retirement REVIEW NEWSLETTER
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TFSA vs. RRSP: A taxing discussion

There are certain topics which are best left alone at a Canadian dinner table: religion, politics, taxes. The past six years of debate over the best way to beat the tax-man while saving for retirement has largely revolved around the Tax Free Savings Account (TFSA) and the Registered Retirement Savings Plan (RRSP). It seems no one can offer a definitive answer on which is the best savings strategy and it's likely that no one will. But a proper understanding of these two options can help in figuring out which strategy fits best with your own personal needs.

First, it's important to remember that a TFSA or a RRSP by themselves are registration types – not actual investments. You can't "buy an RRSP" but you might buy a GIC or a mutual fund (investment) for example, within a RRSP (registration). Secondly, both options are structured differently in how they protect you from taxes.

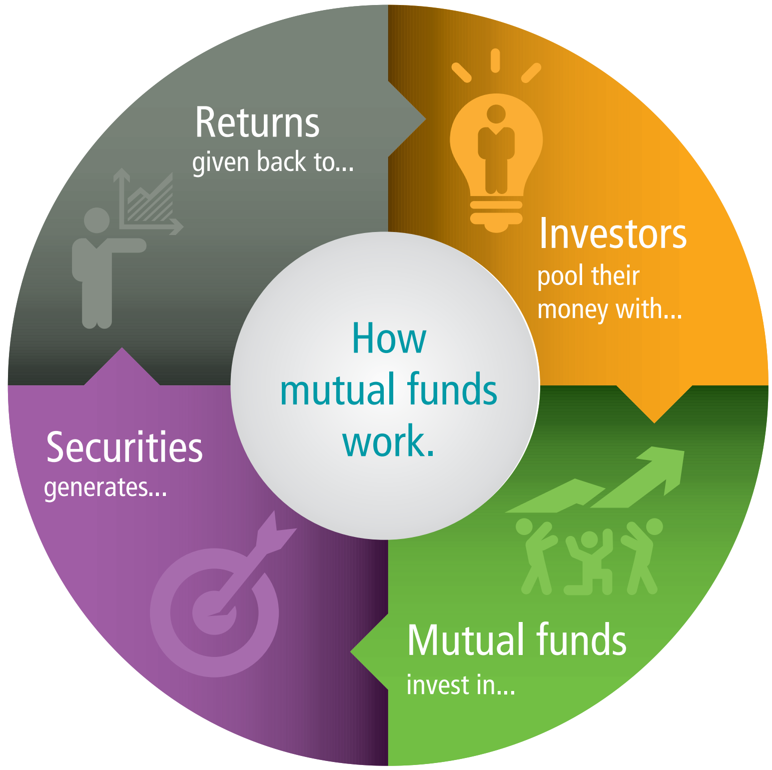
Think of a TFSA as a parking garage that shelters vehicles (investments) from the rain (tax). If you park a vehicle outside of the garage, it's going to get caught in the rain. Once you park your vehicle inside the garage, it is sheltered. You can fit any type or number of vehicles inside the garage; from savings accounts to mutual funds regardless of their value, as long as the amount you paid for them doesn't exceed the total contribution limit (which is $36,500 as of 2015). As long as you sell your vehicle while it's in the garage, you will not get wet. When you walk out of the garage with the proceeds in your pocket you will not be taxed.

From a tax-sheltering perspective, an RRSP can also be thought of as a parking garage. That is of course, in some universe where the parking attendant is so happy to welcome you to the garage he actually gives you money at the booth (aka your tax-return: the value of the dollars you're putting into the RRSP multiplied by your current tax rate.) So unlike a TFSA, it pays you to park in the garage but charges you when you leave. While you're parked in the garage, your vehicle stays dry and sees no taxes. When you sell your vehicle inside of the garage you also see no taxes. When you walk out of the garage with the proceeds in your pocket, you will have to pay the attendant back (tax = amount taken out of the RRSP multiplied by your current tax rate. This money is viewed as regular income). Also, because the money is now un-registered, any future growth will be taxed.

	TFSA	RRSP
Need earned income to contribute		●
Maximum age to contribute		●
Over-contribution penalty of 1% per month	●	●
Tax-free withdrawals	●	
Tax-deductible contributions		●
Contribution room carried forward	●	●
Withdrawals affect contribution room	●	
Withdrawals could affect income-tested government benefits		●

So when does it make sense to choose one over the other? Or should you be using both? The answer is it depends. Each situation is unique and there are multiple factors to consider. For example what tax bracket you fell in when you put investments into your RRSP vs. your anticipated income when you take it out. What are the chances you will need to use that money prior to retirement?

If you spend more time planning your next vacation than you do planning an investment strategy that leverages each of these tools to their maximum advantage, it's time to talk to a professional. A CWB Retail Account Manager will get to know your short and long term plans and work with you to find the right combination of investments. With a full range of registered accounts, GICs and mutual funds*, we can help get you on the right path to retirement.•



RRSP contribution deadline for the 2014 tax year is March 2, 2015.

40% of Canadians don't know how much they need to save for retirement[1]

How much could you have after 10 years of monthly investments?

Interest	$200/mo	$300/mo	$400/mo	$500/mo	$600/mo	$700/mo
2%	$26,563	$39,845	$53,126	$66,408	$79,689	$92,971
3%	$27,958	$41,938	$55,917	$69,896	$83,875	$97,854
4%	$29,435	$44,153	$58,870	$73,588	$88,306	$103,023
5%	$30,998	$46,498	$61,997	$77,496	$92,995	$108,494
6%	$32,653	$48,979	$65,306	$81,632	$97,959	$114,285
7%	$34,404	$51,606	$68,808	$86,009	$103,211	$120,413

For illustrative purposes only, represents monthly contributions invested on the first of the month, with rates per annum, compounded annually over 10 years.

[TAX BRACKETS]

Knowing your personal tax bracket is key in efficient financial planning. Your *marginal rate* is the percentage of tax you will pay on specific portions of your income. Paying attention to this can help determine whether contributing to your RRSP makes sense or not, how much to contribute and how much tax to expect on a registered withdrawal. Visit a branch to get a chart showing the federal & provincial tax brackets that affect you.

Stop by a branch today and talk to an account manager about your retirement plans today.

cwbank.com/branches

CANADIAN WESTERN BANK

* Mutual funds are offered in-branch through Canadian Western Financial, a CWB Group Company.
**Information pulled from cra-arc.gc.ca as of November 3, 2014

[1] A Survey of Non-retirees and Retirees in Canada: Retirement Perspectives and Plans, Conference Board of Canada