A COMPARISON

TFSAs, RRSPs, RESPs and non-registered accounts

There are many different savings account options available in the marketplace today: tax-free savings account (TFSA), registered retirement savings plan (RRSP), registered education savings plan (RESP), and non-registered accounts. Deciding which type best suits your needs is an important part of your financial planning process.

The information in this guide will provide you with an overview of the differences among popular savings options available in the Canadian marketplace.

TFSA, RRSP, RESP – the basics

The following table illustrates some of the similarities and differences among various savings options available to you. The information in the chart is both limited and basic and was developed to provide a brief overview. You should consult with your advisor to help you make the most informed decisions about your plan.

Similarities and differences

	TFSA	RRSP	Non-registered	RESP
Age limits	18+	0 - 71 (but must have earned income)	None	0 - 71[1] (Note: CESG[2] is only available for children up to age 17)
Contribution limits (annual)	$6,000[3], plus unused contribution room from previous years	Lesser of 18% of earned income or $27,230 (2020), plus unused contribution room from previous years	None	No annual limit[4] (lifetime $50,000)
Tax-deductible contributions	No	Yes	No	No
Tax payable on investment growth inside the plan	No	No	Yes[5]	No
Taxable withdrawals	No	Yes	Varies – tax treatment largely relies on gain or loss position of investment at time of withdrawal.	Yes, at child's rate (grant amount and investment earnings are taxable; contributions to the plan are not)
Re-deposit withdrawals (in addition to annual contribution)	Yes (in the next calendar year)	No	Yes	No
Government grant	No	No	No	Yes – CESG, Canada Learning Bond (CLB). Some provinces have programs that also provide educational assistance payments.
Unique benefit	Tax-free growth	Tax-deductible contributions, tax deferral	Flexibility	Up to $7,200 CESG, tax-sheltered growth
Claim capital losses	No	No	Yes	No

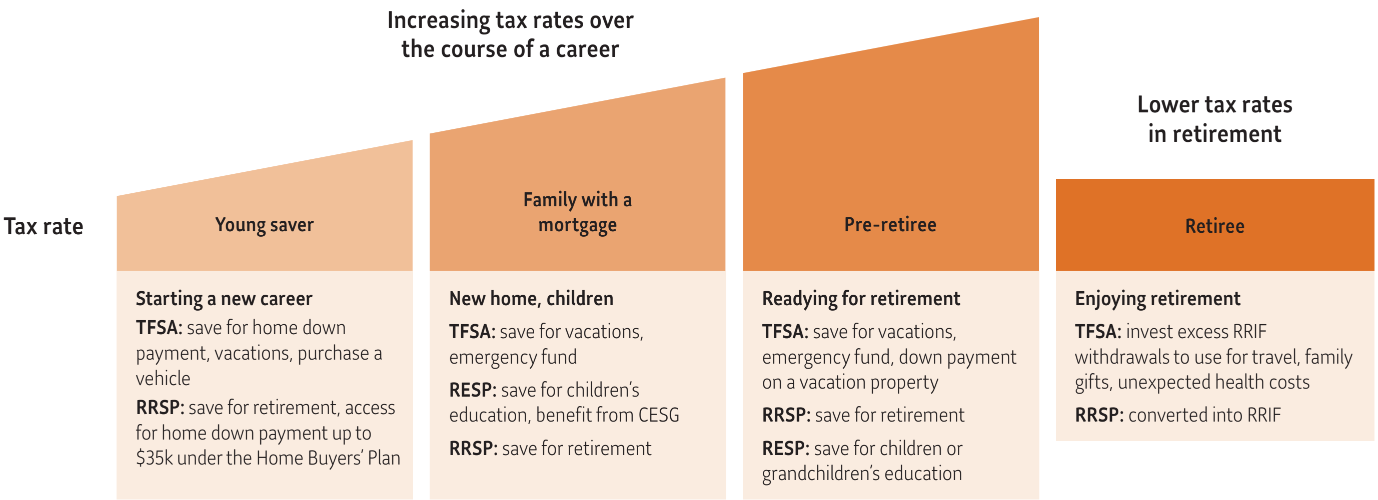
NOTE

There may be negative tax implications for exceeding the allowable annual contribution amount or for unqualified contributions. Please speak to your advisor for more information.

Options to fit every stage of your life

Like many Canadians, you may believe that your tax rate will be lower in retirement, making RRSPs an ideal vehicle for investing your savings. On the other hand, TFSAs are advantageous when you believe your tax rate will be higher on withdrawal than when you originally contributed, making it a good tool if you're saving for a down payment on a home or a vacation.

A lifetime of options



You may realize changes to your marginal tax rate over the course of your life. As a result, the various savings options provide different results based on your marginal tax rate at the time of withdrawal.

The following chart assumes you make a one-time contribution of $1,000 after tax into each of the various savings options.

Comparing a one-time contribution to each option

		TFSA ($)	RRSP ($)	Non-registered[6] ($)	RESP ($)	
	Cost to contributor[7]	1,667	**1,000**	1,667	1,667	
	Grant	0	0	0	200	
	Opening account value	1,000	1,000	1,000	1,200	
	Investment income (20 yrs at 5.5%)	1,918	1,918	1,178[6]	2,301	
	Gross proceeds	2,918	2,918	2,178	3,501	
If withdrawn at same tax rate	Tax (40% rate)	0	1,167	0	500	Assumes that RESP withdrawls are taxed in child's hands at 20%
	Net proceeds	2,918	1,751	2,178	3,001	
If withdrawn at higher tax rate	Tax (45% rate)	0	1,313	0	500	
	Net proceeds	2,918	1,605	2,178	3,001	
If withdrawn at lower tax rate	Tax (30% rate)	0	875	0	500	
	Net proceeds	2,918	2,043	2,178	3,001	

As you can see, in addition to the benefit of flexibility, TFSAs are an advantageous investment option compared to RRSPs when you make a withdrawal at a higher tax rate. Conversely, RRSPs represent better returns compared to TFSAs when you withdraw funds at a lower tax rate. While RESPs are included in the comparison, it is important to note that RESP growth and grant money are taxed in the hands of the recipient of the benefit, the child, whose tax rate is generally low, if not zero.

Choosing the savings option that's right for you

Your tax rate at the time of withdrawal is just one factor to help you decide which account type might best suit your goals. Asking yourself the right questions can also help you determine which savings strategy makes the most sense for you.

- What savings plans do I currently have?
- What are my savings goals? (e.g. retirement, down payment for a house, children's education, a new car, a vacation, etc.)
- What is the time horizon for each of my savings goals?
- If my RRSP is an important savings vehicle for meeting my goals, what do I plan on doing with my tax refund?
- If saving for the children's education is important, what type of post-secondary education do I envision for them?
- How much flexibility do I need for my general savings goals?

[1]From the registration date, contributions may occur up to the end of the 31st year and must be withdrawn by the end of the 35th year from the registration date. For individuals who qualify for the disability tax credit, from the registration date, contributions may be made up to the end of the 35th year and must be withdrawn by the end of the 40th year.
[2]Canada Education Savings Grant (CESG). Children aged 16 and 17 get the CESG only if minimum contribution requirements have been satisfied for the years before they turned age 16.
[3]The TFSA contribution limit has changed over the years. 2009-2012 - $5,000; 2013-2014 - $5,500; 2015 - $10,000; 2016-2018 - $5,500; 2019-current - $6,000.
The annual TFSA dollar limit is indexed to inflation and rounded to the nearest $500.
[4]It is important to note provisions in the Income Tax Act that prevent what is considered "11th hour saving" which applies to 16- and 17-year-olds. They are eligible for a CESG if one of the following conditions is met:

- contributions of at least $2,000 must be made to an RESP prior to, and not withdrawn from, the child turning 16;
- contributions of at least $100 per year must be made to an RESP in any of the four years prior to, and not withdrawn from, the child turning 16.

[5]Unrealized capital gains are not taxed until funds are withdrawn or the investment is cashed in.
[6]The non-registered investment assumes a tax rate of 28% on investment income, based on portfolio returns that are assumed to be composed of 30% capital gains, 30% Canadian dividends and 40% interest. The assumed tax rate of 28% on investment income could differ based on the tax bracket the individual falls into and could be as high as 40%.
[7]For the RRSP, at a 40% marginal tax rate, an individual needs to earn $1,667 to make a $1,000 contribution to a TFSA, non-registered account or RESP. Since RRSP contributions are tax deductible, only $1,000 after tax is needed to make a $1,000 contribution.

For more information, speak to your advisor or:

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