

RRSP and TFSA

All you need to know about RRSPs and TFSAs and which accounts to contribute to first

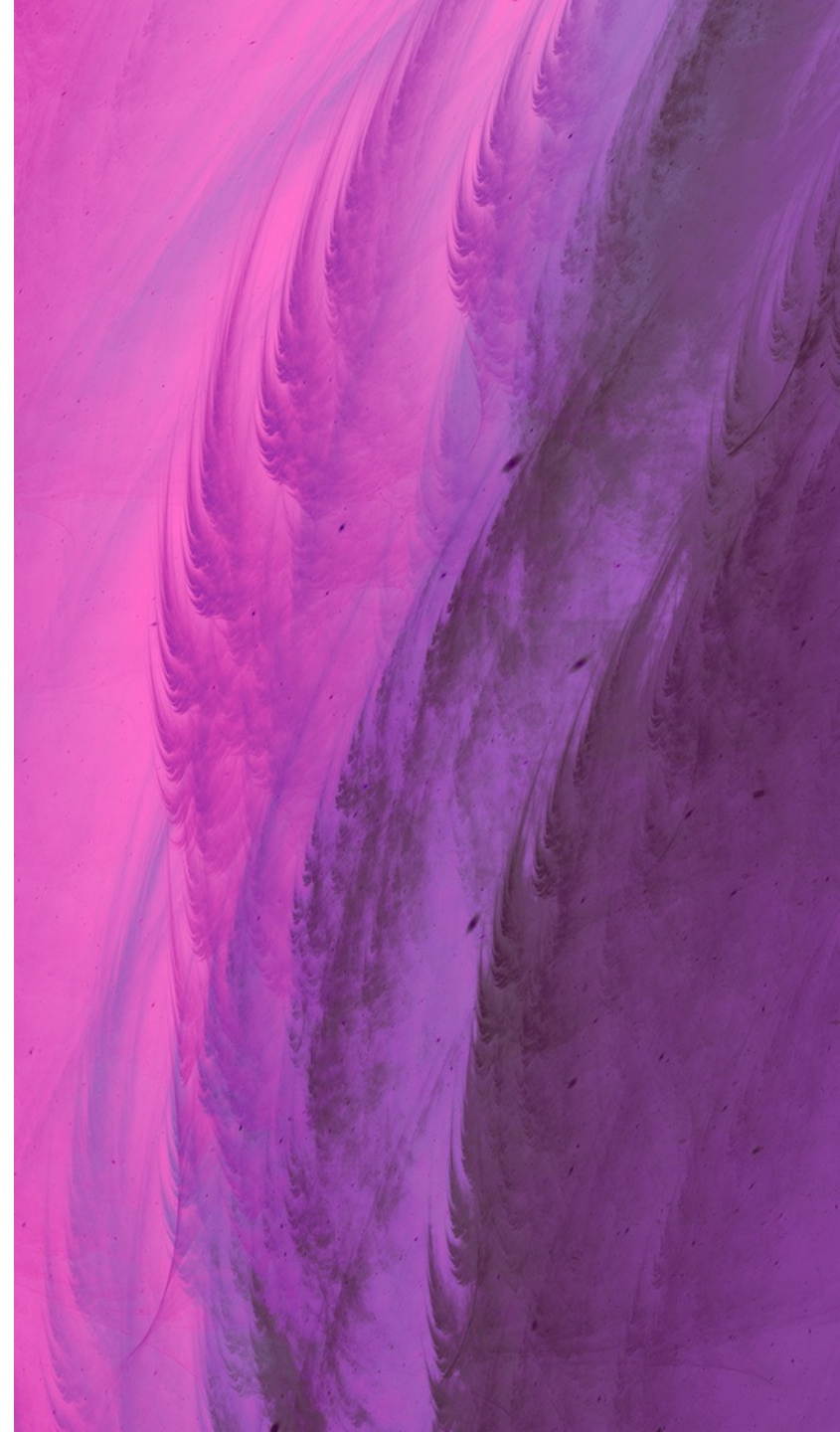
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THE WOMEN'S COLLECTION
Financial Literacy Designed for Women

Financial Literacy
VIRTUAL MEGA EVENT



Agenda

RRSPs

- Definition
- Eligibility
- Contribution room
- How to contribute
- Withdrawal penalties

What are TFSAs

- Definition
- Eligibility
- Contribution room
- How to contribute
- Withdrawal penalties

RRSP vs TFSA

- Key differences
- Which account to contribute to first



Registered Retirement Savings Plan

RRSP

RRSP

- What is an RRSP?
- How RRSPs work
- Benefits of an RRSP
- Contribution Limit
- Eligibility
- Withdrawal penalties
- How to make a penalty free early withdrawal
- How to contribute into your RRSPs
- Employer sponsored plans
- How to withdraw from your RRSP at retirement
- Eduek's Rules

What are RRSPs?

- RRSP = Registered Retirement Savings Plan
- This is a tax sheltered retirement vehicle incentivized by the government to encourage people to save for retirement.

How RRSPs work

- When you contribute into an RRSP, it reduces your **taxable** income, which will reduce the amount of taxes you owe.
 - Example: You make \$60,000 gross income annually, and contribute \$10,000 into your RRSP, instead of the government taxing the full \$60,000, they will only tax \$50,000
- The amount you contribute will be reduced from your taxable income during your tax filing. You would usually get a tax refund if the taxes you paid exceeds the taxes you owe.
- Any income , capital gains or dividends you make from the money in your RRSP will not be taxed **as long as the money stays in that account.**
- When you go to withdraw the money at retirement, you will get taxed on the contribution and any returns from your investments.



Benefits of contributing into an RRSP

- It helps build a retirement nest egg
- You can invest the money you put in an RRSP which could grow your nest egg even further
- You pay less taxes
 - *The assumption is that you will be in a higher tax bracket in your contribution years than you will be at retirement



RRSP contribution limit

- Every individual has a unique contribution limit
- You are allowed to contribute 18% of your previous year's gross income up to a max of \$27,830, whichever is lesser.
 - Example 1: If you made \$60,000 in 2020, your contribution limit will be \$10,800* in 2021.
 - Example 2: If you made \$160,000 even though 18% of your income is \$28,800, you can only contribute \$27,830 .
 - However, you are allowed to contribute to your spouse's RRSP, if they have room.



RRSP eligibility

- You also have to be earning income to be eligible to contribute.
- There is no minimum age requirement to contribute, you can start contributing when you start earning income.
- You can contribute into your RRSP only up to the age of 71.



Do you lose your contribution room?

- NO
 - The CRA allows you to carry over your contribution room to the next years if you were unable to contribute into your RRSP for any given year or if you did not max out your contribution limit.
- You never lose contribution room but **any amount you withdraw will be lost forever**
 - ******(except if the withdrawal was made through the HBP and LLP...see next slide)
- The amount you have to contribute is always available on your tax return. You can also log into your CRA account, the info will be at the bottom of your home page. Always check this page before you make any contributions as you will be charged a penalty for going over your limits.
- There is a penalty if you
 - If you withdraw money from your RRSP before retirement
 - If you over contribute to your RRSP



How to access your RRSP contribution limit

- The amount you have to contribute is always available on your tax return.
- You can also log into your MY CRA account, the info will be at the bottom of your home page.
- Always check this page before you make any contributions as you will be charged a penalty for going over your contribution limits.
- There is a penalty if you
 - If you withdraw money from your RRSP before retirement
 - If you over contribute to your RRSP

RRSP penalties

- There are two main a penalties you could incur in an RRSP
 - If you withdraw money from your RRSP before retirement also known as early withdrawal
 - This is subject to a withholding tax
 - And a marginal tax
 - If you over contribute to your RRSP (plus a \$2000 buffer)
 - If you exceed your contribution limit + \$2,000 buffer, you get charged a 1% penalty of the excess amount for each month your account stays in excess



How to withdraw early from your RRSP without penalties

- The CRA allows you to withdraw money early from your RRSP penalty and tax free before retirement through two main plans:
 - **The Home Buyers Plan (HBP)**
 - If you are a first time home buyer, you can withdraw up to \$35,000 to go towards your first home
 - You have up to 15yrs to pay back the money into your RRSP
 - This requires a pre-approval from the CRA
 - Check the CRA website for eligibility and requirements
 - **The Lifelong Learning Plan (LLP)**
 - If you are a student enrolled in an eligible program, you can withdraw up to \$20,000 (limit of \$10,000/yr) towards your tuition
 - This requires a pre-approval from the CRA
 - Check CRA for eligibility and requirements



How to contribute to your RRSP

- There are 2 major ways you can contribute into your RRSP:
 - Through your employer (if available)
 - Group retirement plans
 - Defined contribution plans
 - Through a financial institution, these are called Self Directed RRSP or SDRP
 - Any of the major financial institutions in Canada have RRSPs available
 - You have complete control of what you choose to invest in



How does my employer contribution work?

- Most employers in Canada will offer a group RRSP as part of their total compensation.
- They could also offer a company match where the company matches anywhere from 3% to 100% of your contributions
 - Example: if your company offers a 30% match and you contribute \$1,000, your company will also put in \$300 into your plan. That is a guaranteed 30% return on your money. Always take advantage of this if your company offers it.
- You have to actually pick what investments you want, whether it's through your group RRSP or your SDRP. If you don't pick an investment, the money will sit there and do nothing!



Does my employer's contribution count towards my contribution limit?

- Yes.
 - You are 100% responsible for the amount that goes into your RRSP.
- When signing up for a group RRSP, ensure the amount + employer match does not exceed your limit.
- Contribution into a company **Defined Pension Plan** will also count towards your limit
 - Defined Pension Plans are employer plans where the employee does not contribute into the plan



How do you withdraw from your RRSP at retirement?

- You can withdraw your money in three ways
 - A lump sum at age 71
 - Covert it into a Registered Retirement Income Fund (RRIF) starting at 55 and withdraw a certain amount every year as income. RRIF come with minimum yearly withdrawal limits.
 - Buy an annuity that pays income.
- You will be subject to your marginal tax rate regardless of what option you choose. Once you covert an RRSP to a RRIF, you can not change it back to an RRSP.



A few rules to note.....

- Do not contribute an amount you will need in less than 5 years
- Contributing into your RRSP is not enough, you have to actually invest it
- Always invest any money in an RRSP for the long term
- Do not withdraw from your RRSP to pay off debt, the withholding tax plus your tax rate will exceed the interest on the debt... not worth it
 - Except in extenuating circumstances
- Do not withdraw from your RRSP unless under extreme hardship
- Always take advantage of your employer match
- Start contributing into your RRSP today!

Tax Free Savings Account

TFSA

TFSA

- What is a TFSA?
- How TFSA's work
- Benefits of a TFSA
- Contribution Limit
- Eligibility
- Withdrawal penalties
- How to contribute into your TFSA
- Rules

What is a TFSA?

- TFSA= Tax free savings account
- This is a tax advantaged retirement vehicle incentivized by the government to encourage people to save for **retirement**.
- Yes you read that right, the primary purpose is for retirement.

How TFSAs work

- When you contribute into a TFSA, you are contributing your post tax income, so basically your take home pay.
- You can invest the money in your TFSA and any capital gains, growth or dividends gotten from those investments **plus** your initial contribution will not be taxed whenever you make a withdrawal!!!
- You can withdraw from your TFSA at any time without any penalties or taxes



Benefits of a TFSA

- It helps build a retirement nest egg
- You can invest the money you put in a TFSA which could grow your nest egg even further
- You don't pay any taxes on your investment gains which makes it a prime option for long term investing
- You can use it for **non-retirement savings** like saving for a house and take advantage of stock market gains to grow your savings faster



TFSA contribution limit

- The contribution limit for 2020 and 2021 is \$6,000
- Just like the RRSP, your contribution room from previous years are carried over to the next year until you max it out.
- You don't lose the contribution room even after you withdraw money from your TFSA.
- You will get back the contribution room the next year plus the room your gains created.
- Your total accumulated contribution room will also be on the first page of your My CRA account, right next to your RRSP limit



TFSA contribution room

- If you've never contributed into your RRSP and you had already turned 18 in 2009, your total contribution room should be **\$75,500**

TFSA contribution room

You will accumulate TFSA contribution room for each year even if you do not file an Income Tax and Benefit Return or open a TFSA.

The annual TFSA dollar limit for the years **2009 to 2012** was **\$5,000**.

The annual TFSA dollar limit for the years **2013** and **2014** was **\$5,500**.

The annual TFSA dollar limit for the year **2015** was **\$10,000**.

The annual TFSA dollar limit for the years **2016 to 2018** was **\$5,500**.

The annual TFSA dollar limit for the year **2019** and **2020** is **\$6,000**.

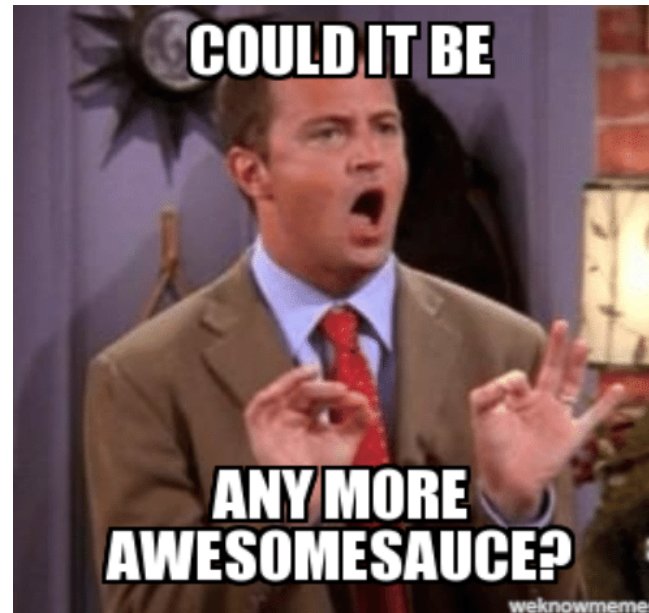


TFSA eligibility

- Must be 18 years
- You don't need to be earning income to contribute into a TFSA

Is there a withdrawal penalty?

- None! zilch ! Nada!
- You can also access your money at **any** age



How to contribute into your TFSA

- Almost any bank or a financial institution in Canada
- However you will need to open your TFSA with an investment brokerage if you intend to invest the money you contribute into your TFSA...which you should.



A few rules to note....

- Always invest the money in your TFSA
- Do not treat your TFSA like a regular savings account where you take in and out money ,
 - If you need a short term savings account, use a high interest savings account instead
- Aim to invest money in your TFSA for the long term >3yrs
- You also want to use your TFSA for retirement savings
- Start contributing into your TFSA today!



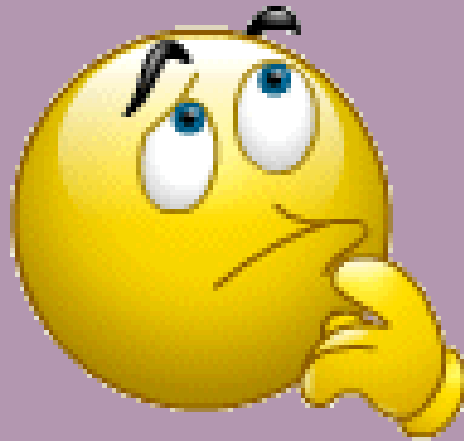
RRSP VS TFSA



RRSP vs TFSA

Requirements	RRSP	TFSA
Contribution from Income	Pre-tax	Post-tax
Eligibility	Any age as long as your earn income	Must be 18
Are contributions tax deductible?	Yes	No
Early withdrawal penalties?	Yes	No
Contribution Limit	18% of previous year's income	\$6,000 (for 2021)
Do you lose contribution room at withdrawal?	Yes <small>*except if through HBP or LLP</small>	No
When can you withdraw your money?	At retirement	Anytime

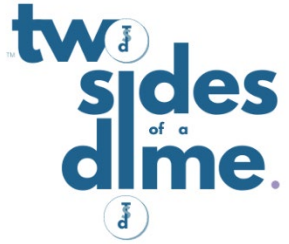
Which account should I contribute to first?



Which account should you contribute to first?

- If your income is **above** \$50,000
 - Start with your RRSP
- If your income is **below** \$50,000
 - Start with your TFSA
- If you only need the money at retirement
 - Contribute to your RRSP
- If you will need the money before retirement
 - Contribute to your TFSA
- Your tax bracket will be lower at retirement
 - Start with RRSP
- Your tax bracket will be higher at retirement
 - Start with TFSA

The goal is to try to max out both accounts!



• PERSONAL FINANCE COACHING SERVICES

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