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Know your plan types

There are two broad categories of plan types in Canada: registered (that is, tax-advantaged) and non-registered. Within these groups are a number of important accounts that can help you achieve your financial goals.

Registered plans

Registered Retirement Savings Plan (“RRSP”)

The RRSP is the core retirement savings account. As of 2017, you can contribute 18% of your previous year’s income, up to a maximum of $26,010. RRSP contributions reduce your current year’s taxable income (helping you pay less tax). Also, you are not taxed on your investment growth until you withdraw, which will likely be at a lower tax bracket when you are in retirement.

Group Retirement Savings Plan (“GRSP”)

GRSPs are typically offered through your employer. While there are important differences and similarities between RRSPs and GRSPs, the big benefit of a GRSP is that your employer can also make contributions and may match a portion of your own contributions, helping you build your retirement savings quicker.

Tax-Free Savings Accounts (“TFSA”)

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When the TFSA was launched in 2009, experts thought the account was best used for large short- to- mid-term purchases. Over time, however, investors have come to realize that TFSAs are excellent for long-term investing. While your TFSA contributions are made with after-tax money, all growth in the account is tax-free upon withdrawal. As of 2017, the maximum yearly contribution is $5,500, while the cumulative limit is $52,000.

Registered Education Savings Plan ("RESP")

If you are saving for post-secondary education, you will want to use an RESP. One of the most important benefits of an RESP is the government grant, which adds up to a maximum of $7,200 (depending on how much you contribute). Growth in the plan is tax-deferred until withdrawal. Another key benefit is that redemptions are taxed in the hands of the child attending school, as they will likely have a lower marginal tax rate.

Non-registered plans

Cash Account (for investments)

The most important non-registered account type to know about is the cash account. Unlike registered plans, a cash account does not have tax advantages, but there are also fewer restrictions. The big benefit to cash accounts is that you can use margin (leverage) to increase your exposure to markets and potentially increase your returns. This is a sophisticated strategy that can also lead to outsized losses as well, so it's not for everyone.

A general rule of thumb is to maximize, if appropriate to your situation, your registered plans in order to take advantage of the tax benefits, before making significant investments into a cash account.

Do you think you can benefit from one of these account types? Contact me for a consultation!

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