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RRSP? TFSA? RESP? Make the most of your savings options



Investment insight

When it's time to decide which mix of savings vehicles is right for you, your options can start looking like a hearty bowl of alphabet soup. There are registered retirement savings plans (RRSPs), tax-free savings accounts (TFSAs), and registered education

savings plans (RESPs). Determining which savings plan or combination of savings plans is best depends on your personal situation and your objectives.

Registered savings options

Until 2009, most Canadians held their retirement savings in an RRSP, where they could claim a deduction for their contributions and then defer tax until withdrawals were made, which generally occurred at retirement. The introduction of TFSAs has provided another powerful savings vehicle that allows investment growth to accumulate and be withdrawn at any time tax free. Unlike an RRSP, you can't claim a tax deduction for the contributions you make to a TFSA. On the plus side, if you need to withdraw money from your TFSA, you have an opportunity to replace that money because all TFSA withdrawals are added back to your unused contribution room—but not until the following year.¹

If you have children or grandchildren, RESPs are another popular option. The subscriber (or contributor) makes contributions on behalf of a beneficiary (the child). The contributions aren't deductible or taxable on withdrawals. The growth is tax-deferred until withdrawals are made, at which time it can be taxed in the beneficiary's hands if the beneficiary enrolls in a qualifying post-secondary educational program. Contributions to a child's RESP may qualify for the Canada Education Savings Grant (CESG),² and if your family's income is below certain amounts, you may also qualify for the Canada Learning Bond (CLB).

The retirement dilemma

If you're saving for retirement, you may be torn between an RRSP and a TFSA. Whether the best choice is to save in an RRSP or a TFSA depends on your savings needs, as well as your current and expected future financial situation and income level. Ideally, you'd maximize contributions to both, but if that's not an option, there are some thoughts to consider.

Generally, an RRSP is used to save for retirement, while a TFSA can be used to save for retirement and other shorter-term purchases. Because TFSA withdrawals are added

back to your available TFSA contribution room in the following year, there's very little downside to using your TFSA savings for mid-sized to large purchases.

If you're in a low tax bracket, saving in a TFSA may be more advantageous than saving in an RRSP since TFSA withdrawals have no impact on credits and federal income-tested benefits such as the GST/HST credit and Old Age Security. On the other hand, RRSPs may be a better option if your tax rate at the time you contribute is higher than it will be when you withdraw your savings. You'll benefit from a tax deduction when you make your contribution, and withdrawals will be taxed at your lower future rate. If the reverse is true, a TFSA can provide better results.

Education savings choices

If you're saving for your child's education, then you're probably weighing the pros and cons of an RESP or a TFSA. For children under age 18, RESPs are the preferred savings vehicle because of the CESG. For children over age 18, the CESG no longer applies, so you may want to help them start their own TFSA. If you want to maintain control over the funds, then you could save for their education in your own TFSA instead.

Primary purposes of registered savings plans

RESP – saving for post-secondary education—government grants and incentives may be available to enhance savings

RRSP – saving to provide retirement income—allows for withdrawals at any time, including under the terms of the Lifelong Learning Plan and the Home Buyers' Plan

TFSA – saving for any short-term or long-term savings needs

Features of registered savings plans

	RESP	RRSP	TFSA
Is there an annual contribution limit?	No annual limit but a \$50,000 lifetime limit per beneficiary	Yes, based on previous year's earned income	Yes, an annual limit ³ but no earning requirements
Can I carry forward unused contribution room?	Yes	Yes	Yes
Is there a monthly penalty on excess contributions?	Yes, calculated at month end	Yes, calculated at month end	Yes, calculated on the highest excess during the month ⁴
Are my contributions tax-deductible?	No	Yes	No
Is my investment growth tax deferred or tax free?	Tax deferred	Tax deferred	Tax free
Are taxes payable on withdrawals?	Withdrawals are fully taxable except for refund of contributions ⁵	Withdrawals are fully taxable	Withdrawals are tax-free except for growth after death if no

successor
holder⁶

Are withdrawals added to my contribution room?	No	No	Yes, but not until the following year ⁷
Can withdrawals have an impact on income-tested benefits/credits?	Yes, for the taxable portion No, for refund of contributions ⁵	Yes	No
What is the minimum age to contribute?	None	None	18
What is the maximum age to contribute?	None	At the end of the 71st year, or 71st year of spouse in case of spousal plan	None
If I borrow to invest in this account, can I deduct the interest?	No	No	No
Can I use assets in this account	No	No	Yes

**as collateral for
a loan?**

1 Subject to the exception for a specified distribution as defined in subsection 207.01(1) of the *Income Tax Act* (Canada). **2** Contributions to an RESP for a child under the age of 18 qualify for the CESG, which pays 20% of the annual contributions you make per beneficiary to a maximum of \$500 per year (or a maximum of \$1,000 if there's unused grant room from a previous year), to a lifetime limit of \$7,200. However, to receive the CESG after age 15, the total contributions to the RESP must be \$2,000 or at least \$100 a year was contributed in any four previous years. You may be entitled to an enhanced CESG if your family's income is below certain amounts. **3** The annual contribution limit is currently \$7,000 per year. Increases rounded to the nearest \$500, will be applied as warranted by the Consumer Price Index. The annual contribution limit was \$5,000 for years 2009 to 2012, \$5,500 for years 2013 and 2014, \$10,000 for 2015, \$5,500 for 2016 to 2018, \$6,000 for 2019 to 2022, \$6,500 for 2023 and \$7,000 for 2024 and 2025. **4** Any income attributable to deliberate overcontributions will be taxed at 100%. **5** Any withdrawals other than a refund of contributions will be fully taxable to either the beneficiary (student), if the beneficiary qualifies to receive the payment, or the subscriber (contributor). **6** *Successor holder* means a spouse or common-law partner as these terms are defined in the *Income Tax Act* (Canada). Certain contracts may provide that if a spouse is named as the sole beneficiary, the spouse will automatically continue the contract as the successor holder and the applicable successor holder rules would apply. In these situations, the investor's spouse may have the option to be treated as a beneficiary of the contract and beneficiary rules would apply. **7** Subject to the exception for a specified distribution as defined in subsection 207.01(1) of the *Income Tax Act* (Canada).

🔒 Important disclosure ▼

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