

Investing 101: Part 6 - Safer Strategies: Will Your TFSA Help You Retire?



Investing: [verb] confusing process involving magic and midwifery, in which your money is swept away today with the hopes of producing more money in the future. See related terms: dreams, confusion, fees, retirement, and future.

What you'll learn today:

- TFSA contract basics
- how TFSAs are different
- why you should care about TFSAs

Are you over the age of 65? Then you have likely contributed to a TFSA. Are you under or over the age of 65? Then you could likely benefit from contributing to a TFSA.

According to the CRA, [25% of tax-free savings account holders](#) were over the age of 65 in 2013. Why? Because TFSA contracts offer tax advantages. They can also be a good investment strategy. Let's discuss why, shall we?

You Can Play It Safe

For many people, conservative investment strategies make sense. TFSAs can fall in this category of safer investments. When you open a TFSA contract, you can allocate your funds to savings accounts, GICs or term deposits, or other higher risk investments. If you stick with the first two options, you'll be following a safer investment strategy. Savings accounts and term deposits involve minimal risk and each year you earn interest that increases your savings.

You Can Enjoy Flexibility

TFSAs are also flexible. You can craft a TFSA contract that suits your needs – using a laddered GIC strategy for money that you may not need for a year, and keeping the rest in a savings account in case you need a rainy day fund at the ready. You never know when car repairs will creep up or other big expenses will arise! If you need your savings, you can withdraw it without penalties.

What else do you need to know?

- Contribution room is set by federal tax law (2016's annual contribution limit is \$5500*)
- Carry over unused TFSA contribution room to future years
- Earn tax-free interest to grow your savings
- Enjoy tax-free withdrawals at any time (and you can wait until the following year to add back the money you took out to ensure you maximize your savings!)
- Choose a combination of savings & investments that work for your goals
- Enjoy the benefits of an individual TFSA (there are no joint TFSAs)

TFSA TIMELINE

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If you set up a NEW TFSA contract today (and were eligible to contribute from 2009) you could contribute** \$46,500 this year.

What if?



Annual contribution limit goes up to \$10,000*.

2015



Annual contribution limit is \$5000*.

2009 - 2012



Annual contribution limit drops back to \$5500*.

2016



Annual contribution cap increased to \$5500*.

2013 - 2014



Federal government introduces TFSA contracts. Think of them like investment containers -- they can hold tax-sheltered savings accounts, GICs/term deposits, or mutual funds.

2009

*Annual contribution limit is for existing TFSA contracts. New contracts may contribute more.
**Contribution room is defined by tax law.

>>*This amount does not take into account a few factors. Reach out to your financial advisor to learn more about the TFSA rules as they apply to you!

How is a TFSA Different?

[TFSA's aren't just any savings accounts](#). They let you earn interest without paying tax on that investment income. This tax shelter helps you grow your savings faster. Check out this [TFSA calculator](#) to see how much you could save.

TFSA's aren't just any investment strategy either. In many ways they are [different from RRSP's](#):

- An RRSP provides a tax shelter... a TFSA provides a tax shelter
- An RRSP allows for carry forward of unused portions... so does a TFSA
- An RRSP provides a tax deduction at contribution time... a TFSA does NOT provide a tax deduction for contributions
- An RRSP has a contribution limit based on a person's income taxes... a TFSA has a general contribution limit for all

For those of you older than 65, its important to note that you can contribute to TFSA's after the age of 71. For those of you at any age, note that the monies are not taxed when they are withdrawn. That means more savings for you.

Ultimately, every person is different and a financial advisor can help you understand which investment strategy works best for you at this point in your life.

Will it Help Me Retire?

This is the big question: Will a TFSA help me retire? It can. The investments within TFSA contracts earn interest that increase your savings.

TFSA's can do much more than just help you retire. Remember, TFSA's are flexible. The money in your TFSA can be withdrawn at any time. If you need it to pay for a new roof or fly your family from Florida for a visit, it is there for you. The money is yours and you can take it out without penalty.

I've had many members tell me that they are less likely to use their savings when they are in a registered product like the TFSA, though. They have peace of mind knowing that they can use the money in an emergency, but they can also watch it grow tax-free investment earnings. Many members also choose to use a [laddering strategy](#) with their TFSA's. They put their extra cash in TFSA GICs and watch it accumulate earnings with higher interest. That means more money is ready when they retire or when they need it. As a bonus, they don't have to pay taxes when they

do need the money in retirement.

TFSA's are a great addition to most investment portfolios. They help you safely save for retirement and then live comfortably when you get there. That makes sense for Canadians at any age!

[Contact your financial advisor](#) today to [review your financial goals and your investment strategy](#). If you are over 18, your advisor may guide you to open a [TFSA contract](#). You may even set up a [PAC](#) to contribute regularly to your TFSA. Within this contract, you can allocate your funds to savings accounts, GICs or term deposits, or mutual funds. Each year you earn interest that increases your savings.

Invest with confidence and find a strategy that gives you peace of mind and financial freedom.

[Investing 101](#) is a six-part series on investing run by PenFinancial Credit Union. This series is aimed at empowering PenFinancial members with the knowledge and confidence they need to invest in their future.