



TFSA VERSUS RRSP: A QUESTION FOR THE AGES?

Throughout history, the greatest minds and debaters have pitted their wills against one another to argue the greatest rivalries of time: Communism versus Capitalism, Coke versus Pepsi, The Beatles versus The Rolling Stones, Star Wars versus Star Trek, and since 2009, another great debate has raged in Canada: TFSA versus RRSP. Fear not, for I have devoted my time and wracked my brain in deep analysis and meditation to bring you the answer! That answer is... it depends!

Best case scenario is that one does not have to choose, and can maximize the benefit of both plans, but realistically, few of us are in such a position. Where you should then focus your hard-saved dollars then becomes a question of which plan will offer the best benefit for your circumstance. This mostly comes down to an analysis of your current and future tax situation, as each plan offers differing impacts, as well as your individual savings goals.

Since RRSP contributions allow for a tax deduction, anyone that is in the upper tax brackets will likely want to focus more upon the RRSP. The rationale here is that you get more “bang for the buck” on the money put into the RRSP, as you have a higher marginal tax rate. Although RRSP/RRIF withdrawals are taxable, most people will find themselves in a lower tax bracket in retirement, and thus paying less tax back than what was saved.

Anyone that falls into the lower tax brackets will likely see more benefit from making contributions to the TFSA. While TFSA contributions do not offer a tax deduction when made, withdrawals are also not subject to any taxation. TFSA withdrawals are also not used to test against many government assistance programs, so retirees that find themselves in a low-income situation will not be penalized by TFSA withdrawals.

TFSA's are also a clear winner if the savings may be used before retirement for education or buying a home. Although RRSPs have a mechanism for withdrawals through the Life-Long Learning Program, and the First-Time Home Buyers Program, each of these are not as flexible as drawing from a TFSA. Of course most people will not know what the future holds and if such a withdrawal might be done, focusing on the TFSA does allow more overall flexibility.

The flexibility of the TFSA can also be a bane to less resolute investors, as there is no penalty for pulling money from the TFSA at any point. This can make saving for a long-term retirement harder for some people within the TFSA, as the money can be withdrawn and used for things like vacations, large purchases, or anything else. Sometimes, having the money behind the RRSP barrier can be a benefit, so also keep that in mind if you're the type to dip into the piggy bank from time to time.

As you can see, there is no real clear answer of RRSP or TFSA, and the decision will come down to your individual circumstances. If you would like to discuss which product may be best for you, do not hesitate to reach out to us!