Your RRSP, your TFSA and your savings goals

2022-2023 GUIDE

Desjardins

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Should I prioritize my retirement over my other savings goals?

How can I make sure I never run out of money?

What's better for me: an RRSP or a TFSA?

If you're like most people, you've probably asked yourself these questions. Between now and the time you retire, you'll have a number of things you'll need to save up for: buying a car, buying a home, doing renovations, travelling … just to name a few!

It may seem like a lot, but you'd be surprised how a little planning can go a long way, without even having to sacrifice your standard of living.

Let your advisor or representative help you. They can assess your financial situation and help you make the choices that will enable you to reach your objectives and stay focused on your priorities. With time on your side, why put it off? Keep reading and see for yourself.

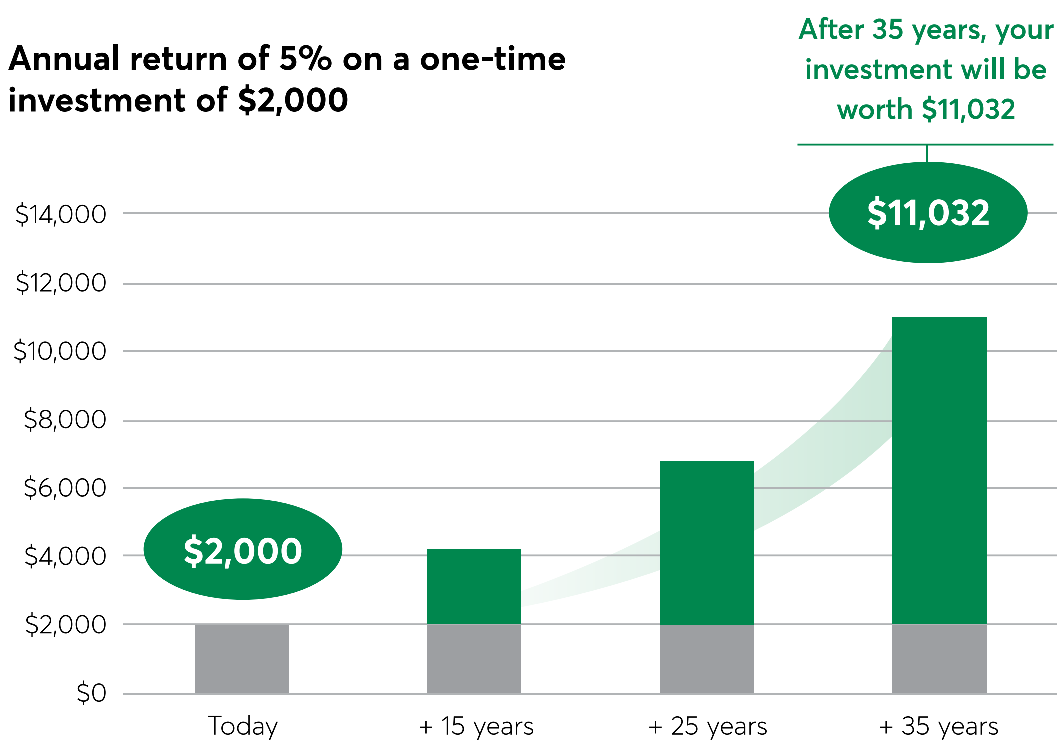
Time is on your side

You often hear the same advice when it comes to saving:

It pays to start early!

Why?

To grow your savings, you need to invest them. Not only will your savings grow, but you'll also be able to capitalize on the interest your investment earns, assuming it makes a profit. That interest will get added to your capital and will grow itself the following year. So the sooner you start saving, the more you'll benefit from the interest on your interest, also known as **compound interest**.

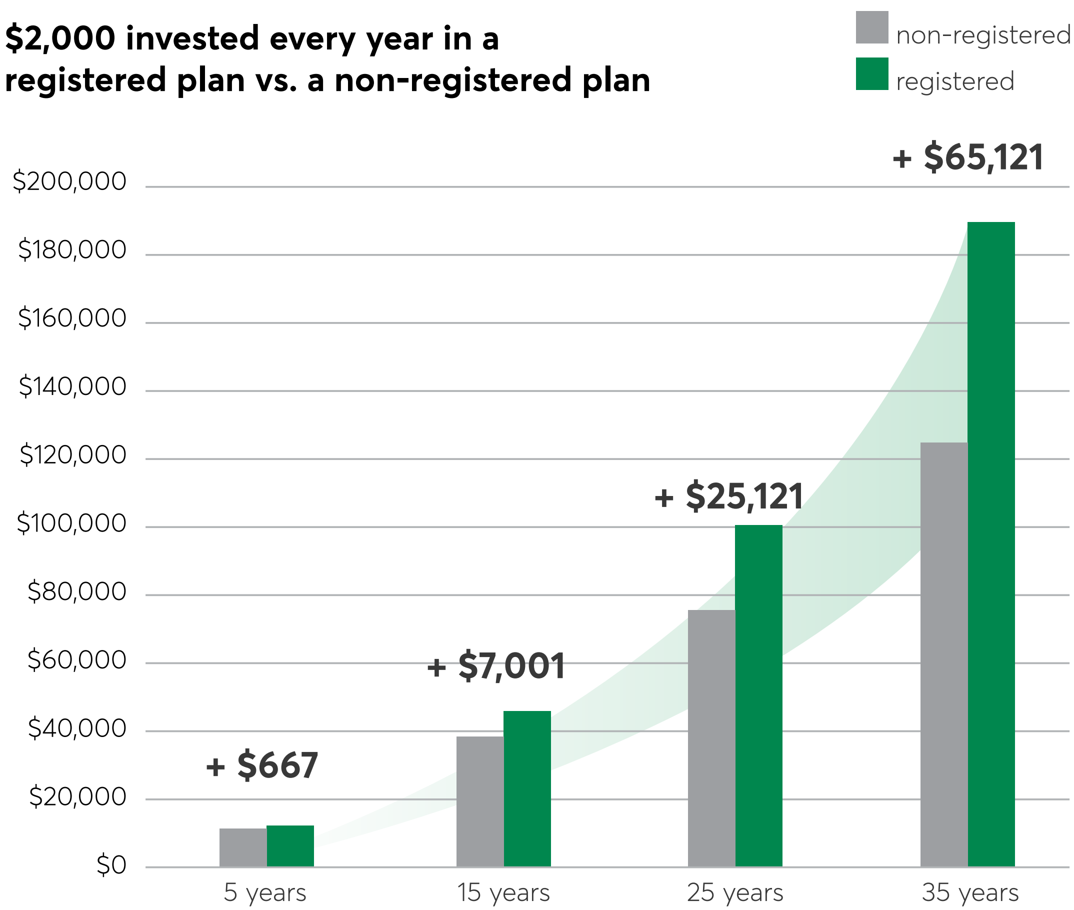


Assumption based on a 5% annual rate of return on a one-time deposit of $2,000. This simulation is not an indication or a guarantee of future results. It does not factor in taxes payable on annual returns.

How registered plans can give your savings a boost

There's an added benefit to contributing to a registered plan: the return on your investments is not taxed.[1] That means you can take full advantage of compounding interest. It's a great reason to set up a meeting with your advisor or representative to plan your contributions!

$2,000 invested every year in a registered plan vs. a non-registered plan



Assumption based on a 5% annual rate of return and a marginal tax rate of 40% on amounts invested at the beginning of the period. This simulation is not an indication or a guarantee of future results and does not take into account the possibility of reinvesting tax refunds (only possible with some RRSPs).

[1] Income earned in an RRSP is taxed when money is withdrawn from the plan.

How often you contribute also makes a difference

You'll save even more by contributing a small amount each month instead of waiting to make a larger contribution at the end of the year. Why wait when you can immediately start earning a return on the money you invest? And if your regular contributions are registered in an RRSP or a TFSA, the interest you earn is sheltered from tax right away. A smart move—and a profitable one!

And that's not the only benefit of making regular contributions. For most people, it's easier to save small amounts on a regular basis than to come up with a larger amount at the end of the year.

	15 years	25 years	35 years
$200 every month	$53,181	$117,624	$222,596
$2,400 at the end of the year	$51,789	$114,545	$216,769
Advantage of contributing monthly	**+ $1,392**	**+ $3,079**	**+ $5,827**

Investment in a registered plan earning 5% interest. This simulation is not an indication or a guarantee of future results and does not take into account the possibility of reinvesting tax refunds (only possible with some RRSPs).

Set it and forget it

Keep up a regular savings schedule with a pre-authorized payment plan. It's a great way to make regular contributions without giving it a second thought ... and you'll never be tempted to spend the money!

RRSPs

When planning for tomorrow can pay off today

What is an RRSP?

An RRSP (registered retirement savings plan) is a registered plan where you invest your money to save for retirement. The plan is registered with the Canada Revenue Agency (CRA). The contributions you make into an RRSP can be deducted from the income on your tax return.

An RRSP defers the tax you pay on your income. You don't pay tax on the income that accumulates in the plan, as long as it stays in the plan. However, if you make a withdrawal from the plan (capital and interest), you generally have to pay tax on it.

An RRSP must be converted into retirement income before the end of the calendar year in which you turn 71.

WHO CAN CONTRIBUTE TO AN RRSP?

- Taxpayers who have "earned income" for the previous year, as defined under the *Income Tax Act*, or income eligible for a transfer to an RRSP.
- There is no minimum age for contributing to an RRSP[1] and you can keep contributing until December 31 of the year you turn 71.

Advantages of an RRSP

- Your decision to save is immediately rewarded in the form of a tax refund or tax savings.
- The income you earn on your investments isn't taxed as long as it stays in your plan. Your savings grow tax-free.
- If you reinvest your tax refund, it's like the government is lending you money from your taxes, interest-free, so you can make it grow until you retire!
- You won't be tempted to use your savings before you retire, since you know any withdrawals will be taxed.
- Subject to certain conditions,[2] your RRSP will be safe from creditors if you ever have to file for personal bankruptcy.
- You can contribute to your spouse's RRSP if you have unused contribution room.

[1] You must be old enough to enter into a contract to open your own RRSP. This age varies based on province and type of RRSP issuer.

[2] Except for contributions made in the 12 months prior to the bankruptcy to an RRSP contract that is subject to seizure. An RRSP can only be exempt from seizure if a preferred or irrevocable beneficiary has been designated. To find out more, speak to a legal advisor (attorney or notary) about an analysis of your personal situation.

How much to contribute?

Every year, after you file your tax return, the CRA sends you a Notice of Assessment that includes your RRSP Deduction Limit Statement. It indicates the exact amount of your maximum allowable contributions for the year. This amount is based on your earned income, the annual contribution limit, whether you're a member of an employer pension plan, and any unused contribution room you may have left.

You can contribute up to 18% of the income you earned the previous year,[1] up to a maximum limit set by the Canada Revenue Agency. This amount is periodically indexed for inflation based on the growth of the average industrial wage.

RRSP contribution limit

2022	**$29,210**
2023:	**$30,780**

Source: Department of Finance Canada.

Still have some contribution room left? The unused portion will be carried forward to use in future years, until you've used it in full. Did you over-contribute? If you exceed your limit by more than $2,000,[2] your excess contributions will be subject to a penalty of 1% per month, until they're withdrawn or new contribution room is created.

[1] If you contribute to your employer's pension plan, your contribution limit may be reduced by a pension adjustment. Consult the tax slips issued by your employer.

[2] Only taxpayers aged 18 and over are entitled to $2,000 in excess contribution room.

"Borrowing" from your RRSP?

Want to withdraw money from your RRSP? You should know that you can't recover your right to contribute after you make a withdrawal, since your withdrawal won't create any new contribution room. The amounts you withdraw will also be added to your taxable income.

However, you can **temporarily withdraw a certain amount from your RRSP without paying tax** to purchase a first home, as part of the Home Buyers' Plan (HBP), or to go back to school, under the Lifelong Learning Plan (LLP). For more information, see pages 15 and 16.

If you have a spouse

If you have a spouse and you're the higher earner, it may be a good idea to contribute to your spouse's RRSP. You'll be using your own contribution room to do so, but the money will be invested in your spouse's name. In turn, you'll benefit from the same tax deduction you would have received if you'd contributed to your own RRSP.

Combined with pension income splitting, this strategy[3] allows you to reduce the tax bill for both of you at retirement, if your spouse is taxed at a lower rate because they earn less than you do. But be careful! If your spouse makes a withdrawal from the RRSP within two years of your contribution year, you'll be taxed on the withdrawal.

[3] There are situations where it's still in your best interest to contribute to your spouse's RRSP regardless of the pension income splitting options available for your tax returns. Talk to a tax advisor for more information.

TFSAs

Because there's always something to save up for

What is a TFSA?

A TFSA (tax-free savings account) is a registered plan that lets you set money aside tax-free for anything you want and withdraw it any time.

How is it different from an RRSP?

Unlike an RRSP, which is designed specifically for retirement savings, a TFSA is a lot more flexible, letting you use your savings for anything you want.

The main difference between the 2 plans is how they're taxed. Money invested in a TFSA isn't tax deductible. But when you make a withdrawal, you're not taxed on it.

Subject to the terms and conditions of the investments you choose, you can usually withdraw money from your TFSA at any time and for any reason without tax consequences and without having to replace what you withdraw.[1]

WHO CAN CONTRIBUTE TO A TFSA?

Anyone 18 years of age or over can contribute to a TFSA. There is no age limit.

[1] Surrender charges or penalties may apply under the rules of your investment product or contract. To find out more about TFSA withdrawals, speak to the TFSA issuer.

Advantages of a TFSA

- The income you earn on your investments isn't taxed. Your savings grow tax-free.
- The flexible withdrawal rules allow you to put money aside for a rainy day or save up for a special purchase.
- Unlike an RRSP, a TFSA lets you grow your savings tax-free for as long as you want, even in retirement.
- TFSA withdrawals aren't considered income when determining if you qualify for certain government benefits. That means you can use the money in your TFSA and your benefits won't be affected.
- If you max out your RRSP contributions, you have access to a second savings vehicle for tax-sheltered growth.

How much can you contribute?

TFSA contribution limits for every year since it was introduced:

2009 to 2012	2013 and 2014	2015	2016 to 2018	2019 to 2022	2023	Total
$5,000	$5,500	$10,000	$5,500	$6,000	$6,500	**$88,000**

How to calculate your TFSA contribution room

Unused contribution room from last year

+

Qualifying withdrawals made last year from your TFSA

+

This year's contribution limit

"CAN I RE-CONTRIBUTE THE AMOUNTS I WITHDRAW?"

Yes, but you have to wait for the year following the withdrawal.

Example: How your contribution limit changes

Annie started contributing to her TFSA in 2021.

	YEAR	2021	2022	2023
	Unused contribution room + withdrawals from the previous year	$69,500*	$55,500	$68,500
+	New contribution limit	$6,000	$6,000	$6,500
=	**Total contribution room for the current year**	**$75,500**	**$61,500**	**$75,000**
-	Deposits	$20,000	$0	
=	Unused contribution room at the end of the year	$55,500	$61,500	
	Withdrawals (added back to her contribution room the following year)	$0	$7,000	

*Since she didn't contribute to her TFSA between 2009 and 2020, Annie accumulated $69,500 in total contribution room ($5,000 per year from 2009 to 2012, $5,500 in 2013, 2014, 2016, 2017 and 2018, $10,000 in 2015 and $6,000 in 2019 and 2020).

Excess contributions are subject to a penalty of 1% per month until they're withdrawn or new contribution room is created.

If you have a spouse

Unlike an RRSP, you can't use your unused TFSA contribution room to contribute to your spouse's TFSA. You can only make contributions to your own TFSA.

However, you can give money to your spouse, who can use it to contribute to their own TFSA, and neither of you will be taxed on the income it earns. This provision allows a couple to contribute to each other's TFSAs and take advantage of income splitting, even if one spouse doesn't earn income.

In the case of a divorce or separation where TFSA assets need to be split, they can be transferred directly from one spouse's account to the other's, without affecting either person's eligible contribution room.

Your retirement

Manage your finances, live your dreams

How much income do you need at retirement?

Most specialists estimate that you'll need between 60% and 80% of your current gross income when you're retired. The percentage will vary based on your income, the lifestyle you want to maintain, your health and your plans for retirement.

Your retirement will probably look different from your parents'. Healthier lifestyles mean people are living longer than ever and enjoying retirements that last as long as 35 years!

From an RRSP to a RRIF

Under the *Income Tax Act*, you have to convert your RRSP into retirement income before December 31 of the year you turn 71. Your options:

- Withdraw your savings. However, withdrawals will be taxable in full in the year you make them.
- Convert your RRSP to a registered retirement income fund (RRIF), which can shelter your investments from tax. However, you'll be required to withdraw a minimum amount each year.
- Purchase a life annuity, which will provide you with a regular income stream for life, or purchase an annuity certain, which is payable to age 90.

Don't hesitate to contact your advisor or representative to discuss all the options available to you!

Income sources at retirement

- **Government programs** won't be enough to provide the income you need to meet all your needs.
- **Your employer's pension plan** can help fill the gap between the income you want and what you receive in government benefits. Are you among the 38%* of employees who have a workplace pension plan?
- **Your personal savings** are the key to maintaining a comfortable standard of living, doing the things you want to do and providing a safety net in case of emergencies.

* Office of the Superintendent of Financial Institutions, 2013.

Tax bill

Let's imagine your taxable income will stay the same forever. If you're deciding between a TFSA and an RRSP, the same investment[1] in either one will leave you with the same amount of money in your pocket come retirement!

	TFSA	RRSP
Pre-tax income	$1,000	$1,000
Tax (rate of 40%)	$400	$0
Net contributions	$600	$1,000
Investment income (20 years at 5.5%)	$1,151	$1,918
Gross proceeds (net contributions + investment income)	$1,751	$2,918
Tax (rate of 40%)	$0	$1,167
Net proceeds	$1,751	$1,751
Net annual after-tax return	5.5%	5.5%

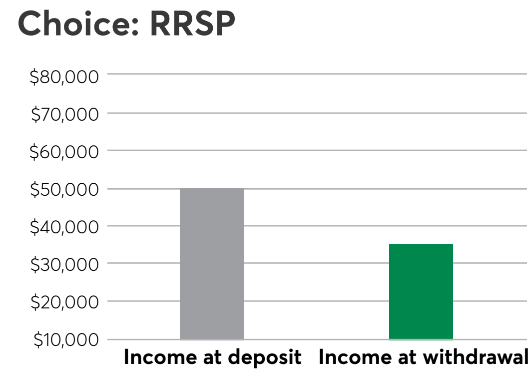
Source: Department of Finance Canada.

But in reality, your taxable income will probably vary throughout your lifetime, depending on a whole range of factors: career development, lifestyle choices, health, retirement, etc. That's why it's good to have different plans to choose from: so you can time when your savings will be taxed to coincide with when your income tax rate will be the lowest.

[1] At an equivalent return.

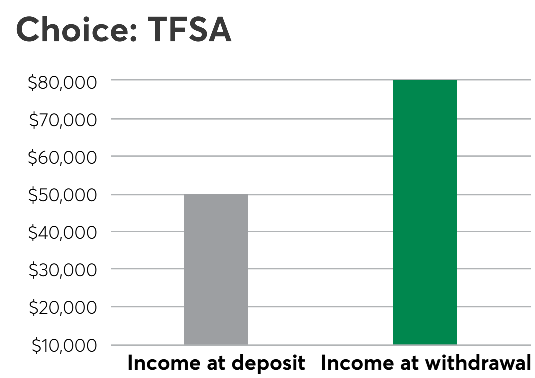
Examples:

At age 55, Andrew is at the pinnacle of his career. He would like to receive the equivalent of 70% of his current income at retirement. Since his income will go down, and his tax rate along with it, it's in his best interest to take advantage of the tax deduction that an RRSP offers on his contributions while he's still earning a higher salary. Andrew is therefore better off maximizing his RRSP contributions for now.



Andrew's tax rate will be lower at withdrawal

Lisa, age 58, plans to withdraw a substantial amount of her investments in a few years to make a down payment on a cottage. Since this amount will be on top of what she already has to withdraw for her regular retirement income, it's better for her to withdraw it from her TFSA. That way, she won't raise her tax rate, since TFSA withdrawals don't count as taxable income.



Lisa's tax rate will be lower at deposit

Personalize your planning

The plan you choose doesn't depend solely on your tax bill. Are you looking for a way to stay disciplined about saving for retirement? Then it's an RRSP you want!

But don't forget about your TFSA. Since your withdrawals aren't taxed, they won't be considered income when it comes to qualifying for Old Age Security and Guaranteed Income Supplement benefits after you retire. Plus, you can continue to contribute after the age of 71—a big advantage if you want to grow your estate.

Retiring soon? Get peace of mind now!

There are many different financial products on the market today that are specifically designed to help pave the way for a worry-free retirement. These products can provide a source of income to cover your expenses during retirement. It may be a smart move to begin planning at least a few years before you actually retire. Talk to your advisor or representative about it!

There are many different financial products on the market today that are specifically designed to help pave the way for a worry-free retirement. These products can provide you with a source of income to cover your expenses during retirement.

Your savings goals

Dreaming and planning go hand in hand

What's the difference between a dream and a goal? Planning—which can help you get from one to the other more easily than you think!

Becoming a homeowner

Buying a home involves some major expenses up front: the down payment, of course, but also appraisal and inspection fees, new furniture, moving expenses, legal fees, etc. Whether or not you're a first-time home buyer, your registered plans can be a stepping stone to owning your dream home.

Whether or not you're a first-time home buyer, your registered plans can be a stepping stone to owning your dream home.

The Home Buyers' Plan (HBP) allows you to use funds from your RRSP to buy or build a home, up to $35,000[1] each for you and your spouse, provided neither of you has owned a residence during the four calendar years preceding the year you withdraw the funds.[2] You'll need to start repaying the money you withdraw in the second calendar year following the withdrawal. You can take up to 15 years to repay it, by making annual payments of one-fifteenth (1/15) of the total withdrawal amount.

Another option would be to **withdraw your down payment from your TFSA**. This might be a good option if you don't qualify for the HBP or if you want to set your own pace for replenishing your savings plan.

[1] For withdrawals made after March 19, 2019.

[2] Starting in 2020, Canadians who experience a divorce or the end of a common-law union will not have to meet the first-time home buyer criteria if they meet certain other conditions. Contact the Canada Revenue Agency for more information on HBP eligibility terms and conditions.

Going back to school

Do you need help financing tuition payments because you or your spouse have decided to go back to school? If you don't want to use the savings accumulated in your TFSA, you can temporarily withdraw funds from your RRSP via the Lifelong Learning Plan (LLP).[1]

The LLP allows you to make an annual tax-free withdrawal of up to $10,000 from your RRSP. IMPORTANT: This plan can't be used to finance the training or education of your children or the children of your spouse or common-law partner. You can withdraw up to a total of $20,000, but you must meet LLP eligibility conditions every year. According to the *Income Tax Act*, you can't withdraw any more funds from an LLP after January of the fourth year following the year you made your first withdrawal.

LLP withdrawals in no way change the amount you can contribute to an RRSP or the amount you can deduct on your tax return.

Other savings goals

Because TFSA rules make it easy to withdraw your money, it's the perfect savings vehicle for any goals you need to finance: major purchases, home improvements, travel, etc. And because your investment grows tax-free, you'll reach your savings goal more quickly. That's smart saving!

[1] Contact the Canada Revenue Agency for more information on LLP eligibility terms and conditions.

Quick compare

	RRSP	TFSA
Age restrictions	Minimum: none[1] Maximum: no later than the year you turn 71	Minimum: age 18 Maximum: none
Dollar limit	$29,210 for 2022 and $30,780 for 2023, indexed for inflation based on growth in the average wage	$6,000 for 2022 and $6,500 for 2023 (for future years: indexed for inflation based on the CPI[2] and rounded to the nearest $500)
Contribution room	18% of the previous year's earned income, up to the dollar limit (contribution room is reduced if you have a pension plan)	See dollar limit
Are contributions tax deductible?	Yes	No
Are withdrawals taxed?	Yes	No
Is investment income taxed?	No, but investment income is taxable when withdrawn	No
Do withdrawals impact income-tested government benefits and tax credits?	Yes, since it is added to income	No
Do withdrawals create contribution room (can you "re-contribute")?	No	Yes, equivalent to the withdrawal amount (but not until the year following the withdrawal)
Can you contribute to your spouse's account?	Yes	No, but you can give money to your spouse (as a gift) so that they can contribute to their own TFSA
Are the savings taxed upon death?	Yes, but there are exemptions for transfers to eligible plans and/or to annuity contracts held by your spouse or dependent (grand)children	No (for the value at the date of death)

[1] You must be old enough to enter into a contract to open your own RRSP. This age varies based on province and type of RRSP issuer.

[2] Consumer Price Index.

The best choice for your goals

Quick reference

GOAL	RRSP	TFSA	NOTES
Retirement savings	●	●	An RRSP is specially designed to encourage you to accumulate retirement income. However, it must be converted into retirement income by the age limit prescribed by law (see page 12). A TFSA can be used to complement an RRSP. It allows you to maximize your contributions and generate tax-free retirement income, without affecting the amount of your income-tested government benefits.
Down payment on a property	●	●	Choose a TFSA or use the HBP, depending on your situation and financial objectives. Start contributing to your TFSA now if you're not eligible for the HBP.
Major expense prior to retirement		●	In addition to not being taxable, TFSA withdrawals can be "re-contributed" in full at your own pace, starting in the year following the withdrawal.
Major expense during retirement	● (RRSP or RRIF)	●	TFSA withdrawals don't affect your tax rate or government benefits (Old Age Security and Guaranteed Income Supplement).
Building your estate (to leave an inheritance)	●	●	Because you can keep saving in your TFSA after age 71, you could use it to invest your mandatory RRIF withdrawals.

This table is provided for information purposes only. It does not contain any financial or tax advice.
Always ask your advisor or representative to analyze your personal situation before you choose a plan.

Contact information

Your advisor or representative

Canada Revenue Agency

Individual income tax inquiries: **1-800-959-8281**

General information: **cra-arc.gc.ca**

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