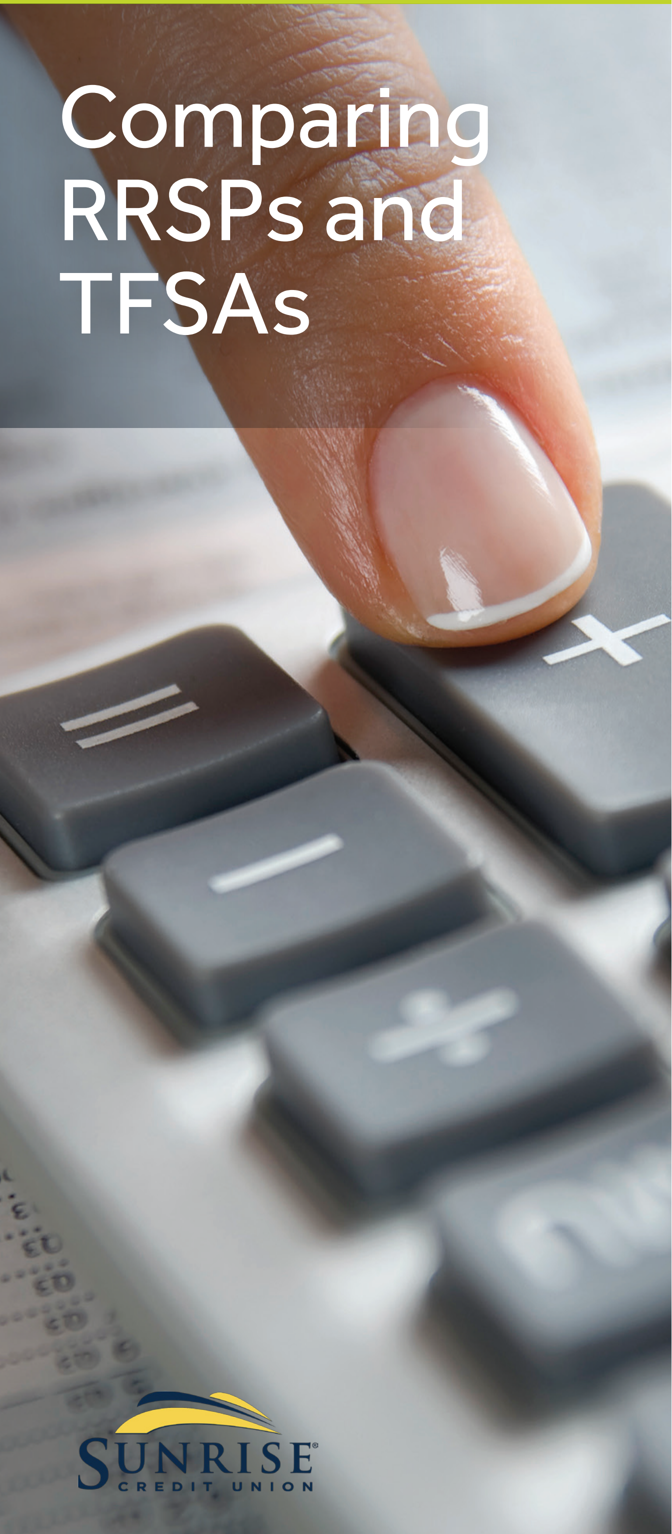
SAVING FOR THE FUTURE

Comparing RRSPs and TFSAs



SUNRISE CREDIT UNION

Many Canadians Have Basic Questions About Saving

- Where should they place their money?
- What are the possible benefits and risks of certain options?

Making the right decisions for your savings takes careful planning. Your credit union can help you in establishing a smart savings plan and this leaflet will provide some of the basic information you'll want to consider.

Canadians are fortunate to have two options for saving: Tax-Free Savings Accounts (TFSA) and Registered Retirement Savings Plans (RRSP).

For example, if you are young and starting out in your career, you may want to save inside a TFSA while your marginal tax rate is low. Once your tax rate is higher you can transfer the funds to an RRSP, and thereby generate a larger tax refund.

MONTHLY DEPOSITS - CONVENIENCE THAT MAXIMIZES YOUR RETURNS

Maximize your money by making monthly deposits to your RRSP and TFSA. This approach makes it easier to budget for contributions, and has the added benefit of earning more tax-sheltered interest or investment income each and every month. In the long run, this can make a real difference in the growth of your investments. Speak with your credit union about setting up an automatic funds transfer today.

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 credit union today and find out how you can gain control over your financial future.

TFSA

A Tax-Free Saving Account is an account in which investment or interest income is earned tax-free. Since contributions are made from funds that have already been taxed, there is no tax payable when money is withdrawn from a TFSA.

There are a few rules that are important to understand when contributing to a TFSA:

- TFSA contribution room accumulates every year. For 2021, the limit is $6,000.
- When you contribute less than the maximum annual contribution, the difference is referred to as the unused contribution room. Contribution room is cumulative—that is, any unused contribution room at the end of the year is carried over to the next year. As of 2021, total TFSA contribution room is $75,500.
- If you withdraw funds from your TFSA, you do not lose contribution room. The amount withdrawn is added back to your contribution room in the following year.

TYPES OF TFSA INVESTMENTS

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

TFSA ELIGIBILITY

Any individual who meets the following three requirements is eligible to open a TFSA:

- **Resident of Canada, and**
- **18 years of age* or older, and**
- **Holds a valid social insurance number**

There is no maximum age limit to open or hold a TFSA and a person may hold more than one TFSA account.

** In British Columbia, New Brunswick, Nova Scotia, Newfoundland & Labrador, the Northwest Territories, Yukon and Nunavut, the holder must be 19 years of age or older.*

RRSP

A Registered Retirement Savings Plan is a savings plan designed to both encourage and help Canadians save for retirement. Contributions to an RRSP are tax deductible, meaning that when you make a contribution to an RRSP, you are reducing your taxable income by the amount of money you contribute to the plan.

If you withdraw funds from an RRSP, the amount withdrawn will be added to your income in the year of the withdrawal and taxed at your marginal tax rate. As a result, RRSPs are normally treated as long-term investments.

TYPES OF RRSP INVESTMENTS

Almost any type of investment can be held in an RRSP account.

Two common investments are Variable Rate Deposits and Fixed Rate GICs.

- <u>Variable Rate Deposit</u>

  This type of deposit ensures your investment return keeps pace with current interest rate trends. Interest rates are reviewed and adjusted regularly by your credit union. This option is beneficial if you expect interest rates to rise.

- <u>Fixed Rate GICs</u>

  A Fixed Rate GIC locks in the interest rate you will receive. This provides the security of knowing your rate of return is guaranteed for a fixed period of time. You can choose the term that best fits your financial plan.

Mutual funds and other market investments are also options for RRSP accounts. Speak with your credit union investment advisor to discuss which investment vehicle is right for you.

CREDIT UNION RRSP LOANS

Sometimes it's tough to come up with the cash before the RRSP contribution deadline. Your credit union can help with a convenient RRSP loan. We will also show you how the cost of borrowing can be offset by your tax savings.

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's right for you. We recommend speaking with a credit union investment advisor, who can review your current and projected financial circumstances and help you build a personalized retirement savings plan.

When building your retirement plan, you will want to consider:

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

If so, investing funds in a TFSA account 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 funds were held in an RRSP and withdrawn, they are taxable at your marginal tax rate for the year.

Do you want to build savings as quickly as possible?

The TFSA contribution limit ($6,000 in 2021) is not determined by income but rather is the same for all who qualify for a TFSA. The contribution maximum for an RRSP is based on income and therefore varies per person. For the 2020 taxation year, the maximum RRSP contribution is 18% of your 2020 earned income to a maximum of $27,830. This means, depending on your income, you may have greater contribution room in an RRSP than in a TFSA, allowing you to accumulate savings faster.

Will your marginal tax rate in the future be higher or lower than it is today?

If you expect your marginal tax rate to be lower in the future, then an RRSP may be a better savings option. If you expect your tax rate to be higher when you are in your retirement years, then investing in a TFSA may be the better choice. In some situations, moving funds from your TFSA to your RRSP makes sense.

Canadian Credit Union Association

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The information in this publication is summary in nature and does not constitute legal or financial advice. This brochure is provided by your local credit union and is designed to inform you about TFSAs and RRSPs. For more information about these or any other financial product, please contact our knowledgeable staff.

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