

# PERSPECTIVES

An excerpt from "Perspectives" - Volume 7 - Issue 10

## Financial Planning

### TFSA: An important, effective way to grow your wealth

By Johnny Lyall, Sales Assistant

**As millennials, you may not have considered starting a Tax-Free Savings Account yet. You're thinking a TFSA is for when you're more established and making more money. In fact, the time to start your TFSA is now!**

Many Canadians have a TFSA account. Here's why you should too. A TFSA is an amazing way to grow wealth, especially for millennials. That's because at your stage of life, you have the time frame to benefit hugely from the tax-free growth a TFSA will provide for your future.

Let's start by reviewing some of the basics of what a TFSA is and how it works.

It was in 2009 that then-Minister of Finance Jim Flaherty launched TFSA's. Flaherty rightly called the TFSA the most important personal finance vehicle since the Registered Retirement Savings Plan. The annual contribution amount you're allowed to make to a TFSA has changed year to year and likely will change again in the future. Typically, it's been \$5,500.

In a TFSA account you have many investment options such as cash, GICs, bonds, stocks and Exchange-Traded Funds. The total accumulated amount to date that you can contribute is \$46,500. Note: If you haven't opened an account yet, it's retroactive. So, if you have been procrastinating, you can catch up on the contributions. With the stock market's average return of 11.1% over the past 100 years, you can conservatively expect a good return over the long term – as long as you are invested in proven disciplined strategies like those of the Stan Clark Financial Team.

For illustrative purposes, say you start contributing at the eligible age of 18 and put in the maximum contributions (let's assume \$5,500 a year

going forward) until you are 60, with a compound annual return of 8%. You would have roughly \$1,800,000 tax-free! You would be saving about \$425,000 in taxes during this time.

In the chart, you'll see how a TFSA grows over time. Notice that the longer your time horizon is, the more your savings can grow.

Life expectancy is on the rise. Young people are much more active and conscious of our health. Combine this with modern medicine and we can expect to live and work longer than previous generations. It's important for us to anticipate these longer lives and plan for them.

Here are some other things to note about TFSA's. If you over-contribute in a calendar year, you will be penalized 1% on that over-contributed amount until you withdraw it. But never fear: You can monitor your contributions online with Canada Revenue under My Account (<http://www.cra-arc.gc.ca/myaccount/>). Also worth noting: If you withdraw any funds from your TFSA you will not be able to re-deposit that amount until the following year, along with your normal annual contribution.

Lastly, there is no upper age limit for TFSA contributions, unlike RRSPs, which require you to stop contributing at age 71.

Okay, so you may not have \$5,500 sitting around at the end of the year. You can still start a TFSA. Arrange for savings to go automatically into your TFSA every pay period; for most people, that's twice a month. If you save \$229.17 from each paycheck, that will add up to \$5,500 by the end of the year. If you can't save that much, just do the best you can until you are able to add more later on. Your future self will thank you. ■



Johnny Lyall is a Sales Assistant for the Stan Clark Financial Team. Johnny plays a key role in our client communications and education endeavours. He also acts as a bridge connecting the team with prospective clients who are a good fit.

#### TFSA growth assuming an 8% return and \$5,500 in annual contributions, starting at age 18

Age	Total Contributions	Profit	TFSA Total	Taxes Saved
30 years	\$ 66,000	\$ 46,724	\$ 112,724	\$ 12,616
40 years	\$ 121,000	\$ 208,413	\$ 329,413	\$ 56,272
50 years	\$ 176,000	\$ 621,228	\$ 797,228	\$ 167,732
<b>60 years</b>	<b>\$231,000</b>	<b>\$1,576,207</b>	<b>\$1,807,207</b>	<b>\$ 425,576</b>
70 years	\$ 286,000	\$ 3,701,674	\$ 3,987,674	\$ 999,452
80 years	\$ 341,000	\$ 8,354,138	\$ 8,695,138	\$ 2,255,617



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