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TFSA or RRSP – What's best for you?

The debate over whether to invest in a Registered Retirement Savings Plan ("RRSP") or a Tax-Free Savings Account ("TFSA") comes up every year. Both RRSPs and TFSAs are excellent savings vehicles, but deciding which of the two is best for you boils down to your savings goals.

RRSPs are a great way to save for retirement, especially if you're fairly certain you're prepared to put the money away until you retire. Taking money out uses contribution room that you won't get back:

- Contributions are tax deductible and savings in an RRSP grow tax-free
- Withdrawals from an RRSP are taxed, but if your tax rate in retirement is lower than when you contribute the money, you will end up paying less tax.

TFSAs are ideal for short-term savings goals like a car or a vacation, or if you aren't sure whether you might need to withdraw the money someday. But they're also a good option for retirement savings:

- There's no tax on withdrawals
- Savings in a TFSA grow tax-free
- Great savings vehicle after you've used up all your registered room
- Any amounts you take out are added back to your contribution room the following year.

So, which plan is better, RRSP or TFSA? The truth is, both are a great way to save for your future. The different tax treatment means you can choose which is most tax-effective for your savings goals.

The table below compares TFSAs and RRSPs at a glance.

	TFSA	RRSP
Contribution limits	You can contribute up to $6,000 for this year tax-free. Unused contribution room from previous years is carried forward and added to your overall contribution limit.	The contribution limit is set at 18% of your previous year's income to a maximum dollar amount each year. Any unused contribution room from previous years is carried forward and added to the limit.
Tax deductible contributions	No.	Yes.
Tax on interest or investment earnings	No.	No tax applies to growth while funds remain in the RRSP.
Withdrawals	Withdrawals are not taxed. Plus, the amount withdrawn in one year is added to your following year's contribution room.	Withdrawals are taxed and contribution room is lost.
Minimum age to contribute	18 years of age.	None.
Maximum age to contribute	No maximum.	You can contribute to your RRSP up until the end of the year in which you turn 71. At that time, you must convert your assets into retirement income.
Savings strategy	The TFSA can be used for short-term savings goals and as part of a long-term retirement savings strategy and complements other registered plans such as an RRSP.	The RRSP is ideal for long-term retirement savings but can also be used to purchase your first home or to pay for your education.[1]

Your income level can also help you determine whether to save in a TFSA, RRSP or both.

Low Income
If your income is low and you expect your income and tax bracket to be higher when you retire than it is now, then an RRSP may be less advantageous than a TFSA. The tax you pay on withdrawal will exceed the tax deduction you receive with contributions. The same would apply if you have a high income now but anticipate a higher income at the time of retirement.

Middle Income
One strategy could be to contribute to your TFSA now and accumulate RRSP room to be used later, if you anticipate moving into a higher tax bracket, to optimize the tax benefits.

High Income
This is a situation where you may want to maximize both your RRSP and TFSA contributions. In fact, the tax savings refund received from the RRSP contribution could be used to fund the TFSA.

For more information about your Group RRSP and Group TFSA, or if you want to enrol, contact HR.

[1] http://www.cra-arc.gc.ca: What is the Home Buyers Plan (HBP)? and Lifelong Learning Plan (LLP)

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