# Stop making these 5 financial planning mistakes

We all can make money-related missteps. Here are five common ones to watch out for.

When it comes to the often-complex work of financial planning, it's easy to make a mistake or two. In this article, we break down five common missteps that many Canadians make, and that are worth paying attention to.

### Not diversifying

Many investors would agree the No. 1 rule of investing is to diversify, yet many people's portfolios are too concentrated in certain sectors, asset classes, and countries. It's a big issue for Canadians in particular, as our stock market is heavily concentrated in three industries—financials, materials, and energy—while just 10 companies account for about 37% of the S&P/TSX Composite Index's holdings, according to RBC Global Asset Management. If you hold mostly Canadian equities and the Canadian market wobbles, so too will your investments—not to mention you're missing out on many potential global investment options.

Proper diversification means investing based on your risk tolerance levels, and across a variety of asset classes and geographies. By doing that, you're ensuring that one struggling country, company, or asset class doesn't impact your entire portfolio. If, say, equities fall but bond prices rise (which can often happen in a down market), the latter will balance out the former's losses.

Talk to an advisor to ensure that your asset mix is properly diversified.

### Skipping RESPs

Those who invest in a Registered Education Savings Plan (RESP) are eligible for government grants of up to $7,200 over the account's lifetime. Unfortunately, only about half of eligible Canadians contribute enough to get the maximum grant. Each year, if you contribute $2,500 per child, you can receive $500 in Canadian Education Savings Grants (CESGs). You can play catch up if you've missed a year by doubling your contribution, which will also double the grant. (But you can't put $7,500 in in one year and get three years' worth of grants.)

If your kids don't end up attending school or doing an apprenticeship, that's fine. You can leave your RESP active for up to 36 years while your investments grow on a tax-deferred basis, or withdraw the money or transfer it to your Registered Retirement Savings Plan (RRSP) if you have contribution room—you just have to repay the CESG if it's not used to pay for school. Read more on how to apply for the grant.

### Neglecting spousal RRSPs

One central rule of financial planning is to pay as much tax as you have to, and not a penny more. Unfortunately, tax is complicated, and many people do end up paying more taxes than they should. One way to manage that is by having a spousal RRSP, which is useful when one spouse earns a lot more than the other.

Here's how it works: A higher income earner contributes to a spousal RRSP, which is held in the lower income earner's hands. You'll still receive the same tax benefits as if you contributed to your own RRSP—lowering your taxable income, which can result in a tax refund—but the money, when removed in retirement, will get taxed based on your spouse's income tax rate. If you think you'll be in a high tax bracket when you retire, this is a great way to pay a less tax down the road. It's also important to talk to an accountant and advisor to make sure you fully understand contribution and withdrawal rules for these types of accounts, as they have tax implications.

### Overcontributing to registered accounts

One mistake that some people make is putting too much money in their RRSP or Tax-Free Savings Account (TFSA) in a given year. While both accounts have a generous amount of contribution room (it's $6,000 per year for the TFSA and 18% of income up to a maximum of $27,830 for 2021 for an RRSP), if you put any more in annually or if you exceed your accumulated lifetime room, you will be penalized.

With a TFSA, you are subject to a 1% tax per month on overcontributions either until you withdraw those extra funds, or you see your contribution room increase at the start of a new calendar year. With an RRSP, you can overcontribute—see your CRA Notice of Assessment for how much room you have—$2,000 without paying a penalty over the course of your lifetime. After that, it's a 1% tax per month for any amount over $2,000 until you withdraw that amount or gain new contribution room.

It's up to you ensure that you don't overcontribute, so make sure to read up on the rules—this article is a good place to start—and talk to an advisor for help.

### Putting off estate planning

A surprising 51% of Canadians do not have a will, according to an Angus Reid poll—and that's a mistake. People put off creating a will and broader estate planning because it's difficult and no one likes to talk about death. But not organizing your estate can put your family at risk. If you die without a will, the government can decide who gets your assets, and the process can take a long time and cost a lot of money.

By proactively planning what to do with your estate, you can develop tax strategies to help keep more money in the family—you might take out a life insurance policy to pay any estate-related taxes, for instance—and you can also ensure that your money is going exactly where and to whom you want it to go to. Here's a good article on reasons why estate planning is important.

It's a new year, which makes it a great time to look honestly at what potential common financial planning mistakes you may be making, and fix them.

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