The New TFSA: Meet the Retirement Savings Account with Flex Appeal

It's never too early to start saving for retirement. The Tax-Free Savings Account (TFSA) gives Canadians age 18 and older the opportunity to boost their savings with a flexible, tax-free account. Introduced by the Canadian government in 2008, the TFSA is an ideal way to save for retirement, college or your first home. The TFSA not only gives Canadians an incentive to save, it also helps support the economic growth of Canada over the long term.

87 per cent of Canadians who have opened a TFSA since 2008 have used the money for an emergency fund or for short-term investments.

Source: Financial Post, January 7, 2011

The Benefits of a TFSA

Flexibility is the biggest advantage of the TFSA. It's designed to encourage those with lower incomes to set aside money for retirement and major purchases. However, the TFSA benefits people of all ages and incomes.

Other Perks:

- **It's tax free.** Earnings in the account grow tax free and can be withdrawn tax free as well.
- **It benefits those in lower tax brackets.** Although the TFSA benefits all Canadians, young people, seniors and those with lower incomes seem to reap the most benefit from the account.
- **You are free to withdraw money at any time for any reason.** Unlike a Registered Retirement Savings Plan (RRSP) or a Registered Education Savings Plan (RESP), there are no penalties for withdrawing money before a certain age.
- **All TFSAs are individual.** You and your spouse or common-law partner can have your own accounts. Additionally, you can give them money to invest in their TFSA.

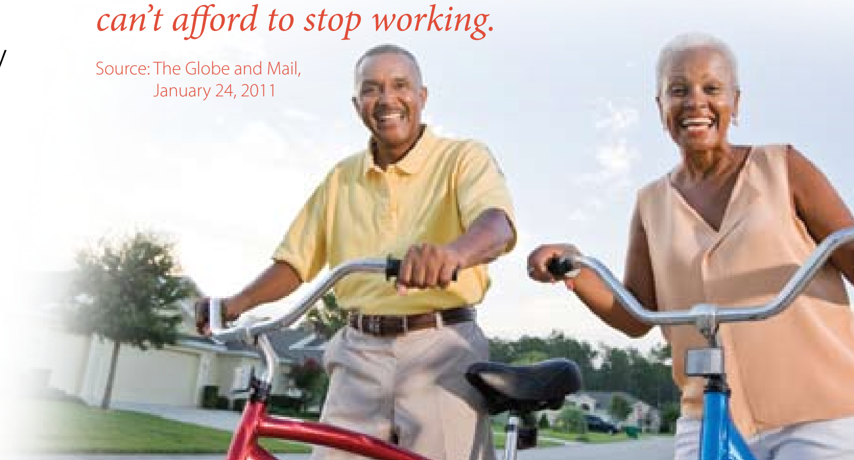
What are the Rules of the TFSA?

The TFSA complements existing RRSP or RESP accounts as a way to save for retirement. The difference between these savings options and the TFSA is when taxes are assessed. Since contributions are subject to tax, withdrawals and earnings are tax free.

Eligible Canadians can contribute up to $5,000 in after-tax funds into the TFSA each year, regardless of their income. Any unused contribution allowance will carry over to subsequent years, where it gradually accumulates. Additionally, withdrawals can be replaced the following year. Any income earned or withdrawn from the TFSA does not affect your eligibility for federal benefits.

38 per cent of Canadians will continue to labour through retirement because they can't afford to stop working.

Source: The Globe and Mail, January 24, 2011



Save for Major Purchases with a TFSA

Unlike other retirement savings options, you can withdraw contributions and interest from your TFSA to pay for expenses associated with education or to buy a first home or cottage without paying a penalty or additional tax.

Saving for University

The average undergraduate paid $5,138 in tuition fees in the 2010/2011 school year.* Many Canadian parents will withdraw money from an RRSP or RESP to help their children continue their education; however, a TFSA allows parents to withdraw money without penalties. In fact, parents can invest money in a TFSA for their children and neither will be taxed on the investment return. Additionally, unlike retirement accounts, TFSAs don't have to be repaid.

Full-time Canadian undergraduate students paid 4 per cent more in tuition fees during the 2010/2011 school year than in the year prior.

*Source: Statistics Canada

Saving for Your First Home

If you're like many people, you'll probably raid your retirement savings accounts for a down payment on your first home, forcing you to pay taxes and penalties for withdrawing the funds before you reach 59½. Although the Home Buyers' Plan (HBP) allows first-time buyers to take up to $25,000 out of an RRSP for a down payment to buy or build a home, there are certain criteria that have to be met before the money can be withdrawn, and it has to be repaid within a certain period of time.

With a TFSA, there are no first-time homebuyer restrictions. You can save for a down payment and withdraw the money tax free without having to repay the funds or incur penalties. Should you choose to replenish the money in the TFSA, you can do so the following year; the amount you withdrew will be added to the amount you can contribute.

Be sure to speak with your financial advisor about all of your savings and retirement options.

If you over-contribute money in a given year, you'll be taxed at a rate equal to 1 per cent of the highest excess amount for each month you are over the limit.

Source: Canada Revenue Agency

The TFSA is ideal for:

- Saving money for large purchases or retirement
- Protecting investment income
- Splitting retirement income
- A savings option complementary to a pension or RRSP