

Canadians raiding their RRSPs: BMO

Steven Lamb / February 28, 2011



After months of being lectured on their debt accumulation habits, Canadians have apparently taken up another bad habit, in part to combat the first: raiding their retirement plans.

According to a survey conducted by Leger Marketing for BMO Financial, roughly 40% of Canadians with an RRSP admit they have made withdrawals from their plan before reaching retirement.

Raiding an RRSP not only exposes the holder to tax consequences, but they will also lose contribution room.

“These survey results are worrying; they indicate that many Canadians are not treating RRSPs for their intended use,” said Caroline Dabu, vice-president, retirement and financial planning strategy, BMO Financial Group. “Generally, withdrawing money from your RRSP prior to retirement is something to be avoided if possible. Your RRSP should be a critical component of your overall retirement plan and should only be accessed at retirement.”

Probably the least responsible use of the raided funds was to spend it on a vacation or other leisure pursuits, but fortunately only 6% admitted this was how they spent the money they withdrew.

The primary reason given for early withdrawals was to cover emergency expenses (35%), followed by paying off “everyday debt” like credit card balances (26%).

The third most common reason given was the purchase or renovation of a home. At least if the RRSP-holder is a first-time homebuyer, they can take advantage of the Home Buyers Plan, but there are no provisions in the RRSP system for funding renovations.

Another 10% said they used the withdrawal to pay for education—either their own or for a child. Of course, those upgrading their own skills can avoid tax consequences under the Lifelong Learning Program. Those funding their child's education probably wish they had funded an RESP.

“With the right planning and savings tools, there are a variety of alternatives that individuals can explore without having to touch their RRSPs,” said Dabu. “Your first step should be to establish a financial plan...having a financial plan will help you think ahead to what your contingency plan is in the event of an emergency such as job loss.”

The survey found that those between the ages of 35 and 54 were the most likely to raid their RRSP, and that nearly half of British Columbians had done so (48%).

The online survey was conducted from January 31 to February 2, 2011, with 1510 Canadian adults.

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