Saving for Your Future

Comparing RRSPs and TFSAs

Two Options for Your Savings

Your credit union can help you design a savings plan to help you meet your financial goals. Canadians have two investment options that can help grow your savings: Tax-Free Savings Accounts (TFSA) and Registered Retirement Savings Plans (RRSP).

You can use the money, both the contributions First, let's look at how they differ and the benefits of each option. Then, we'll discuss how to decide which is right for you.

Tax-Free Savings Accounts (TFSA)

When you put your savings in a Tax-Free Savings Account any interest income or investment capital gained is earned tax-free. Since the money you contributed to the account has already been taxed, there is no tax payable when money is withdrawn.

Some TFSA rules:

- Each year there is an annual contribution limit.
- When you contribute less than the annual limit, the difference is carried over to the following year.
- If you withdraw money from your account, that amount is added to your contribution room for the next year.

Types of TFSA Investments

A TFSA may contain a number of eligible investment vehicles, including deposit-type savings accounts, mutual funds, or self-directed plans. Your financial advisor can help you choose the right mix based on your goals and risk tolerance.

TFSA Eligibility

In most provinces, you are eligible to open a TFSA account if you:

- Are a Canadian resident
- 18 years of age or older
- Have a Social Insurance Number (SIN)

In Newfoundland and Labrador, New Brunswick, Nova Scotia, British Columbia, Northwest Territories, Yukon and Nunavut you must be 19 to open an account, but your contribution limit starts growing at 18.

Registered Retirement Savings Plan (RRSP)

Contributions to an RRSP are tax-deductible. This means that when you make a contribution, it reduces your taxable income by the amount you contribute to the plan.

If you withdraw money from an RRSP, the amount withdrawn will be added to your income in the year of withdrawal and taxed at your marginal tax rate that year. As a result, RRSPs should be used for long-term investments, and you should only withdraw funds when you have retired, and your annual income has decreased.

Types of Investments

Almost any type of investment can be held in a RRSP such as:

1. Variable rate deposits
   - The interest rate paid moves with interest rate trends. It is a good option if you think interest rates will rise.
2. Fixed rate deposits
   - The interest rate is locked in, depending on the term you choose.
3. Mutual funds and other market investments
   - Talk to your credit union about which investment vehicle is right for you.

If you don't have enough spare cash to make an RRSP contribution before the deadline, your credit union can help you with a loan. The cost of borrowing will be offset by your tax savings, but you cannot deduct the interest on the loan.

Which One is Right for You?

TFSA or RRSP? It's not always an either/or choice. TFSAs and RRSPs can be used together to build a savings plan that is right for you. Speak to your financial advisor, who can review your current and future financial circumstances to help you build a personalized retirement savings plan.

Here are some of the factors to consider:

Will you want, or need, to use some of the savings before retirement?

If so, putting your money in a TFSA is a good option. Funds withdrawn from a TFSA will not be taxed and you do not lose your contribution room. You can re-contribute the amount withdrawn in a future year. If money is withdrawn from an RRSP it is taxed at your marginal tax rate for that year.

How much can you afford to save this year?

The TFSA contribution limit is not determined by income, it's the same for everyone. The maximum contribution for a RRSP is based on income, so it varies. So, depending on your income, you may have more contribution room in an RRSP than in a TFSA.

Will your marginal tax rate be higher or lower in the future?

If you expect your marginal tax rate to be lower in the future because your income will be lower, then an RRSP may be the better savings option. If you expect to be in a higher tax bracket when you are in your retirement years, then investing in a TFSA may be the better choice. Sometimes, moving money from your TFSA to an RRSP, or vice versa, might be the best option given your financial needs at that time.

For instance, if you are young and starting your career, you may want to save your money inside a TFSA while your marginal tax rate is lower. When your tax rate is higher you can transfer money to an RRSP and generate a larger tax refund. Talk to your credit union financial advisor to consider your options.

Monthly Deposits– Convenience that Maximizes Your Returns

Maximize your savings by making monthly deposits to your RRSP and TFSA. This makes it easier to budget for contributions and earns more tax-sheltered income each month. In the long run, this can make a real difference in your total investments. Talk to your credit union about setting up automatic fund transfers.

Building a Savings Plan

Your credit union can help you build a financial plan based on your stage of life, your financial needs, and your savings goals. Talk to your financial advisor at your local credit union today and find out how to take control over your financial future.

CCUA Canadian Credit Union Association | ACCF Association canadienne des coopératives financières

ccua.com