



## Looking at TFSAs

There are a lot of savings and investment options out there today for both short- and long-term financial interests. It can be confusing. That's why it's a good idea to consult with a professional financial advisor. He or she will help you make the best decision for your specific needs and interests. That said, the most popular means of saving money in Canada today is the tax-free savings account (TFSA).

Statistics Canada released a revealing report last February. It found this: TFSAs have surpassed registered retirement savings plans (RRSPs) as the preferred way of putting money away for retirement. The study looked at working-age Canadians between 25 and 54 years of age.

### RRSPs down, TFSAs up

Here's what the study found:

- Between 2000 and 2013, the number of people putting money into a RRSP dropped from five million to 4.2 million.
- RRSP contributions dropped from \$30.6 billion to \$22.5 billion.
- The number of people contributing to TFSAs rose to three million in 2013 from two million in 2009 (TFSAs were introduced in 2009).
- TFSA contributions increased to \$15.9 billion from about \$9 billion over the same time span.
- People are using their TFSAs a lot more. In 2013, withdrawals increased to \$7.4 billion compared to \$1.3 billion in 2009.
- In 2013, Canadians withdrew 47 cents for every dollar they contributed to a TFSA.

### Using a TFSA

TFSAs aren't just for retirement savings. That's one of the things making them so popular. The possibilities are almost endless. You can use a TFSA for just about anything, such as:

- being a financial safety net in case of a job loss, a death or a divorce
- saving for a down payment on a home
- real estate investing
- financing a home renovation, or travel
- buying a new vehicle
- a university tuition fund to complement a registered education savings plan, and
- additional long-term savings to complement a RRSP or company pension plan

## Why TFSAs are so popular

Here are the other reasons why TFSAs are Canadians' favourite way of investing and saving today:

- you can use a TFSA for both your short- and long-term financial goals
- you're not taxed on your investment earnings, so the money in your TFSA continually grows tax-free
- there's no tax on withdrawals
- depending on what you've invested in, you can withdraw money from a TFSA any time
- there's no maximum age for contributing to a TFSA (with a RRSP, the cut-off is 71), and
- contributions aren't taxed because you're depositing after-tax income

## TFSA caveats

Here are a couple of things to remember about TFSAs, however:

- here's a maximum amount you can contribute annually (it's subject to change every year). For 2017, the ceiling is \$5,500.
- Contributions aren't tax-deductible

## Weigh the benefits, then decide

How much benefit do you get from having a TFSA? It depends on how you decide to use the money in both the short- and long-term. If your TFSA helps you accomplish many or all of your goals, then you've really benefited from it. If you don't use the money in your TFSA wisely, you're not benefiting as much as you could.

## The income factor

If you're thinking of using a TFSA for retirement savings, there's another important factor. Your income level. According to Statistics Canada, TFSAs are most popular with lower-income Canadians. These are some of the reasons why:

- being in a lower tax bracket
- the tax advantages of a RRSP are of no use to lower-income individuals
- they have less disposable income for savings, and
- TFSAs are tax free

The Statistics Canada study found this: If you're moving up in your career and your salary along with it, you'll probably choose a RRSP. The higher your income, the more likely you'll opt for a RRSP over a TFSA. That's because RRSPs have tax advantages TFSAs don't.

This is just a primer on TFSAs to help you build your financial savvy about them. Don't make a hasty decision about opening one. You should make sure it's the best option for you. Sit down with a professional financial advisor before you head to your financial institution. You can find an advisor in your region, at [ouradvisor.ca](http://ouradvisor.ca).