Save Smarter: TFSA or RRSP?

So you want to save for retirement. Or a home. Or a rainy day. There are many ways you can save money, and in a sock under the bed probably isn't the best nor most secure. A tax-free savings account (TFSA) or registered retirement savings plan (RRSP) are decidedly better options. But contributing to one, or both, does not automatically equal a retirement plan. You need to know how much income you will need for the kind of retirement you want, and you need to understand the tax implications of each.

But between the two, what's the better option for you? Which do you go with and what are the big differences?

Let's Talk Tax: The low-down on taxes and savings.

- For a TFSA: You cannot claim money you contribute to a TFSA on your income tax, so putting money into a TFSA won't affect your claim.
- For an RRSP: You can claim contributions on your tax return, which will lower your taxes in the year that you make the deposit—but you pay taxes when you withdraw, based on your tax bracket at that time.

How much do you pay in taxes when you withdraw?

- From a TFSA: Nothing. Because you pay taxes on the money up front, you can save for years. You won't pay tax when you withdraw it, and better still, you won't pay tax on any interest it's earned.
- From an RRSP: Once you withdraw from your RRSP, you will pay taxes on the savings based on your tax bracket at the time of withdrawal.

To make the most of your savings, you need to think about whether your tax bracket upon withdrawal will be higher or lower than it is when you deposit. If it's higher than when you contributed to your RRSP, then you may want to choose a TFSA. If you anticipate it will be lower, or if it's important to you to try and reduce your income tax every year by making regular contributions, an RRSP may be the better option for you.

A few more similarities and differences

Contribution limits: Both TFSAs and RRSPs have limits on the amount you can contribute annually, and for both it accumulates. That means if you don't contribute the maximum each year, you can out your un-used contribution room to use in following years.

- This year's RRSP limit: http://www.cra-arc.gc.ca/tx/ndvdls/tpcs/rrsp-reer/dts-eng.html
- This year's TFSA limit: http://www.cra-arc.gc.ca/tx/ndvdls/tpcs/tfsa-celi/cntrbtn-eng.html

Withdrawals: Depending on your account and how you've arranged your investments, you can potentially withdraw from your TFSA or RRSP at any time or you may have to wait until they mature. It is important to understand the pros and cons before making any withdrawals.

A credit union professional can help you with withdrawals, investments, and anything else—so bring in any piggy banks or socks you have filled and let's see how we can help you save smarter.

- If you do not have earned income, you are not eligible to contribute to an RRSP. A TFSA may be a great savings alternative in this case.
- If your company pension maximizes your annual contribution, you are not eligible to contribute to an RRSP. Over contributions are taxed annually so are not recommended. Non-registered investments should be considered in this case.
- If your tax income bracket will be the same or higher during retirement, an RRSP may not be the best approach to saving. Non-registered investments should be considered in this case.