FRANKLIN TEMPLETON INVESTMENTS

SAVING FOR RETIREMENT: RRSP OR TFSA?

What's the difference between an RRSP and TFSA – and where should you put your retirement savings?

A **Registered Retirement Savings Plan (RRSP)** is an account designed to help Canadians save for retirement. Your contributions result in immediate tax deductions. Any income or growth you might earn in the account remains tax-free until you withdraw.

A **Tax Free Savings Account (TFSA)** can be used to save toward many goals, including retirement. TFSA contributions are not tax-deductible – but you'll never be taxed for any money you earn from your TFSA, even when you withdraw.

So, which one's best for you?

Here are some of the considerations that can help you decide whether to contribute to an RRSP, a TFSA or both.

1. Is this money truly dedicated to retirement?

With the exception of the Homebuyer's Plan and Lifelong Learning Plan, RRSP withdrawals have tax consequences. If there's a chance you'll need this money before you retire, a TFSA might make more sense.

2. What's your taxable income?

Do you have significant capital gains to claim this year? Maybe a one-time bonus? If your income is higher than usual this year, an RRSP contribution might help reduce your up-front taxes.

3. What stage of your career are you in?

If you're just starting out, it might make sense to contribute to a TFSA now and 'save up' your RRSP contribution room for later, when you're earning more money. On the other hand, if you think you're at or near the peak of your earning potential, now may be a good time to contribute to an RRSP and defer the tax.

4. Do you have RRSP contribution room?

A few factors affect how much you can contribute to an RRSP – including whether you have a pension plan with your employer. You can find your RRSP contribution limit on your Notice of Assessment, by calling Canada Revenue Agency (CRA), or by logging into CRA's *My Account*.

TIP: If you make an RRSP contribution, consider using your tax refund to make a TFSA contribution.

5. How old are you?

If you're over 71, you can contribute to a TFSA but you can no longer contribute to an RRSP.

If this decision seems a little complicated, that's because it is. Your financial advisor will help you choose the best strategy for your situation.

RRSPs vs TFSAs: At a Glance

	RRSP	TFSA
'Tax-Deferred' vs. 'Tax-Free'	RRSPs are *tax-deferred*. Your contribution reduces your current income tax and allows you to put off paying tax until you withdraw the funds. This is an advantage if you expect your income (and your marginal tax rate) to be lower when you retire.	TFSAs are *tax-free*. Growth in your account is never taxed. You won't be taxed as your TFSA grows, and you won't be taxed when you withdraw. Unlike a tax deferral, you've already paid tax on the money you contribute.
Deadlines	You have until **March 1, 2019** to contribute to your RRSP and lower your 2018 taxes.	You have until **December 31** to contribute your annual limit to your TFSA.
Contribution Limits	Your annual contribution limit is the lesser of: • 18% of your total income claimed the previous year *or* • The annual 'maximum pensionable earnings' set by Canada Revenue Agency (CRA). If you're a member of a pension plan, a 'pension adjustment' will reduce your contribution room. RRSP contribution room accumulates and carries forward indefinitely. You can find your contribution limit on your CRA Notice of Assessment, by calling CRA, or by logging into CRA's *My Account*.	The annual contribution limit in 2019 is $6,000. But there's also your lifetime contribution room. This can be a little trickier to calculate, since the annual limit has changed a few times since TFSAs were introduced in 2009. You can find your lifetime contribution limit on your CRA Notice of Assessment, by calling CRA, or by logging into CRA's *My Account*.
Over Contributions	You can exceed your RRSP contribution limit by $2,000 or less without penalty. However, you can't deduct your excess contributions from your taxable income. Over contributions *larger than* $2,000 are charged a penalty of 1% tax per month on the entire excess amount. If you file your taxes late, the penalty increases.	Over contributions are subject to a penalty of 1% per month (only on the over contribution amount).
Withdrawals	Generally, RRSP withdrawals are taxed as income. There are two exceptions: **Home Buyers' Plan (HBP):** you can borrow up to $25,000 tax-free from your RRSP to put towards your first home. You have 15 years to pay it back into your RRSP without penalty. **Lifelong Learning Plan (LLP):** you can borrow up to $10,000 a year ($20,000 in total per person) to help pay for your education or your spouse's education. You can't use it for your child's education. You have 10 years to pay it back into your RRSP without penalty.	TFSA withdrawals are not taxed. More good news: whatever you withdraw is simply added to your lifetime contribution room (even if your withdrawal includes investment income). If you withdraw $1,000 today, you can recontribute that $1,000 next January 1 without penalty.
Age & Conversion	In the year you turn 71, if you haven't already, you must close your RRSP and convert your savings into a Registered Retirement Income Fund (RRIF) or an annuity.	If you're at least 18 years old, you can invest in a TFSA for as long as you want.