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How to give your RRSP contributions a raise

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To meet your retirement savings goals, you may need to increase your annual RRSP contributions on a regular basis. And giving yourself even a small RRSP (called RSP at Tangerine) contribution "raise" each year can make a huge difference in the total amount you accumulate in your account.

"Increasing contributions regularly is important because your income goes up over time," says Rona Birenbaum, a financial planner with Caring for Clients. "So if you want your retirement income to be aligned with your future lifestyle, your level of savings has to also increase."

You may think you can't afford to increase RRSP contributions, but if you get a tax refund, a raise, a bonus or a severance package, you can direct some or all of these amounts to your RRSP, as long as you have contribution room. Take a look at your most recent Notice of Assessment from the Canada Revenue Agency to find out how much RRSP contribution room you have available.

"You can look at it two ways," says Robert Brown, a freelance writer who recently penned Wealthing Like Rabbits, a personal finance book that uses rabbits, pancakes, Forrest Gump and cigars (among other things) to teach people about personal finance. “Either increase RRSP contributions when your monthly expenses fall, like if your car insurance rates go down because you are a good driver. Or reduce built-up contribution room when you get a windfall, like if you sell your 1938 Superman comic.”

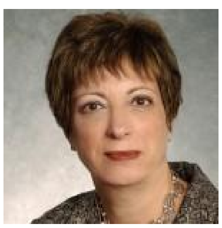
As you get closer to retirement, there may be additional opportunities to tax defer extra money in your RRSP. For example, when you pay off your mortgage or downsize, when your kids finish school or leave home, or if you receive a lump sum termination package.

Another great time to up your RRSP contributions is when you’ve made the maximum Canada Pension Plan (CPP) or Employment Insurance (EI) contributions for the year. The maximum employee CPP contribution in 2015 is $2,479.95 on earnings of $53,600. Similarly, EI contributions top out at $930.60 when you’ve earned $49,500.

Once you no longer have to contribute to either CPP or EI, your pay will go up by 6.83%, or up to $131.45 per week depending on your income. Instead of increasing your spending when you have a few extra dollars in your pocket, consider allocating additional disposable income to retirement savings. By the time you have to start paying into CPP and EI again in early 2016 you’ll already be in the habit of saving more.

Regardless of where the money comes from, Brown says the most important thing is to get into the habit of saving increasing amounts from a young age. “Regular monthly contributions that come out of your bank every payday are the most effective way to save because you never have to come up with a large sum of money in January or February,” he says.

About Sheryl Smolkin



Sheryl Smolkin is a a freelance writer and President of Sheryl Smolkin & Associates Ltd. A reformed pension lawyer, Sheryl specializes in retirement, employee benefits and other workplace issues.

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