Comparing retirement savings options

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Retirement savings products

There are many options available that will help you save for retirement, such as:

- Registered Retirement Savings Plans (RRSPs (Registered Retirement Savings Plans))
- Tax-Free Savings Accounts (TFSAs (Tax-Free Savings Accounts))
- Registered Disability Savings Plans (RDSPs (Registered Disability Savings Plans))
- other personal savings and investment products, such as savings accounts and stocks or bonds

There are many things you should think about when picking one of these products to save for your retirement. Consider speaking with a financial representative, such as a professional financial advisor, to help you decide which one of these products will best meet your needs.

Registered Retirement Savings Plans (RRSPs (Registered Retirement Savings Plans))

A Registered Retirement Savings Plan (RRSP (Registered Retirement Savings Plan)) is a savings plan designed to help you save for retirement. RRSPs (Registered Retirement Savings Plans) help you grow your money while offering tax benefits. For example, you may get a deduction on your income tax return, depending on your income and how much you contribute to your RRSP. You also don't have to pay tax on the money you earn within your RRSP as long as the money stays in the plan.

You can claim a deduction on your income tax return for RRSP contributions up to your RRSP deduction limit. This is typically 18% of your earned income for the prior year (up to a maximum set by the Government of Canada).

Things to consider when opening an RRSP (Registered Retirement Savings Plan)

Here are some things you should consider when opening an RRSP:

- you must have a Social Insurance Number
- the amount that you contribute can be deducted from your income tax for the year as long as that amount is under your RRSP deduction limit
- you may have to pay a penalty tax if you contribute more than your RRSP deduction limit in a year and you also will not be able to deduct an over-contribution
- you don't pay tax on the money you earn within an RRSP until you take the money out
- an RRSP must be converted to a Registered Retirement Income Fund (RRIF (Registered Retirement Income Fund)) by the end of the calendar year you turn 71

Things to consider when taking money out of an RRSP (Registered Retirement Savings Plan)

Money you take from an RRSP (Registered Retirement Savings Plan) is generally considered income, meaning you may have to pay tax on it. Money you take from an RRSP (Registered Retirement Savings Plan) can also impact the amount you get from government pensions and benefits that are based on your income.

For example, if you make more than a certain amount of income in a year, you may have to pay a recovery tax on your Old Age Security (OAS (Old Age Security)) pension. This means that you will have less money from your OAS (Old Age Security) to spend.

If you are a Guaranteed Income Supplement (GIS (Guaranteed Income Supplement)) recipient and take too much money out of an RRSP, you may get less money from the GIS (Guaranteed Income Supplement) in the next year, or you may not get any money at all.

There are special programs that may let you use the money in an RRSP to help you pay for your or your spouse's post-secondary education or to buy a home. You may use this money without including it in your taxable income when you withdraw it, but you will have to pay the money back into your RRSP within a certain amount of time.

Learn more about the Lifelong Learning Plan program.

Learn more about the Home Buyers Plan program.

Tax-Free Savings Accounts (TFSAs (Tax-Free Savings Accounts))

A Tax-Free Savings Account (TFSA (Tax-Free Savings Account)) is a product that is often used to save for retirement. A TFSA (Tax-Free Savings Account) can hold a wide range of investment products, and your investments can grow tax-free. This means that you don't have to pay tax on income from investments held in your TFSA (Tax-Free Savings Account), including interest, capital gains or dividends. You also don't have to pay tax when you take money out of a TFSA.

The total amount that you can contribute to your TFSA in a year is called your TFSA contribution room.

Your contribution room is made up of:

- the annual TFSA dollar limit
- withdrawals made the previous year (except to correct over-contributions)
- unused contribution room from the previous year

You will have to pay a penalty if you contribute more than your TFSA contribution room amount in a year.

If you are at least 18 years old in the year and a Canadian resident, you accumulate TFSA contribution room, even if you don't contribute to a TFSA.

Here is a breakdown of the maximum yearly dollar limits:

Table 1: TFSA dollar limits by year

Years	TFSA dollar limit
2009 through 2012	$5,000
2013 and 2014	$5,500
2015	$10,000
2016 through 2018	$5,500

Things to consider when opening a TFSA (Tax-free Savings Account)

Here are some things you should consider when opening a TFSA (Tax-free Savings Account):

- you must have a Social Insurance Number
- the money you put in a TFSA comes from your after-tax income, meaning you can't deduct it from your taxable income

- you don't pay tax on the income or growth within a TFSA
- there is a maximum you can contribute to a TFSA each year without penalty

Things to consider when taking money out of a TFSA (Tax-free Savings Account)

You can withdraw the money from a TFSA at any time without having to pay tax on it. This can be helpful when you have to deal with an unexpected expense, such as a health problem or home repair. However, you may have to wait until the next year to put it back in.

For example, let's say you've already reached your TFSA contribution limit and take $5,000 out of your TFSA. If you put any more money in your TFSA before the next year, you will have to pay a penalty tax.

The money you take out of a TFSA is not considered income. This means that it will not impact the money you get from federal government benefits that are based on your income, such as the Old Age Security (OAS (Old Age Security)) and the Guaranteed Income Supplement (GIS (Guaranteed Income Supplement)).

Registered Disability Savings Plans (RDSPs (Registered Disability Savings Plans))

Registered Disability Savings Plans (RDSPs (Registered Disability Savings Plans)) are designed to help Canadians living with a disability save for the future and may be used for retirement savings.

To be eligible to receive money from an RDSP (Registered Disability Savings Plan), you must be:

- a Canadian resident with a Social Insurance Number
- eligible for the disability tax credit

Anybody can contribute to your RDSP (Registered Disability Savings Plan) as long as you give them written permission to do so. You can contribute as much as you want to an RDSP each year, up to a maximum of $200,000 in your lifetime. This $200,000 also includes contributions others make to your RDSP. RDSP contributions are not tax deductible. However, withdrawals from an RDSP are not considered income. This means they won't impact your income-based benefits, such as the Guaranteed Income Supplement (GIS (Guaranteed Income Supplement)).

If you have an RDSP, you may also be eligible for grants and bonds. This means that the government may add extra money to your RDSP, although this may depend on your other income, your age, or when you make contributions. This money does not count toward your $200,000 lifetime contribution limit.

If you become ineligible for the disability tax credit, you may have to close your RDSP and repay some or all of the money that was paid into it by the government within the last 10 years.

Learn more about Registered Disability Savings Plans.

Related links

- Retirement planning
- Savings and pension plans
- Sources of retirement income
- Turning your savings into retirement income

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