

Smart Money: Can you have too much in your RRSP?

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Brad Brain: "Sure, there are some theoretical scenarios where an abundance of money in a Registered Retirement Savings Plan is detrimental, but these scenarios are so extreme, and often they are purposely contrived in an attempt to prove a point." | Getty Images

Occasionally somebody will ask me if it is possible to have too much money in their Registered Retirement Savings Plan. The concern is that at some point they will have to take the money out, and they could see excessive taxation, and/or the clawback of government benefits.

So, can you have too much money in your RRSP? Well, theoretically. But this is not a common occurrence. Let's put it this way. In 27 years as a financial planner, I have yet to see it happen in real life.

Realistically, saying "I don't want too much to have too much money in my RRSP" is like saying "I don't want to be too healthy." It's hard to find a legitimate, real-world scenario where that makes sense. Sure, there are some theoretical scenarios where an abundance of money in a Registered Retirement Savings Plan is detrimental, but these scenarios are so extreme, and often they are purposely contrived in an attempt to prove a point.

Here's an example. I recall reading an article that was trying to claim that having too much money in your RRSP is a real problem, and it started with "assume you have \$10 million in your RRSP. Here's how much tax you will pay..."

Give me a break. Okay, I will concede that if you have \$10 million in your RRSP you can probably stop putting money in. But let's be factual. In order to dream up a scenario where someone ends up with \$10 million in their RRSP, we are almost certainly ignoring RRSP contribution limits, or not using realistic assumptions for rates of return.

Here is some context. The average RRSP balance is \$101,155. That's just one per cent of \$10 million, and it's a long, long, long way off from being worried about having too much wealth in your tax-sheltered plan.

In the real world I would suggest that a typical worst-case scenario for the Registered Retirement Savings Plan is that we are neutral. Worst case, you might not be measurably better with the RRSP over an alternate wealth accumulation strategy, but you aren't really punished for it either. The apprehension over taxation and losing government benefits may be worse than the actual tax and clawbacks.

Old Age Security is the benefit that is most consistent with a scenario that involves an RRSP surplus creating a negative impact. But OAS clawbacks don't even start until you have a retirement income of \$81,761, and you don't lose the whole thing unless your retirement income is more than \$133,141.

It is natural that if you are on track for a modest retirement then you would be fearful of government clawbacks, but that's not how it happens. The people that have modest retirement incomes are not subject to OAS clawbacks. And the folks that have \$130,000 of

income in retirement are probably going to be fine without the \$635 per month from OAS.

Okay, but what about taxation? Nobody likes paying tax, but again this can be distorted.

The issue with RRSPs is that you can't defer taxes forever. Sooner or later the money will be taxed. If you convert your RRSP to a Registered Retirement Income Fund there is a minimum amount that you need to withdraw each year. At age 65 the RRIF minimum is 4% of the account, and it is taxable.

That might seem like forced taxation, but here is the part that I can attest to as a professional advisor that works with real people. People who have money spend money.

If you have a million dollars in your RRSP and you convert it to a RRIF at age 65 you will need to take out 4%, or \$40,000. In my experience, the people who have the financial acumen to acquire a million dollars of tax-sheltered wealth do that on purpose. You won't be taking out \$40,000 because you have to, you will be taking out \$40,000 because you want to enjoy your retirement.

Your financial advisor can help you with the calculations but generally speaking, assuming you have a tax problem now, RRSPs are going to be beneficial. The RRSP deadline is March 1, 2022.

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