



Lakehead
UNIVERSITY

Faculty of
**Business
Administration**



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Understanding RRSPs and TFSAs

LUFA Retirement Ready at any Age

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Agenda and Overview

- Basics of RRSPs and TFSA
- Numerical Examples of RRSPs and TFSAs
- Marginal Tax Rate Considerations
- Spousal RRSP
- Open Forum

RRSP and TFSA

THE BASICS

Financial Advice or General Information?

- The purpose of this session is to increase the overall financial literacy of LUFA members with respect to RRSPs and TFSAs in order to aide in the retirement planning process.
- ✓ The Content is for informational purposes only, you should not construe any such information as legal, tax, investment, financial, or other advice.
- You are encouraged to use this information to complete appropriate due diligence based your unique situation, and seek professional advice, if need be.

The Basics: RRSP vs TFSA

RRSP

- RRSPs are personal retirement savings accounts facilitated by the Income Tax Act.
- Contributions to RRSPs are tax deferrable until withdrawal.
- They must be converted into Registered Retirement Income Funds (RRIFs) by age 71.
- RRIF holders must withdraw at least a mandated minimum annual amount from their account as taxable pension income.

TFSA

- TFSAs are also personal savings accounts, but rather than allow tax on contributions to be deferred until withdrawal, contributions and investment returns are permitted to accumulate tax-free.
- Both accounts have annual and lifetime contribution limits.

Both definitions from the National Institute on Ageing (NIA) released [Improving Canada's Retirement Income System: A Discussion Paper for Setting Priorities](#) by Keith Ambachtsheer and Michael Nicin.



The Basics: RRSPs



SUSIE SALARY

ANNUAL SALARY:	\$50,000
- RRSP CONTRIBUTION:	\$5,000
TAXABLE INCOME: \$45,000	
INCOME TAX PAID: \$10,195	
- INCOME TAX OWING:	\$8,445
TAX REFUND: \$1,750	

<https://www.youtube.com/watch?v=BmUcQyjrw8>

The Basics: RRSPs

- The total amount you can contribute to your RRSP each year is made up of your contribution limit for the current year plus any "carry-forward" contribution room from previous years.
- Your RRSP contribution limit for 2019 is **18% of earned income you reported on your tax return in the previous year, up to a maximum of \$26,500**. For 2018, the upper limit was \$26,230.
- If you have a company pension plan, your RRSP contribution limit is reduced.
- Check your Notice of Assessment.

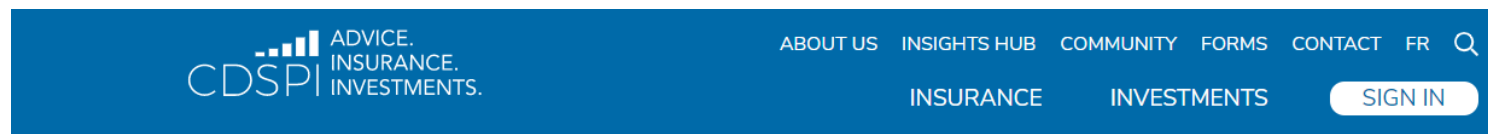
https://www.sunlifeglobalinvestments.com/Slgi/For+Investors/Investor+Learning/RRSP+limits?vgnLocale=en_CA

The Basics: TFSA's



<https://www.youtube.com/watch?v=W-haDlx5iU0>

The Basics: TFSAs



TFSA Contribution Limit for 2020 Announced



The Tax-Free Savings Account (TFSA) contribution limit for 2020 is \$6,000, remaining the same as 2019.

If you have never contributed to a TFSA and have been eligible since its introduction in 2009, your cumulative contribution room will be \$69,500 in 2020.

Withdrawals are tax-free and can be re-contributed a year later. If you make a withdrawal, your gains and losses will be factored into your contribution room.

<https://www.cdspi.com/the-tfsa-contribution-limit-for-2020-announced/>

RRSP and TFSA

NUMERICAL EXAMPLES

An Example: RRSP vs TFSA

Assumptions

- Assume you earn \$1,000 in gross income.
- Marginal tax rate is 35% at the time of contribution and withdrawal.
- Investment returns are 5% annually (compounded annually).

An Example: RRSP vs TFSA

Scenario 1 – Total amount assuming:

- i) You invest the net \$650 in a TFSA; OR
- ii) Invest the net \$650 in your RRSP, and spend the refund of \$228 that you will receive.

Horizon	TFSA	RRSP	Difference
5-years	\$830	\$539	\$290
10-years	\$1,059	\$688	\$371
15-years	\$1,351	\$878	\$473
20-years	\$1,725	\$1,121	\$604
25-years	\$2,201	\$1,431	\$770

An Example: RRSP vs TFSA

Scenario 2 – Total amount assuming:

- i) You invest the net \$650 in a TFSA; OR
- ii) Invest the net \$650 in your RRSP, and receive a refund of \$228 that is invested in a non-registered account.

Horizon	TFSA	RRSP	Non-Registered	Total	Difference
5-years	\$830	\$539	\$267	\$806	\$23
10-years	\$1,059	\$688	\$313	\$1,001	\$57
15-years	\$1,351	\$878	\$368	\$1,246	\$105
20-years	\$1,725	\$1,121	\$431	\$1,552	\$172
25-years	\$2,201	\$1,431	\$506	\$1,937	\$264

An Example: RRSP vs TFSA

Scenario 3 – Total amount assuming:

- i) You invest the net \$650 in a TFSA; OR
- ii) Invest the net amount of \$650 in the RRSP and the refund of \$228 in your TFSA.

	TFSA		RRSP	TFSA	Total		Difference
5-years	\$830		\$539	\$290	\$830		\$0
10-years	\$1,059		\$688	\$371	\$1,059		\$0
15-years	\$1,351		\$878	\$473	\$1,351		\$0
20-years	\$1,725		\$1,121	\$604	\$1,725		\$0
25-years	\$2,201		\$1,431	\$770	\$2,201		\$0

An Example: RRSP vs TFSA

Scenario 4 – Total amount assuming:

- i) You invest the net \$650 in a TFSA; OR
- ii) Invest the gross amount of \$1,000 in the RRSP (net \$650 in your pocket, plus the refund you will receive of \$350 -> $\$1,000 \times 35\%$).

Horizon	TFSA	RRSP	Difference
5-years	\$830	\$830	\$0
10-years	\$1,059	\$1,059	\$0
15-years	\$1,351	\$1,351	\$0
20-years	\$1,725	\$1,725	\$0
25-years	\$2,201	\$2,201	\$0

An Example: RRSP vs TFSA

Some concluding thoughts...

- RRSPs and TFSA are neutral when:
 - ✓ One invests the net amount into a TFSA OR the gross amount into their RRSP (Scenario 4).
 - ✓ Alternatively, the net amount into a TFSA and the net amount into their RRSP and the refund into their TFSA (Scenario 3)
 - ✓ Identical rates of return earned by the funds invested within the RRSP or the TFSA;
 - ✓ Identical marginal tax rate at the time of any contribution and withdrawal from the RRSP
- This relationship holds true after any investment time horizon (e.g., 10, 20, 25, 30, etc., years).

RRSP and TFSA

MARGINAL TAX RATE CONSIDERATIONS

RRSP vs TFSA

Some concluding thoughts...

- RRSPs and TFSA are neutral when:
 - ✓ One invests the net amount into a TFSA OR the gross amount into their RRSP (Scenario 4).
 - ✓ Alternatively, the net amount into a TFSA and the net amount into their RRSP and the refund into their TFSA (Scenario 3)
 - ✓ Identical marginal tax rate at the time of any contribution and withdrawal from the RRSP; and
 - ✓ Identical rates of return earned by the funds invested within the RRSP or the TFSA.
- This relationship holds true after any investment time horizon (e.g., 10, 20, 25, 30, etc., years).

RRSP vs TFSA

So, what happens the marginal tax rates differ???

- In general, the RRSP is superior (inferior) to the TFSA when the marginal tax rate at the time of contribution is less (greater) than at the time of withdrawal.

Recall our assumptions...

Assumptions

- Assume you earn \$1,000 in gross income.
- ~~Marginal tax rate is 35% at the time of contribution and withdrawal.~~
- Investment returns are 5% annually (compounded annually).
- What if the marginal tax rate at the time of withdrawal is greater or less than 35%???

Revise our assumptions...

**Marginal Tax Rate of 30% at
Withdrawal....**

**Marginal Tax Rate of 40% at
Withdrawal....**

	TFSA	RRSP Account (30% Rate at Withdrawal)	Difference	RRSP Account (40% Tax Rate at Withdrawal)	Difference
5-years	\$830	\$893	(\$64)	\$766	\$64
10-years	\$1,059	\$1,140	(\$81)	\$977	\$81
15-years	\$1,351	\$1,455	(\$104)	\$1,247	\$104
20-years	\$1,725	\$1,857	(\$133)	\$1,592	\$133
25-years	\$2,201	\$2,370	(\$169)	\$2,032	\$169

Conventional Wisdom

Marginal tax rates are always lower in retirement than when I am working... while working, I'm making the big bucks!!!

Key Consideration...

Money withdrawn from an RRSP is considered to be taxable income during retirement...

So? What does that mean?

Key Consideration...

Marginal tax rates (2009) of an individual in retirement...

TABLE 3 - MARGINAL TAX RATES CONSIDERATIONS AT RETIREMENT (AGE 65+)

Marginal tax rate		Pension/ Interest	Senior Clawbacks			Tax rate with clawback	
Income Brackets			GIS	Age	OAS	Pension/ Interest	Capital Gains
–	8,881	0%	50%			50%	25%
8,882	10,100	15%	50%			65%	33%
10,101	15,600	21%	50%			71%	36%
15,601	32,000	21%				21%	11%
32,001	40,000	21%		2.25%		23.25%	12%
40,001	66,000	31%		2.25%		33.25%	16%
66,001	74,000	33%		2.25%	15%	50.25%	25%
74,001	81,000	35%			15%	50%	25%
81,001	107,700	43%			15%	58%	29%
107,701	126,000	43%				43%	22%
126,001		46%				46%	23%
Average tax rate		28%				46%	23%

Caution these are 2009 Tax Rates – I did not have time to update – however, the conclusion is the same.

SOURCE: Lento, C., 2009. *TFSA vs. RRSP? Consider your Tax Rate. Canadian MoneySaver*, June 2009, pp. 21-23.

Key Consideration...

Marginal tax rates (2016) of a couple in retirement....

Net Income (Rounded to nearest \$10)	Income Tax Rate	Government Benefit Claw Back Rates						METR
		Old Age Security (OAS)	Guaranteed Income Supplement (GIS)*	Ontario Senior Prop Tax Grant	GST/HST Tax Credit	Ontario Energy and Property Tax Credit	Ontario Sales Tax Credit	
\$0 to \$4,080	20.05%	0.00%	49.42%	0.00%	0.00%	0.00%	0.00%	69.47%
\$4,080 to \$7,780	20.05%	0.00%	74.95%	0.00%	0.00%	0.00%	0.00%	95.00%
\$7,780 to \$23,480	20.05%	0.00%	50.01%	0.00%	0.00%	0.00%	0.00%	70.06%
\$23,480 to \$28,440	20.05%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	20.05%
\$28,440 to \$34,120	20.05%	0.00%	0.00%	0.00%	0.00%	0.00%	4.00%	24.05%
\$34,120 to \$36,430	20.05%	0.00%	0.00%	0.00%	0.00%	2.00%	4.00%	26.05%
\$36,430 to \$43,240	20.05%	0.00%	0.00%	0.00%	5.00%	2.00%	4.00%	31.05%
\$43,240 to \$45,000	20.05%	0.00%	0.00%	0.00%	5.00%	2.00%	0.00%	27.05%
\$45,000 to \$47,630	20.05%	0.00%	0.00%	3.33%	5.00%	2.00%	0.00%	30.38%
\$47,630 to \$60,000	20.05%	0.00%	0.00%	3.33%	0.00%	2.00%	0.00%	25.38%
\$60,000 to \$84,420	20.05%	0.00%	0.00%	0.00%	0.00%	2.00%	0.00%	22.05%
\$84,420 to \$87,120	24.15%	0.00%	0.00%	0.00%	0.00%	2.00%	0.00%	26.15%
\$87,120 to \$91,840	24.15%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	24.15%
\$91,840 to \$148,640	29.65%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	29.65%
\$148,640 to \$149,580	31.48%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	31.48%
\$149,580 to \$168,820	31.48%	15.00%	0.00%	0.00%	0.00%	0.00%	0.00%	46.48%
\$168,820 to \$175,120	33.89%	15.00%	0.00%	0.00%	0.00%	0.00%	0.00%	48.89%
\$175,120 to \$183,680	37.91%	15.00%	0.00%	0.00%	0.00%	0.00%	0.00%	52.91%
\$183,680 to \$242,980	43.41%	15.00%	0.00%	0.00%	0.00%	0.00%	0.00%	58.41%
\$242,980 to \$284,720	43.41%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	43.41%
\$284,720 to \$300,000	46.41%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	46.41%
\$300,000 +	47.97%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	47.97%

* Average Claw Back Rate

Source:
<https://www.planetcalc.com/easy.ca/your-marginal-effective-tax-rate/>

RRSP and TFSA

SPOUSAL RRSP

What is a Spousal RRSP?

You contribute to a spousal RRSP and:

- 1) You get the tax deduction on the year of contribution at your marginal tax rate; and**
- 2) Your spouse withdraws the money and pays tax at their marginal tax rate.**

Can you use Spousal RRSP to reduce tax rates in retirement?

Spousal RRSP allows for income balancing if spouses make significantly different amounts of income.

However, don't just consider current tax rates but also future tax rates.

Beware of attribution...

- ✓ **If your spouse withdraws funds within 3 calendar years of your contribution, that amount will be added to your taxable income in the year of the withdrawal.**

A short video...

<https://www.youtube.com/watch?v=bduxORHeLKU>

2019 RRSP Contribution Deadline

March 2

March 2, 2020 is the **deadline** for contributing to an **RRSP** for the **2019** tax year. December 31 of the year you turn 71 years of age is the last day you can contribute to your own **RRSP**. For more information, see **RRSP** options when you turn 71.

www.canada.ca › services › tax › individuals › topics › rrsp-related-plans

[Important dates for RRSP, RDSP, HBP and LLP - Canada.ca](https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/rrsp-related-plans/important-dates-for-rrsp-rdsp-hbp-and-llp.html)

Open Forum

Thank You

Good luck and take care