The Just Word Podcast

Transcript of Episode 29: It's RRSP Season!

Guest: Andrew Kirkland

Pat Bolland 00:00
You know, a lot of Canadians know a thing or two about RRSPs. But there's a lot more to these things than just putting your money away and then, at some point in your retirement, pulling all that money out, and Andrew Kirkland joins us, he's the President Justwealth Financial, and he's an expert in all things RRSPs. Great to see you again Andrew.

Andrew Kirkland 00:20
Yeah, we had a lot of fun last last month talking about RESPs. So it'll be good to kind of get under the hood of RRSPs this time, too. So I'm looking forward to it.

Pat Bolland 00:30
I got a lot of feedback on those RESPs because a lot of people aren't aware of them. But people are certainly aware of RRSPs for the most part,

Andrew Kirkland 00:41
RRSPs are definitely an account type that's being used by the majority of Canadians, right, they've been around for quite some time. And they're a great investment vehicle, they offer a lot of benefits, and they certainly help towards saving for retirement and, and not just for saving for retirement. There's other avenues that it can assist with whether it's purchasing a new home, or even going back to school, you can access some of your RSP proceeds to do those types of activities. But yeah, for the most part, people use an RRSP, or Registered Retirement Savings Plan to save for, you know, that retirement age when they get into their 60s and early 70s. It has to be moved. But yeah, it's a very popular investment vehicle and a lot of Canadians use it.

Pat Bolland 01:29
We should go through what exactly an RRSP is, I mean, you've gone through the Registered Retirement Savings Plan, but I'm of an age that when you walked into the bank, they'd say, Would you like to buy an RSP? And it was kind of analogous to buying a mutual fund. It's not that at all is it's it's an actual ...

Andrew Kirkland 01:48
Yeah no, it's something that a lot of Canadians, they think is, you know, an investment and the account type being an RSP is, is one of the same thing, but they're actually very different. The RSP is really, like I said, an account type. It's something within that account type you make investments into. As an example, back in the day, a lot of people would buy mutual funds. Nowadays, most people are buying exchange traded funds, or individual stocks or, or bonds. But yeah, it's that RSP wrapper. And then within that you can have individual investments of many, many different ones. It could be a savings account at the bank if you wish, right. But a lot of people say, Oh, I have an RSP. And they think that

that's it, but what do you invested in within that RSP is really the main question. And a lot of people sometimes misunderstand how that actually works.

Pat Bolland 02:43
Yeah, there's that misconception. The other misconception, and I do it myself, is I'm never really sure, until I get into the, you know, Canada Revenue Agency online portals, I'm never really sure how much I can put into a Registered Retirement Savings Plan. So maybe walk me through the rules.

Andrew Kirkland 03:05
Yeah, so ... and they can get complicated and they're individualized, to you and your situation, right, everyone will have a different RSP contribution amount. But basically, in a nutshell, like I said, an RSP is an account type that you put money into. And then any money you put into that account, or that RSP, can be invested in multiple things; exchange traded funds, you know, stocks, and all that stuff. But any money you put in, say, for example, you put in $10,000, you can then have that $10,000 contribution, reduce your taxable income in the year you made that contribution. So, for all intents purposes, if you had a salary of $100,000, from your employer, and you wanted to reduce that salary, because you want to pay less taxes, you could make an RSP contribution of $10,000. And you would be able to, when you do your taxes, report to the government that I actually, my income was $90,000. So only taxed me the amount that someone who's making 90,000 should be taxed. Right. So now as far as how much you can put in, it's really dependent on a couple factors. It could be it's a percentage of your previous year's income, right? So if your previous year's income was going back to $100,000, that means that you could contribute $18,000 into ... you would get $18,000 more of RSP contribution limit added to your kind of plan ... or your bucket if you will. But if you don't make a contribution of that into that RSP for that year, you can roll that $18,000 into future years, and it keeps adding up every single year that you don't make a contribution, but every time you make a contribution, it will reduce that income. So there's certain maximums that the government will allow. So it's like 18% of your income, up to a certain maximum that you can put in or would be added to your contribution limit. And in 2021, it's around $27,000. So whatever is the lower, the lesser, of amount between 18% of your income, or $27,000, would be the amount that would be added to your RSP contribution. Now, as I mentioned earlier, it's very personalized to you based on your income, and you know, how much room you've had carried forward from previous years. So a few places that you can get this and find out how much actual RSP contribution limit, you have; one being your notice of assessment. So when you do your taxes, or someone does your taxes for you, you're gonna get a notice of assessment. It'll say it on there. The other place that I find that more people are becoming aware of, but not not everyone's aware of this, but CRA has a phenomenal portal, if you will, where you can go in and actually see, what is your RRSP contribution limit? You know, what is your show your notice of assessments, it'll show your TFSA contribution limit, it'll show any documents the CRA has been sending to you. It's called CRA 'Myaccount', it's an online portal that you can go in, you have to kind of set up the portal and, you know, they ask you some security questions, but it's a phenomenal resource to get access quickly and easily to some of those, you know, as an example, RSP contribution limit how much money you can put into an RSP in that particular year.

Pat Bolland 06:41

The other thing that really hasn't changed for all these years, though, and you're right about these contribution limits have changed through the years, the deadline, I think is still the same, isn't it?

Andrew Kirkland 06:51
Kind of March 1, depending on if it's a leap year, or not, usually 60 days after the end of the year, right? So in most cases, yes, March 1, and why that's important. And it sometimes can be confusing, but really why March 1 is a kind of a date, which is important when it comes to RSP. So we're coming into 2022, right? And before March 1 2022. So if you made a contribution today, on January 27 2022, into your RSP, you can actually use that contribution of X number of dollars 5000, 10,000 $20,000. To reduce your 2021 tax years, it's actually your income. So yeah, you know that that first 60 Day contribution, up until March 1, can be used to reduce your 2021 taxes, which is a good little vehicle because you actually know what your 2021 income is going to be. Because, you know, 2021's behind us so. So yeah, that's kind of how that's, why that's important in the first 60 Day in any any institution that you're working with, whether it's the bank, or Justwealth, we provide the RSP contribution receipt, in your client portal. And in fact, it's actually directly linked to the CRA My Account website. So anyways, that's kind of how that works. Pat got another question coming in. It's saying what type of investments should I have in my RSP? So this is your question. And again, we kind of made reference to this earlier about, you can have multiple, like, multiple avenues of investments or vehicles, if you will, the structure and the frame is the RRSP. And then within that frame, you can have exchange traded funds, stocks, bonds, mutual funds, at Justwealth, you know, most people with us do have RSPs, and they invest within their RSPs. And we use strictly exchange traded funds. And it's all about matching the risk level of your objective for your RSP with an appropriate risk level portfolio. And it kind of makes you know, most in most cases, people invest for retirement. So if you're in your 30s or 40s, that could be, you know, 20 or 30 years from now. So you have the the ability to take on more risk, and you may be able to take on more equity exposure in your portfolio and more equity exchange traded funds. But maybe if you're getting closer to that date, when you're gonna have to start withdrawing money from your RSP it's more focused on a conservative portfolio and being a more fixed income oriented portfolio.

Pat Bolland 09:44
Okay, so you've kind of answered my next question, but maybe crystallize it a little bit more formally, because do you or should you change your RSP investments as you get older?

Andrew Kirkland 09:56
Yeah, so that's a great question and one we get often, and there's no one right answer for that it's very personalized to that particular person. But I would say, for the most part, people tend to reduce or lower the risk within their portfolio as they get closer to the point to when they're going to be withdrawing their RSP. I think that's just a sound philosophy and strategy to follow within your RSP as you get closer, reduce the risk. Because the last thing that you really want to have is, you come to a point where you're going to have to start taking money, or start be in a position where your RSP becomes a RIF. And maybe we can talk about that later. But that's when you start taking money out. And you don't want to necessarily be in a position where you're taking money out of your registered plan and the market has dropped for whatever reason, it could be, like a global pandemic, it could be war, it could be any catalyst that may drop the market. But you really should probably be focusing on insulating yourself

from, you know, big market movements and big volatility, when you're withdrawing money from those investments.

Pat Bolland 11:13
Yes, towards the end, focus on capital preservation. You bring up an interesting point, though, and it has to do with the taxes because you said, you know, initially had $100,000, and you reduce your taxes by whatever you contribute to the RRSP. But it's not really tax free, because when you do take it out, you're going to pay taxes on that, right?

Andrew Kirkland 11:33
So it's great, because it can reduce your income in the year you make the contribution. And presumably, you would make that contribution when your income earning years are higher, right. So you're, you know, maybe in your peak earning years, and you're ...

Pat Bolland 11:52
And your tax bracket's higher...

Andrew Kirkland 11:53
Exactly. And then when you go to take it out, hopefully, you're retired, and you don't have the employment income anymore. So your income level isn't that high, your taxes aren't as high, your taxes only aren't that high. And then you're taking the money out in a lower tax bracket. And that's kind of the ... I guess, if it was a game, what you want to do ... you want to put the money in when your tax bracket is the highest, and you want to take the money out when your tax bracket is the lowest? Right? So ... K, we got another question here from Dan? He says growth versus income portfolios how to decide which to choose? So that's a good queation... Now, this again, there's, again, very personalized to, you know, your your objectives and whatnot, but typically, what we see, and when we're talking with investors about portfolios, and what to invest in within their RSP, typically, a growth portfolio would be used while in investment in an RSP. Okay? Because the primary objective would be to accumulate wealth and grow and have that objective as the primary one now,

Pat Bolland 13:10
And the RSP contribution grows tax free. While it's growing,

Andrew Kirkland 13:15
Yeah, everything, there's no taxes, as far as ... it's kind of a tax sheltered, but you know, when you kind of take the money out there, that would be considered income, but I'll get into that in a second. But as far as, when you start taking the money out, it's going to be, you're going to be taking it out, when it's a RIF, for the most part, for the most, in most scenarios, gonna be taking the money out by transferring it from an RSP to a RIF. And that's not ...

Pat Bolland 13:41
a Registered Retirement Income Fund,

Andrew Kirkland 13:46

... get those acronyms and work those out. But in that case, what is forced upon you is you have to withdraw a minimal amount from that RIF, every year, right, there's a, there's a percentage based on your age that you have to withdraw. So in that case, what happens quite frequently, and we talked to a lot of investors about this, transitioning the portfolio to an income portfolio. And we have income portfolios, and, you know, from low risk to high risk, but again, it's trying to match what's your withdrawal percentages, and trying to supplement that with income. So we don't necessarily have to touch the capital, we can have the income from the investments, fund those withdrawals, that's not always the case. Like there could be a scenario where, you know what, I just want to keep my objective to grow as much as I can. And in some cases, people when it becomes a RIF, and they have to take the minimum out. They they actually don't, they take it out of the RIF, but they just reinvest it into a TFSA. Right? So because they don't need the cash flow from that RIF. So in that case, if you look at that money, you know, the objective could still be growth and maybe it's not providing an income source of cash flow. Right? So, yeah, it's a ... there's no exact answer, but it's very situational. But that kind of hopefully gives you some, you know, yardsticks to work with ...

Pat Bolland 15:14
There is a tax component to it. Because if you want income in dividends, dividends are treated differently outside a registered plan than they are inside a registered plan, right?

Andrew Kirkland 15:27
Exactly. So any ...

Pat Bolland 15:30
If you want dicvidend don't put it in your RSP.

Andrew Kirkland 15:32
Yeah, you could definitely make that argument that if you have the ability to invest, and maybe maximize your RSP, you could open up a non registered account, and invest in a dividend paying ETF or something, or dividend paying stock. But if the goal is to, you know, reduce your income, in your peak earning years by making and reducing your taxes and making contributions into your RSP, you know, you can do that, and then take the money out when your income level is lower. And that's kind of how you, you kind of make it work.

Pat Bolland 16:14
Oh, here's a question I always get from my wife is a government worker. And she always askes me, if I have a pension, do I really have to have an RSP? ... because she's gonna get a pension as a government worker, or bless her, you know, that's a great thing. But do you really do need a RSP?

Andrew Kirkland 16:34
That's a great situation because these days, pensions are very hard to come by. It's usually government workers.

Pat Bolland 16:41
Exactly.

Andrew Kirkland 16:43
Or service members or teachers or anything like that? So to answer that question, it really depends on ... the pension is going to provide a great core to her retirement income, right. But it ultimately depends on what is her retirement income need, right? If that pension is going to provide enough income for her, then yeah, the fact that having an RSP and having it turned into a RIF, so that you have to, then you're you're forced to take out a minimum withdrawal, which is going to be considered income, which may trigger some clawbacks and some other income tested government benefits, like Old Age Security, or Guaranteed Income Supplement. You know, investing in an RSP may not be a situation that is ideal for her. And she's in a situation where she's amongst the few, but it may not make sense for her, but maybe utilizing a Tax Free Savings Account, maybe you better have a new for her, because she's not necessarily forced to take money out of a Tax Free Savings Account. And any money she does take out of a Tax Free Savings Account. Is that tax free? Right. So you know, it all but going back to it all depends on what is her income needed in retirement. And I would have to assume that her lifestyle would be so that it's not like her income need is going to go up more when she retires, right? Your pension is based on your working retirement income. And then it's usually the percentage of that. So as long as her income need doesn't surpass her free retired working income need, you know, she should be fine. I would bet on that ...

Pat Bolland 18:34
You don't know her ...

Andrew Kirkland 18:37
So we got another question here is, is it worth taking out an RSP loan to utilize the contribution limit? So this is a good question. And there's, there's a lot of factors at play here. There's a, you could take out an RSP loan, max out your contribution, there or putting whatever amount you get on the loan, and reduces your income in that year. Reduces your tax that you have to pay in that year. And then you can get a tax refund, and then use that to potentially pay off a portion of the loan. You know, there are strategies like that ... it's, it's hard to say exactly whether it's worth it or not. There's ... I'd have to know a little bit more about your specific situation to to know if it's something that would be worth taking out. But it is a strategy that can be done and has been done and can work in some scenarios.

Pat Bolland 19:40
One RSP subject that you didn't touch on earlier when you were talking about the structure of the RSP. There are also spousal RSPs where you make a contribution on your wife's, or your spouse's behalf. In my case, it's wife. To help her with her retirement... she'll be helpful. She'll be helping me. So I'm done ...

Andrew Kirkland 20:05
Yeah, so it was kind of a tax planning exercise where, you know, a higher earning spouse could make a contribution and reduce their income and their taxes in the year they make the contribution. But then, when the money comes out, it's taken out in in the spouse's name, and their income may be lower. So that was a strategy that was employed and was very popular in a lot of times, in a lot of cases, and it seems to be a strategy and account type, like a spousal RRSP seems to be not as utilized now,

because there's been some changes in the tax rules, whereby you can actually split income. So when you take the money out, if you take $10,000 out, 5000 goes to spouse A, 5000 goes to spouse B. So it's kind of collectively reducing the taxes and the incomes and spreading it across the two taxpayers. But yeah, that's kind of how that worked. But when the income splitting rules came into play, it kind of lost its, its luster a little bit.

Pat Bolland 20:42
Its cachet, as they say. When should people consider getting out of their RSP? As you say, suggest moving it into a RIF? Or are there other strategies, when when should they start talking about it?

Andrew Kirkland 21:45
Well, they should ... they have to do it by the year they turned 71. That's the latest that has to happen. Because in that year, any RRSPs have to be put into a RIF that year, and then you have to take out the minimum the following year, right. And it's a certain percentage. When you start thinking about it is probably aligned to ... you can do it whenever you can do it at any age, you can start moving RRSPs it's overdue a RIF at any age. But typically, what happens is people start thinking about it when, you know, they're in that timeframe where they're going to be retiring soon. I would say like the five to 10 year window and not necessarily thinking about when to withdraw, but maybe even thinking about what what are what are the investments within your RSP. And getting that prepared for a decumulation phase ... Right? So there's two factors ... thinking about when you're going to start withdrawing the money? And then what based on that, what are the investments that this RSP should be invested in? And maybe it's time to get a little bit more conservative, as you get closer to that particular date? Usually around retirement?

Pat Bolland 23:01
And I guess if you took a sabbatical, or you took a year off, you could take money out of your RSP. So you'd have to pay taxes on it if you did that. But you could take money out of your RSP anytime before that ... right?

Andrew Kirkland 23:13
Yeah. And there was certainly an argument for that to, say for example, you've been, you know, making a good income, and then you take that year off and don't have any income. Again, we put the money in when you're at a higher income, so you can take the money out at a lower income. And that's kind of what you want to do. Right? What I would say in that scenario, when you take the money out if you don't need it, because you're not retired, and it was literally you're just taking a year off to go traveling, reinvested back into a Tax Free Savings Account. So you still have the tax shelterness of the investment. And you've got, but you've gotten a reduction in taxes when you made the contribution in and you were able to take it out at a much lower tax bracket, but yet still keeping it in that tax sheltered wrapper by using a TFSA.

Pat Bolland 24:11
Cool strategy.

Andrew Kirkland 24:13

Yeah, a lot of people use a Tax Free Savings Account as a compliment. And almost in tandem with an RSP. You could be in a situation where your your income that you make is very variable from one tier to another, which, you know, maybe you this year, your income level was high, so your taxes are high. So you want to make a contribution to reduce the amount of taxes that you're overall paying. Whereas next year, you know, maybe not such a good year and income level, but you still have money to invest. So don't use that RSP contribution room to reduce your taxes a little bit because your income level is low, but instead put it in a TFSA and then have it grow very much like an RSP would grow kind of tax sheltered and in that case, a TFSA you can take out tax free when you when you actually withdraw the money.

Pat Bolland 25:05
I kind of know the answer to this one in advance, but I'll ask it anyway, because I want you to walk me through the process because how much money do I need to have in an RSP? And the answer is, however much you need I get it ... but at the time that you require the money at retirement, presumably, but walk me through the process. What do you have to think about?

Andrew Kirkland 25:30
There's no number that will will tell you exactly you need $500,000 in an RSP. Again, it all depends on going back to talking about your wife, Pat, it all depends on what what is the income need, that you think you believe you need in retirement and some kind of ... there's very sophisticated financial planning that could go into this, and we work with clients on financial planning and work through different scenarios, and all this ... but to simplify it to to something reasonable, and everyone can probably wrap their head around it is just think about, okay, when you're retired, what do you believe is the income that you're going to need in a particular year? And that could be some people say, well, that's 60% of my working income, that's 50% of my working income. There's a lot of different, you know, beliefs out there. But you could probably estimate and as you get closer to that retirement date, you'll you'll have a better understanding, but I know you're thinking about this, you may be asking yourself this question when it's 20 years 'til I retire, right? But I would say, you know, try to guesstimate what is that income that you're going to need in retirement, and it could be $50,000 In today's dollar, and start subtracting what other sources will be coming in. So you have this income bucket, you got the retirement income bucket and say it's $50,000, you're gonna have some some CPP. Canadian Pension Plan, is going to fill that bucket, we have some Old Age Security that's going to fill that bucket. And then it's matter what other sources do you have? And a lot of the cases it could be a pension, which is great. So you fill a little bit more with that pension. And then it's like, okay, I need $10,000 a year to fill that bucket. Okay. And maybe you say, well, this $10,000, I'm going to need it for 30 years, so many of you $10,000 times times 30. And you got to have an RSP of 300,000. or somewhere around there, right? So very simple, back of the napkin type of calculations, but we, you know, that could get you to where if you're on track or not. But if you're, if there's anyone out there who wants more information about that, we would do some in depth kind of financial planning, but simplified it for people so that they can be prepared, or at least understand if they're on track for retirement. And there's different scenarios you can run, and all this stuff, and it's very helpful for people. So ...

Pat Bolland 28:06

You know, I love our audience, and I don't know whether you can see this guy named MoneyMan98. I have no idea who this person is... syas Pat has at least 20 years until he retires.

Andrew Kirkland 28:17
Oh, good. Yeah.

Pat Bolland 28:19
I'll be an old coot by then ... Hey, listen. So let's, we're getting close to half an hour now, Andrew, walk me through where people can get more information.

Andrew Kirkland 28:29
So we're always willing to help at Justwealth we've got a lot of resources on our website that breakdown, kind of RRSPs versus TFSAs and if you want any information about all our portfolios, I know someone asked the question about growth and income, we have a performance page that breaks down the components of all of our portfolios from growth, income, US dollar, education, target date, not specifically for RRSPs. But all the information's on there. I would also say a phenomenal resource is is getting set up on your CRA MyAccount, so you can at least understand what is your RSP contribution? What is your tax free savings contribution? And then as an extension for that the Government of Canada has a lot of great resources on, you know, what are the rules when it comes to RSP. What are the important dates? How do you how do you access the money when it becomes your RIF? What are my options as far as accessing and if I'm going to be doing a home buyers plan withdrawal to fund a first time homebuyer purchase. What if I'm going back to school and I want to use some of my RSP proceeds to help fund the annual education costs which is called a lifelong learning plan ... a lot of great information on there. So I would point people to any one of those sources that the Justwealth.com website, that CRA MyAccount portal and but also just in general, the Government Canada and just google search RSP Government of Canada and you'll get some great information

Pat Bolland 29:10
As a metter of fact, two years ago or a little bit more than two years ago, when you and I first met, you were the one who recommended the CRA MyAccount. And I, I kind of wasn't that tech up on the CRA. And I tell you, that's a goldmine that thing is to find out what you can do,

Andrew Kirkland 30:15
Not only what you can do as far as making contributions, but all the institutions, and I know we report like our we report like if there's any tax documents, whether it's RSP contributions, if you have any taxable accounts, like T-3s, T-5s, they're all there. Your accountant, you know, wil be able to find them there as well, if you work with an accountant, so yeah, it's a great website doesn't take very long to set up. And it provides a lot of really good information. So.

Pat Bolland 30:42
Alright, Andrew, I think we're at time.

Andrew Kirkland 30:45

Yeah, I think we are. I think there may be a couple questions coming in. So we'll try to direct message a few of these questions. But yeah, Pat, as always, it's been a pleasure. And I'm glad everyone can join and thank you for spending your evening with us. Appreciate it.

Pat Bolland 31:03
Great to see you ... Andrew Kirkland President, Justwealth Financial.