is in the six-figure range, ready to provide you with a comfortable income. (And don’t forget those tax advantages.)

**"My house is my retirement plan."** A house isn't a retirement plan — it's shelter and warmth, with a little pride thrown in. Real estate booms (along with a few aggressive real estate agents) convince many Canadians their home isn't just their castle but the foundation of their investment portfolio. This notion is nonsense, as anyone caught in a bursting local real estate bubble can attest to. If you suddenly need the cash that's locked into your house, being caught in a downward real estate cycle can cost you a lot of money and heartache.

This is by no means a warning against owning your own home. In fact, owning good properties is a good thing. But as a source of retirement income, it doesn't compare with a liquid and flexible RRSP. You buy your home with *after-tax dollars* (what's left of a loonie when federal and provincial income tax has been deducted); you invest in an RRSP with *before-tax dollars* (the money you've earned and expect to keep).

**"My spouse/partner has an RRSP."** First, it's lovely to assume that you and your partner will spend the rest of your lives together, but that's still just an assumption. Canadian family law provides for an even distribution of assets, including an RRSP. In the event of a separation, each of you owns half the RRSP benefit you need. Next, if both of you have earned income, you are jointly enjoying only half the tax benefit available to you. Everyone with earned income should have an RRSP. There's plenty of upside and virtually no downside.

**"We're starting a family."** Somewhere amid expenses for diapers, toys, clothing, day care, and other associated costs, try to find a few dollars for an RRSP. Parents do themselves and their children a favour by acquiring a savings habit and sharing it with their kids. When your offspring are old enough, you can explain how the money is contributed and invested, and together you can watch how it grows over the years. This will make it easier for your children to pick up the habit for themselves, including opening their own RRSP. Besides, think of how much peace of mind they'll enjoy knowing Mom and Dad will face retirement with adequate assets . . . meaning you won't be a burden to them in the future.

**"I can't afford it."** We can all relate to this excuse. Everyone has limits on the amount of money left over after taxes, rent or mortgage payments, food, transportation, and so on. Here are three ways to deal with this particular excuse:

- It doesn't take much to get started — as little as $50 each month, for example, will enable you to invest. That amount is equivalent to the cost of a coffee and doughnut each working day. Invest the money in an RRSP and you'll improve your financial outlook and (probably) your overall health.
- Arrange an automatic RRSP contribution through your employer (called a *source deduction*), bank, trust company, or credit union and reduce the effect on your budget.

If you prefer to have your employer handle the paperwork, call your local CRA office and ask for a source-deduction form, called a TD1. You and your employer complete the form and your employer forwards it to the CRA.

- If taxes are the biggest single bite out of your income each month, isn't that the best place to begin saving money? An RRSP enables you to reduce your taxes while saving money. What's more, if you qualify for a tax refund, you can use it for part of next year's contribution.

**"I can't get money out of my RRSP if I need it."** You can withdraw money from your RRSP should you run into a financial emergency. Not a good move, but it can be done.

**"RRSPs are too confusing."** Not anymore. That's why you're reading this book, remember?

# How to Determine Your Contribution Amount

The only condition you have to meet to be able to contribute to an RRSP is that you must have earned income. We know you work hard for any kind of dollars that flow into your household, but not all of that money qualifies.

For most people, their *earned income* is their salary, along with any bonuses or commissions. If you’re self-employed or an active partner in a business, earned income includes any net income from your business. Earned income also includes any taxable alimony and maintenance payments as well as any research grants, royalties, and net rental income.

If you have any earned income in a year, you can contribute up to 18 percent of that total to your RRSP in the following year. That limitation is only one of three that put a ceiling on how much you can contribute. A straight dollar ceiling is set, plus your maximum may be further reduced if you belong to a company pension plan. Here are the specific rules:

- **A maximum of 18 percent of your income:** Regardless of the absolute ceiling on contributions, the amount you have the right to contribute to your RRSP in any year is also limited to 18 percent of your earned income from the previous year. For example, the most you could contribute in the 2022 tax year would be 18 percent of your 2021 earned income.
- **The universal maximum amount:** Regardless of how much earned income you have, there is an absolute maximum dollar amount you can contribute for any one year. The maximum RRSP contribution limit is $27,830 for 2021 and $29,210 for 2022. (For 2023 it is $30,780.)

- **Extra ceiling for pension plan members:** The maximum amount you are allowed to contribute may be further reduced if you belong to a company pension plan. The government calculates the value of contributions made to your employer-sponsored pension plan, called a pension adjustment (PA), and deducts this from whichever is less — the absolute dollar maximum allowed for the year or 18 percent of your earned income — to arrive at your allowable contribution.
- The maximum amount is shown in the following chart:

| Year | Amount Allowed |
|---|---|
| 2021 | $$27,830 |
| 2022 | $$29,210 |

TIP

Your pension adjustment for a given year should appear in that year's T4 slip that you receive from your employer. The Notice of Assessment you receive in the spring after you file your tax return will also show this amount, as well as any unused contribution room carried forward from previous years and still claimable in future years, as you will see later in this chapter.

## The contribution deadline

For any given tax year, you can make a contribution any time up to and including the 60th day in the next year. The last day you're allowed to contribute for the 2021 tax year, for instance, is March 1, 2022. You could contribute as early as January 1, 2020, of course. The exception is that in the year in which you turn 71 you must contribute to your plan before December 31.

Note that the deadline is the 60th day in the new year, and not fixed date such as March 1. Why? Leap year. Every fourth year, if you waited until March 1 to make your contribution, you'd be too late. In a leap year, since February has one extra day, the deadline is not March 1 but February 29. In addition, if the deadline falls on a weekend, it gets bumped to the following Monday.

The only positive thing that can be said about leaving your contribution to the last minute is that it's good for an adrenaline rush. But consider this: If you plan and make your contributions well in advance, you'll likely earn enough in extra interest over the years to pay for hours of heart-stopping bungee jumping and skydiving when you retire.

TIP

RRSP dates can be confusing, so here are two key facts to keep in mind. First, each year that you have earned income, you are qualified to contribute a certain amount of money to your RRSP. Just how much is a function of your income level and whether you had money put into other retirement plans, such as your employer's pension plan.

The amount your earnings allow you to contribute can be added to your RRSP only the following year, plus the ensuing 60 days. For example, your 2020 earned income earns you the ability to add up to a certain amount to your RRSP, anywhere from January 1, 2021, up to and including the 60th day into 2022. Note that you can make a contribution in February of 2022, and choose whether to deduce it from your 2021 income or your 2022 income.

TIP

Every February, many people dash around trying to get their RRSP contribution in before the deadline. Rushed contributions, however, are usually made without considering investment options.

If you can’t avoid making your contribution at the last minute, it is tremendously important that you don’t rush into making any major investment decisions. Good investment decisions are underpinned by a lot of due diligence and research, and that takes unrushed time. Consider putting your money temporarily into a money-market mutual fund or other cash-like investment, and then moving your money into better performing investments when you have the time and energy to consider your options. By carefully assessing your RRSP investments, you can greatly boost the value of your plan, which translates directly into thousands of dollars more income to live on during retirement.

## How to Make Sense of Your CRA Notice of Assessment

In the spring or summer of each year, the Canada Revenue Agency sends all taxpayers a Notice of Assessment for the preceding year. Your contribution limit for the current year is included on the statement. For example, if you've filed your 2020 tax return, you'll find your allowable contribution for 2021 on your assessment statement, which you should have received in the first half of 2021. You have until March 1, 2022 to contribute to your RRSP for the year 2021, meaning you're allowed to deduct allowable contributions made from your income on your 2021 tax return.

The CRA's Notice of Assessment includes its evaluation of any retirement benefits you earned from being a member of a company pension plan or deferred profit-sharing plan (DPSP). This evaluation, and its effect on your RRSP contribution limit, is called your *pension adjustment*, or *PA*, factor. Subtracting the PA factor from 18 percent of your taxable income produces the maximum RRSP contribution permitted to you.

The PA factor changes according to the type of pension plan or DPSP your employer provides:

- A *defined benefit plan* pays you a retirement income based on your years of service with the company and your income level. Your PA factor with a defined benefit plan is calculated according to the future value of the plan, using your previous year of employment.

- A *defined contribution* or *money purchase plan* has no fixed benefit when you retire. You and your employer both contribute to the plan each year, and the amount of income paid to you by the plan when you retire is dependent on the total value of the plan at that time. If you belong to this type of plan, your maximum RRSP contribution will be 18 percent of your earned income less the amount contributed to the plan by both you and your employer.
- A *deferred profit-sharing plan* is built up from money placed in the plan by your employer, based on the company's profits for that year. Your PA factor under this plan will equal the total DPSP contribution (up to a maximum limit) made on your behalf. This amount will be subtracted from 18 percent of your earned income for that year.

Table 1-3 illustrates the contribution limit for four individuals with varying incomes:

- Andy had $30,000 earned income in 2020 and does not belong to a pension plan.
- Allison had $40,000 earned income in 2020 and belongs to a money purchase pension plan. Between them, Allison and Allison's employer contributed $2,500 to the plan in the same year.

- Arthur had $75,000 earned income in 2020 and belongs to a DPSP. Arthur's company contributed $5,000 to Arthur's DPSP in 2020.
- Amanda had $175,000 earned income in 2020 and does not belong to a pension plan.

| Name | Income | PA Factor | Maximum |
|---|---|---|---|
| Andy | $30,000 | N/A | $5,400 |
| Allison | $40,000 | $2,500 | $4,700 |
| Arthur | $75,000 | $5,000 | $8,500 |
| Amanda | $175,000 | N/A | $27,830 |

**Table 1-3**: *Maximum RRSP Contributions for 2021*

Calculating Andy's maximum RRSP contribution is easy — 18 percent of $30,000. Nice and straightforward.

Allison's maximum contribution was reached by taking 18 percent of earned income (18 percent of $40,000 = $7,200) and subtracting from that amount the total contributions to the money purchase pension plan, leaving $4,700.

Arthur's RRSP contribution was reached by subtracting the $5,000 earned by the DPSP from 18 percent of earned income (18 percent of $75,000 = $13,500), for an $8,500 maximum.

Amanda did very well — but 18 percent of Amanda's $175,000 earned income exceeds the $27,830 maximum for 2021.

The maximum RRSP contribution is scheduled to climb for a while, and assuming that the same income and PA factor figures apply, Amanda will be able to contribute up to the higher maximums in those respective years. For Andy, Allison, and Arthur, there will be no change, again assuming the same figures apply.

# Monthly Contributions versus Lump-Sum Payments

The first wise decision you can make in providing yourself with future financial security is to open an RRSP. The second wise decision you can make is to arrange regular contributions each month throughout the year instead of waiting to make a lump-sum contribution at the last minute — like, ten minutes to midnight on February 28.

What makes this such a wise decision?

- Monthly contributions become almost painless. It's much easier to adjust your budget to 12 relatively small amounts over a full year than to absorb a major *whack!* each February.
- Regular contributions give you an opportunity to ponder where and how to invest your RRSP contributions. Last-minute decisions tend to be second-rate decisions, and if you don't make up your mind where to invest

your money until the late-February, last-minute rush each year, the growth of your RRSP is likely to suffer.

- Monthly contributions enable you to benefit from dollar-cost averaging, a neat trick where you make your investment over a series of year-round equal payments. Because no one is wise enough to recognize the bottom price of any mutual fund or common share (that is, the best time to leap into a growing market) or wise enough to know when the top price has been reached (that is, the best time to get out while the gettin' is good), dollar-cost averaging is the next best thing. When unit prices are lower you purchase more shares, and when the prices are higher you acquire fewer shares. You can accomplish this trick because you're investing a regular series of equal payments that purchase shares when the market is high or low.

TIP

If you must make a last-minute, lump-sum contribution, by all means do so. But try to adapt to regular monthly contributions if possible.

Will two people, contributing exactly the same amount of money to their RRSP and investing it exactly the same way, have identical RRSP values? Not necessarily.

If you make a lump-sum payment at the end of the year in December, and your twin sister contributes the same amount 12 months earlier in January, you both qualify for the deduction in the same year. But the 12-month head start means your sister's RRSP will grow faster as time goes by. How much faster?

Assuming you each contribute $1,000 annually and earn interest at 10 percent, at the end of five years your RRSP is worth $6,105 and your sister's has a balance of $6,715. After ten years, your sister's RRSP has $17,531 while you have just $15,937. And if you both maintain the same contribution level and earn the same annual interest, after 30 years your sister's RRSP will have a value of $180,943 compared with your $164,494. The difference? The 12-month head start your sister took each year. And that $15,000 advantage could generate enough retirement income for your sister to enjoy a few weeks in Florida each winter, leaving you back in Canada to shovel snow and read your twin's gloating postcards.

## Making the most of your unused contributions

If you don't contribute the full amount you're allowed to in a given year — or don't make a contribution at all — the unused portion can be carried forward and used in later years.

For example, if you were allowed to contribute $7,000 this year and contributed only $5,000, you would have $2,000 of unused contribution room to use in the future. Say the next year your income meant that you could contribute an additional $10,000. The total amount you could contribute to your

RRSP in that year would be $12,000 — the $2,000 of allowable contributions brought forward from the preceding year and the $10,000 allowable contribution for the current year. In the jargon of RRSPs, this amount is not called your allowable contribution but your *contribution room.*

## Deductions at source

If your employer automatically deducts income tax from each paycheque, your deductions are made *at source.* This method is an easy and more convenient way to make regular contributions to your RRSP throughout the year. Although you won't enjoy the delicious but illogical thrill of receiving a fat tax refund each spring, unless you make a lump-sum supplementary contribution (assuming you have RRSP limits), your net pay, including your RRSP contribution, will be increased. That's because your employer will be authorized to lower your income-tax deductions to reflect your RRSP contributions.

It is up to you, not your employer or the CRA, to take the initiative to have your employer reduce your income tax with each paycheque, reflecting your monthly RRSP contributions. Write to the source deductions division of your district taxation office (your employer can provide the address) and ask the CRA to authorize the lower tax level. Include details such as the full address of your employer and a copy of a receipt confirming your RRSP contributions issued by the bank, trust company, credit union, mutual fund, or other holder of your RRSP assets. Be sure to mention other sources of earned income if you have any.

When the CRA is satisfied that your request qualifies, it will authorize your employer to reduce the income tax withheld from your paycheque each month, boosting your monthly take-home pay.

If you belong to a group RRSP administered by your employer, the income tax payments withdrawn from your salary already reflect your RRSP contributions. No need to alert the CRA.

## Is an RRSP loan a good idea?

The idea of borrowing money to save it doesn't make sense unless you save it in an RRSP. If borrowing is the only way to max out your RRSP contribution for the year, it becomes an attractive move *provided you pay back the loan in a year's time.* You aren't allowed to deduct the interest on money you borrow to make an RRSP contribution, due to a general tax principle that expenses such as interest are deductible only to the extent that they're used to earn income, not avoid taxation. But borrowing the money to make your RRSP contribution is a much wiser move than making no RRSP contribution. And if you have put off making a contribution until the RRSP deadline, it makes even more sense.

Suppose it's mid-February and you want to contribute $5,000 to your RRSP before the February 28 deadline arrives. If you're in a 40 percent marginal tax bracket, the $5,000 deduction will earn you a $2,000 tax refund when you file your return in April. Hey, don't pass it up! So what do you do? You visit a local bank, trust company, or credit union, and tell them you want to borrow $5,000, which you will invest in an RRSP with their organization. You want to spread payments over 12 months, you expect to receive a favourable interest rate, and you would be especially pleased if they would delay the due date of the first payment by three months. If you're a local resident, steadily employed, and have a credit rating at least as good as your dog's, the financial institution will agree to these terms. If they don't, walk out the door and visit another bank, trust company, or credit union and ask for the same terms. You'll get them.

When the paperwork for the $5,000 is finished, assign it to an RRSP with the same people who loaned you the money. They will issue a receipt entitling you to deduct the entire $5,000 from your tax return. (You may have to wait two weeks or more for the receipt to arrive.) Based on your 40 percent marginal tax rate, the CRA will generate a $2,000 refund — which, if your timing is good, arrives in the mail around the same time your first loan payment is due. Apply the entire amount to the loan balance, and you now have $5,000 in your RRSP and owe just $3,000 to the lender.

There's more. You'll be paying interest on the balance, and the annual interest percentage may very well be more than your RRSP earns over the year. But you are paying interest on a declining balance for your loan; each monthly payment reduces both the amount you owe and the interest you pay. Meanwhile, the $5,000 in your RRSP is earning interest on a rising value. After six months, for example, the balance of your loan could be just $1,500 (assuming you applied your tax refund to the original amount) and the value of your RRSP could be $5,125. In another six months, your loan will have vanished. But the $5,125 in your RRSP keeps growing and growing and growing.

## Pensions and your contribution limits

Sometimes, pension benefits under a defined-benefit pension plan are improved retroactively. If this happens, your RRSP contribution limit may be further reduced by a past-service pension adjustment (PSPA).

On the other hand, you may find your contribution limits increased. For example, you may work for a company that has a pension plan. As a result, your RRSP contribution limits will be reduced by your pension adjustment. However, you may leave the company before you fully earn the rights to those benefits — before they vest. To give you back some of the RRSP contribution room that had been taken away because of the supposed pension benefits you were due to receive, you will get a pension adjustment reversal (PAR). A PAR increases your allowable RRSP contribution in the year you leave that particular job.

## When to Claim Your Deduction

Just because you have made a contribution to your RRSP doesn't mean you should claim it come tax time. This may sound more than a little strange, given you've been hearing about the wonderful way an RRSP contribution can be deducted from your income before your year's taxes are calculated, reducing your tax bill.

Why would you not happily note your contribution on that year's return? Because sometimes waiting and claiming it in the future may earn you a bigger tax savings.

TIP

When you deduct an RRSP contribution, the tax you save is determined by your marginal tax bracket. If your income fluctuates or is unusually low (perhaps you've taken time off to care for a baby, start a new business, or just smell the roses), you may save more in taxes by putting off claiming the deduction for some or even all of a contribution until your income is higher. By doing so, you'll be in a higher marginal bracket, which means your deduction will save you that much more in taxes.

Also, a large deduction can decrease your taxable income so that you drop a tax bracket. For example, suppose you earn $49,000, which means your marginal tax rate is approximately 35 percent. But only the last $3,000 of your income is taxed at this rate. Income below about $46,000 down to $13,000 is taxed at only about 25 percent. You could maximize your tax savings from a large RRSP contribution by claiming only about $3,000 — just enough to reduce your taxable income so that none of it is taxed at 34 percent. You could then use the same strategy for the remainder of the contribution in future years.