INVESTIA FINANCIAL SERVICES INC.
MUTUAL FUND DEALER

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30, June, 2015

RSP vs TFSA: A Discussion of the Merits of Each

This is a summary of the advantages and disadvantages of each of the two main retirement savings plans offered by the government in Canada. The actual decision on which is better is most probably going to be a matter of individual circumstances, so individual discussions are going to be highly appropriate here.

Here is a list of features to consider with some comments on each.

RSP's (Retirement Savings Plans)	TFSA's (Tax Free Savings Accounts)
Contributions deducted from your income at tax time, so you get a tax savings right away	No initial benefits from the government
All withdrawals 100% taxable in the year you take the money out. So you often have to take out 1.60 or more, to end up with 1.00	No tax on anything you withdraw – ever. If you need 1.00, you take out 1.00 (not including fees from your fund company of course)
When you withdraw, the contribution room you used up for that amount is lost	When you withdraw, the money you took out is eligible to be re-contributed in the next calendar year
Max contribution room is 18% of your taxable income, up to a max. amount of about 24,000 in each year	Max contribution room is 10,000 per year currently
Unused contribution room is carried forward for future use indefinitely	Unused contribution room is carried forward for future use indefinitely
Immediate gains realized from the tax deduction with each new contribution	Delayed gains from the tax savings on any / all earnings over time.
A good option for long term, basic income needs in retirement	A better option for short term or later, lump sum needs
Not good as a short term cash reserve prior to retirement	Makes a good short term cash reserve if you need one.
Better if you are a 'spender' and have trouble holding on to your money.	If you like to spend money and have trouble keeping it, this is an easy option to access, so perhaps not the best for long term savings

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Increases your taxable income, and in high RSP accounts can cause the reduction of other gov't. programs – OAS	Does not affect OAS calculations, and can be used to increase your eligibility for OAS if need be.
Better if you expect to have lower income in retirement than you do while working	Better if you expect to have higher income in retirement than you do right now.
Better in the short term due to the immediate tax advantage	As good as an RSP with some additional flexibility advantages over the longer term
Not applicable	Not much good for GIC / deposit type products at present.
Mandatory termination of contributions and mandatory withdrawals at age 71 onwards	No mandatory withdrawals, no end to ability to contribute.
Investment choices are very broad, and you can hold almost anything in an RSP	A bit more restrictive, but probably not to any significant degree for most people.
Has a couple of back doors for non-taxable withdrawals: adult education and buying your first home	Not applicable, no issues with withdrawals being subject to tax.

In general, a good focus point from the above table is the expected income in retirement. If you expect to have lower income in retirement, and RSP can work better. If your retirement income is expected to be higher, the TFSA may work out better for you in the long term by offering more tax-free income and not increasing your net tax level.

As well, the flexibility of use over time may be a factor, and the TFSA may work better here. But this can be abused if you aren't careful about it, causing damage to your eventual retirement plans. Abuse is less likely with the RSP program because the tax-cost is so much higher if you need to take money out of your plan.

Both plans are available from Architype Financial and our Mutual Fund companies. There are no special costs or other restrictions involved in setting these up.

Thanks,
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Posted to Linked In 24, July, 2015

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