Magenta

RRSPs

Preparing for the Winter of Our Years

Each and every Winter, since I have been old enough to balance on a stepladder, I have helped my father put up the Christmas decorations. The big night has steadily crept earlier with the turning of the years: we used to manage to wait until after my sister's birthday on November 29th, then only until after Remembrance Day. Now he can't wait to put the Halloween touches away and raid the basement for the better part of a Canadian Tire's worth of lights. November 1st, or as soon as after as I can manage to commute from Ottawa, we get to work.

The carols sounding forth from our portable speaker are piped in from my laptop over Bluetooth, streaming Classic FM straight from London, but I fondly remember the days when we carted out the boombox as big me and a well-loved Boston Pops Orchestra CD to accompany us instead.

It was still the boombox, and I still lived at home, when he first took this yearly opportunity to pass on a little of the financial wisdom he had gained over the course of building his own mortgage investment corporation from the ground up. My grandparents, I learned, had struggled with managing money- their lack of savings meant they weren't able to assist my dad with going to post-secondary school. "Even with a scholarship, I had to spend my Christmas break, most of my holidays, really, scrubbing pots and pans at Belleville General Hospital. No one wanted those shifts, so they paid double the usual."

They didn't give him rubber gloves back then, and I know that if his fingers struggle to find the switch on the back of the timer for our lights, it's because the nerves in the tips never quite recovered from the scalding water. "And once they were older, they only had my dad's mandatory pension to live on. They would have had to sell the house, if I wasn't able to pitch in." His breath fogged the air as he reached up to frame the next garland around a window.

"There may be gifts you're more excited about under the tree, but the one I'm proudest to give to you is simply that you'll never need to worry about your mother and I. Because I've always made sure we planned for retirement above and beyond what the Canada Pension Plan requires by making our RRSP contributions. We'll always have a steady income."

"RRSP? What's that?", I asked, having to raise my voice only a little- my dad likes his carols 'joyful' (read: *loud*).

"A Registered Retirement Savings Plan, and it's past time you opened one, young lady! Now that you've started working part-time, it's time to start growing your savings. And an RRSP is one of the tools we'll use to do just that. This way, you can give that same gift to your children, too." He folded up the stepladder and headed to the backyard, having judged the front of the house satisfactory, and I hustled behind with the boombox, nearly tripping over the extension cord.

"Every year you're allowed to contribute up to $32,490, or 18% of your annual income, whichever's less, to your RRSP. For you, that won't be very much at the start, but it's still important to make as much of a year's contribution as you can. That's because an RRSP is what's called a tax-deferred account. You won't have to pay taxes until you withdraw the money when you're older, which means your investments will grow faster and you'll accrue more interest than if it were in a regular account. The Registered Education Savings Plan your mother and I set up for you works the same way, but with more limitations on how much you can contribute."

"So, I save a little money now to get a lot later? Sign me up!"

He laughed. "Well, it's not that simple. Once you retire or turn 71, you must convert your RRSP into a Registered Retirement Income Fund. And anything you withdraw is going to be taxed at your marginal tax rate- an RRSP is tax-deferred, not tax-free. You can't contribute to it any more after that, but you can keep investing what's already inside. However, the Government of Canada has established a schedule that dictates the minimum amount you must withdraw from your RRIF based on your age and the value of your account at the beginning of the year. If you're married, though, you can have this calculated by your spouse's age instead. This flexibility allows you to adjust your withdrawals based on your changing financial needs and circumstances throughout retirement."

He scratched his chin, lost in thought. "There is an exception to the rule- when you're buying your first home, you're allowed to withdraw $60,000 RRSP tax-free through the First Time Home Buyer's Plan, you do need to pay it all back, eventually."

Then, noticing at last the redness of my cheeks and my shivering fingers. "But we can get into that another time. That's enough for tonight."

- Heather Marshall, Daughter of Magenta's Founder & CEO

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