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The Quick Start RRSP

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Maureen, age 20, figures she can save $400 each month; or she can keep frittering it away at the mall. She lives with her parents and they think she should save it. Dad says, "Put it into an RRSP and get a tax break as well." Her friends think RRSPs are for old fogies and she doesn't need to start thinking about retirement savings until she's 30.

If Maureen at age 65 could come back and influence the decision of her 20-year old self, she would point out that by starting at age 20, her $400 monthly savings, at 6% compounded annually, could build up to over $1 million by age 65. Putting it off until age 30 reduces this figure significantly.

Let's put it another way - if Maureen postpones the start of her RRSP until age 30, she'll have to save about $800 monthly to reach $1 million by age 65. Though the total cost to her of this huge future sum of money is only $325,500 ($800 monthly for 35 years), it would have been much less - only $216,000 - if she'd started ten years earlier.

Regardless of when she starts, if all Maureen can save is $400 monthly, she'll do better by starting at age 20 and stopping at age 35 than by starting at age 35 and stopping at age 65. If she saves $400 a month for only 15 years, then leaves it to accumulate at 6% compounded annually for the next 30 years, she'll have over $650,000 at age 65. If she waits until she's 35 to start saving the $400 monthly, and saves it every month for the next 30 years at 6% annual compound interest, it'll build up to only about $400,000 at age 65. This means that her savings from age 20 to 35 will provide over **60% more cash at age 65** than her savings from age 35 to 65! This is just another powerful example of the importance of starting a retirement savings plan as early as possible.

Okay, Maureen has a bit of an advantage because she still lives with her parents. What have others done to free up some RRSP savings? Consider:

Kurt and Karen went to the movies every Saturday night. Admission and snacks cost about $40 every week. By simply cutting their movie going in half, they are able to put $1,040 per year into RRSPs.

Terry had a large latte every day. At four and a half bucks each, it didn't seem like much. He decided to have one every other day instead and put the difference aside. By putting the $820 yearly into his RRSP instead, he also picked up a tax deduction.

Deanna bought her lunch at restaurants every day. When her favorite eatery raised their prices, she reviewed her budget. By making her own lunches, but still treating herself on Fridays, she was able to free up about $3,000 per year.

Lifestyle expenditures are the easiest place to find the "extra" money to start or increase RRSP savings. Here are some tips to help get on track:

1. Start right now - It's so easy to put things off.

2. Make it automatic - Set up a pre-authorized withdrawal plan for your RRSP deposits.

3. Stick with your plan - Obstacles can get in the way. Make adjustments and you will get by them.

Want help with your RRSP planning?

Contact our office! **[3]**

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