Taking money out of your RSP?

A Retirement Savings Plan (RSP) is an excellent way to save for retirement. Of course, it never fails that there is always that moment in life when you need extra cash. For those moments that require a large amount of money, think twice before pulling it out of your retirement savings. Here is why.

1. Withdrawals are taxable. When you withdraw money from a Retirement Savings Plan there is something called withholding tax. This tax is based on where you live in Canada and the amount you withdraw. For all provinces except Quebec, the amounts are:
   - 10% (5% in Quebec) on amounts up to and including $5,000
   - 20% (10% in Quebec) on amounts over $5,000 up to and including $15,000
   - 30% (15% in Quebec) on amounts over $15,000

   For funds held in Quebec, there will also be provincial tax withheld. But wait, it gets even better. The money you withdraw gets added to your taxable income that year. If your marginal tax rate is higher than your withholding tax rate, you will have to pay additional tax on the money you pulled out.

   For a spousal RSP, if your spouse withdraws money, all or a portion of the withdrawal could be added to your taxable income.
2. Say good-bye to compounding. Taking money out of your RSP before retirement is not ideal and while a few thousand dollars might not seem drastic, consider the bigger picture. If you withdraw $5,000 from your RSP now, in 30 years* your RSP will have $28,717.00 less. That difference could affect when you take retirement.
3. Loss of contribution room. Did you know that when you withdraw funds, unlike a Tax-Free Savings Account, you cannot put that money back in. Once that room is gone, it is GONE.

If you are still thinking of withdrawing money from your RSP, speak to your financial advisor today about other options that may be available.

*Assuming a 6% rate of return

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