



Pitfalls of Registered Savings Plans (RSPs) for Wealthy Individuals

Registered Savings Plans (RSPs) have long been touted as a popular strategy for retirement savings. However, for the wealthy, RSPs are not a great approach. Let's explore why taxation rates are likely to increase in the coming years and how it can impact high net worth individuals. Additionally, we'll examine the rising deficits, government debt, and higher interest rates, all of which contribute to a challenging economic landscape. Finally, we'll discuss the risks associated with being overly dependent on a partnership with the government.

1. Increasing Taxation Rates:

Governments worldwide are facing fiscal challenges, and one consequence is the likelihood of increasing taxation rates. High net worth individuals and high-income earners are often the target of such tax hikes. Property owners, in particular, may face higher tax rates on their properties. These changes can significantly impact the wealth accumulation and preservation strategies of the wealthy.

2. Escalating Deficits and Government Debt:

The COVID-19 pandemic has caused governments to incur substantial deficits as they implemented economic stimulus packages and provided support to affected sectors. These deficits have led to a significant increase in government debt. To address this debt burden, governments may resort to raising taxes on high-income individuals and high net worth households. Such measures erode the benefits of relying on RSPs as a wealth-building strategy.

3. Taxation on Harvest, Not Seed:

One crucial aspect of RSPs is the taxation of funds at the time of withdrawal, rather than during the contribution phase. While this provides a tax deferral benefit, it also means that individuals are taxed on the accumulated growth of their investments. With the expectation of higher taxation rates in the future, the choice between paying taxes on current income or future growth becomes a significant consideration. Relying solely on RSPs could result in paying higher taxes in retirement when income needs are typically lower.

4. Risks of Future Taxation Rates:

Although RSPs involve a partnership with the government, it's crucial to recognize that governments face their own financial challenges. Reliance on a government partnership for

long-term wealth preservation can be risky, especially during periods of economic uncertainty. Governments may change tax laws, modify retirement benefit programs, or implement other measures that can affect the financial well-being of retirees.

While RSPs have their merits as savings tools, they are horrible wealth creation tools. Wealthy individuals should carefully consider their limitations and potential risks. The prospect of increasing taxation rates, rising deficits, mounting government debt, and the possibility of reduced capital gains exemptions all point to the need for diversified wealth preservation strategies. Relying on RSPs may not be the most effective approach for wealthier individuals who seek to protect and grow their assets in a changing economic landscape. It's crucial to consult with financial advisors and explore alternative strategies to navigate the challenges ahead.