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Brad Brain: Using the right tool for the job

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Smart Money

Brad Brain: "Usually when people tell me that they hate RRSPs it's because they are either not using them correctly, or there is a misunderstanding. Folks, if you smack your thumb with a hammer, it usually is not the hammer's fault."
Photo By GETTY IMAGES

On the weekend I took advantage of the good weather to get some outside chores done. I had some tools with me, but still I had to come inside to grab a hammer. Then later I came in again to grab some needle nose pliers.

If I already had tools with me, why would I come inside to get more tools? Its not that hard to figure out. I was looking for the right tool for the job at hand.

Just like there are tools to get physical work done, there are tools to get financial work done. And here is why I am telling you about this.

Sometimes people say to me, "I hate RRSPs." Honestly, that statement does not make a lot of sense. A Registered Retirement Savings Plan is just a tool to get a job done. It would be like someone saying, "I hate hammers," or "I hate needle nose pliers."

Usually when people tell me that they hate RRSPs it's because they are either not using them correctly, or there is a misunderstanding. Folks, if you smack your thumb with a hammer, it usually is not the hammer's fault.

When people say "I hate RRSPs," there are typically three categories of complaints. The first type of complaint is that RRSPs are taxed on withdrawal. This is absolutely true. I just don't know why that is viewed as a bad thing.

Most people will be in a higher tax bracket when they are working then they will be when they are retired. This means that with an RRSP they will be able to get a tax deduction in a high tax bracket when they contribute the money, defer taxes as long as the money is in the plan, and then when the money finally comes out it is taxed is a lower tax bracket. Nothing wrong with that.

The second type of complaint concerns how the money is invested in the RRSP. This one is most assuredly not the fault of the Registered Retirement Savings Plan.

With an RRSP you can invest exactly as appropriate for your needs. You can invest for safety, and you can invest for growth, and you can invest anywhere in between. If there is a mismatch between the investments that you own and your financial objectives, this has nothing to do with how the investments are taxed.

The third type of complaint is that with RRSPs you will eventually pay tax on the money, whether you need the income or not. I find this scenario to be academically interesting, but to be honest, it is pretty rare. Usually people need income.

Sometimes people will worry that when they eventually take the money out of their registered plan they will lose their senior's benefits. Most commonly they will express it as, "I don't want to lose my CPP!"
Folks, nobody loses their Canada Pension Plan. CPP is not subject to clawbacks. The seniors benefits that are income tested are the Guaranteed Income Supplement and Old Age Security.

GIS is for low income seniors. Usually low-income seniors do not have large RRSPs. But if you happen to be in that situation, don’t bemoan losing the GIS. The GIS was never intended for the wealthy.
Old Age Security clawbacks are a legitimate concern for a small percentage of the population. OAS clawbacks do not start until you have $79,054 of income.

And you do not lose OAS completely until you have over $128,137 of retirement income. Most people are not making $128K a year after they stop working, and frankly, the ones that are do not seem that worried about the $613 a month OAS that they could qualify for if their incomes were smaller.

Are Registered Retirement Savings Plans always the right tool for the job? Obviously not. And that is the point. First, we figure out what you are looking to do, then we figure out what is the right tool for the job.

But if you smack your thumb, or if you should have been using a different tool, don’t blame the hammer.

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