Here are some big mistakes to avoid when trying to meet that March RRSP deadline

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Putting money into RRSPs once a month is beneficial because it provides longer tax-free compounding of the funds.

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The rush to meet the registered retirement savings plan (RRSP) deadline is a ritual at this time of year as Canadians try to max out their contributions and reap the greatest tax savings.

However, advisors worry this frantic flurry to March 1 brings with it all kinds of problems, from investors getting attracted to the latest shiny trend to the fact these hasty contributions come at the expense of measured investment strategies.

Such mistakes can be avoided and fixed by gearing RRSP decisions to investment goals, portfolio management, and long-term tax efficiency strategies.

Rory Tufford, investment advisor with The Tufford Financial Group at CIBC Wood Gundy in Toronto, says that when determining how the RRSP funds are invested, it's critical to have the asset allocation and investments in line with the client's objectives, risk tolerance, and comfort level.

"It can be tempting to try and invest in the hot stock or flavour-of-the-month investment," he says.

Rather, a new contribution provides an opportunity to rebalance clients' portfolios to their target allocation.

"This disciplined process can help reduce volatility and achieve longer-term portfolio objectives," he says. "Remember, these are funds that are to be used for [clients'] eventual retirement, and [their] contribution room is limited."

Mr. Tufford says individuals who rush to beat the RRSP deadline may be waiting to see what kind of savings they've accumulated, but that amount may be lower than hoped because "life happen and unexpected expenses arise."

As such, he says clients should set up automatic contributions directly from their bank accounts into an RRSP account with a brokerage or through an employer plan.

"When savings become automatic, they eventually become engrained in financial behaviour," he says.

What is the optimal contribution rate?

A frequent mistake some people make is to put money into RRSPs when they have low taxable income and are heading for a higher tax bracket in retirement, Mr. Tufford warns, adding an RRSP contribution may not be the best option.

An advisor can run a detailed financial plan with projections that “can help answer the question of the optimal amount of RRSP savings or whether the savings should be directed to a [tax-free savings account (TFSA)] or non-registered account instead,” Mr. Tufford says.

Jason Pereira, partner and senior financial consultant at Woodgate Financial Inc., a financial planning firm under the IPC Securities Corp. umbrella in Toronto, says there should always be a financial plan that informs clients what their optimal rate of contribution should be.

“Sales pitch pressure around this time of year will result in people making the wrong decision,” he says.

Like Mr. Tufford, Mr. Pereira says he advises clients to focus on their RRSPs throughout the year and set up monthly contribution plans.

Those with variable incomes, such as those who earn commissions, might top-up or wait to invest in their RRSPs until the annual deadline, Mr. Pereira acknowledges, and that makes him contact all clients “to make sure they’re at the optimal level” in January and February.

“It should be a pulse check instead of a race to the finish line.”

He says the biggest problem for people attracted to “RRSP season” marketing by financial institutions is they end up with “indiscriminate savings without any goal.”

Another is failing to realize the tax consequences around RRSP contributions that could put people in a worse situation down the road. For example, when they withdraw the funds upon retirement, they may compromise income-tested benefits, he says.

Why monthly payments make sense

Meanwhile, Barbara Knoblach, a certified financial planner at Money Coaches Canada Inc. in Edmonton, says procrastination is common when it comes to RRSP investments because cash is tight during the holiday season, and many employees receive lump-sum payments, such as bonuses, around the New Year.

“These monies are often earmarked for an RRSP contribution,” she says.

But Ms. Knoblach is also a big believer that putting money into RRSPs once a month is beneficial because it provides longer tax-free compounding. It also allows for dollar-cost averaging of the contributions and avoids the possibility that a lump sum gets invested “when the financial markets happen to be at an all-time high.”

Advisors can play a part by helping clients set up a cash-flow plan that includes regular contributions to registered accounts, she adds.

“RRSP contributions should be handled in a similar manner as other important regular payments,” Ms. Knoblach says. “The client will typically not question whether he or she should be paying the mortgage regularly.”

Rushing at RRSP time can lead to errors in contribution amounts, she notes, warning that an over-contribution “can lead to penalties, as well as having to remove funds from the RRSP later.”

There are other things to be aware of, such as the benefits of equalizing registered holdings between spouses.

People who don’t plan their RRSP contributions systematically often run short of funds as the March deadline approaches, Ms. Knoblach says.

“Retirement savings fall into the category of ‘important, but not urgent,’” she says. To rectify that approach, she shows clients the long-term implications of their RRSP contribution patterns.

“Clients often don’t understand how difficult or even impossible it is to catch up later if they have neglected to make RRSP contributions for many years,” she says. “Unfortunately, many people realize this just prior to retirement, when it’s too late to change course.”

Another mistake is that people neglect to make contributions to other investment accounts, such as TFSAs, Ms. Koblach says.

“It comes down to educating clients on their options for retirement savings, pointing out the pros and cons of the various retirement savings vehicles available, and monitoring the clients’ progress over time,” she says.

Mr. Pereira points out that if mistakes have been made within an RRSP portfolio, “everything can be undone,” as long as the funds remain within registered accounts.