RRSP or TFSA?

Insurance & Investments
Simple. Fast. Easy.®

Empire Life®

RRSP or TFSA?

Scenario 1: Tax rate when redeeming is the same as when contributing

40% tax rate when contributing	
TFSA $3,000	RRSP $5,000 (or $3,000 net of taxes)
grows to	grows to
$11,609	$19,348
40% tax rate when redeeming	
after tax	after tax
$11,609	$11,609

Recommendation: equal benefit, consider other factors

Scenario 2: Tax rate when redeeming is lower than when contributing

40% tax rate when contributing	
TFSA $3,000	RRSP $5,000 (or $3,000 net of taxes)
grows to	grows to
$11,609	$19,348
30% tax rate when redeeming	
after tax	after tax
$11,609	$13,544

Recommendation: RRSP first, then TFSA

Scenario 3: Tax rate when redeeming is higher than when contributing

30% tax rate when contributing	
TFSA $3,500	RRSP $5,000 (or $3,500 net of taxes)
grows to	grows to
$13,544	$19,348
40% tax rate when redeeming	
after tax	after tax
$13,544	$11,609

Recommendation: TFSA first, then RRSP

Assumptions: $5,000 pre-tax income in a RRSP, an equivalent after-tax amount contributed to TFSA based on 30 and 40 per cent marginal tax rates. Growth assumes a seven per cent annual rate of return for 20 years.

Scenario Explanation

It's important for clients to understand that RRSPs are not the only way to save for retirement in a tax-efficient way. They may ask about TFSAs, but may not understand how a TFSA can fit into a retirement planning strategy in conjunction with RRSPs. The one that might be right for clients could depend on their current tax rate. Let's look at three scenarios to determine from a tax perspective, which may be right for the client.

- In **scenario 1**, we see that from a tax perspective, when the client's tax rate is the same when they contribute as it is when they redeem, then a TFSA and RRSP have an equal benefit. In this case, other factors should be considered such as, need for current tax refunds, contribution amount etc. in order to make a decision.

- However, if the client's tax rate when they redeem is expected to be lower than when they contribute like in **scenario 2**, then they should consider investing in an RRSP first and then a TFSA.

- Finally, if the client's tax rate when they redeem is expected to be higher than when they contribute like in **scenario 3**, then they should consider investing in a TFSA first and then an RRSP.

Assumptions: $5,000 pre-tax income in a RRSP, an equivalent after-tax amount contributed to TFSA based on 30 and 40 per cent marginal tax rates. Growth assumes a seven per cent annual rate of return for 20 years.

Disclaimer

This document reflects the views of The Empire Life Insurance Company as of the date published. Empire Life Investments Inc. is the Portfolio Manager of the Empire Life segregated funds and is a wholly owned subsidiary of The Empire Life Insurance Company. This document includes forward-looking information that is based on the opinions and views of The Empire Life Insurance Company as of the date stated and is subject to change without notice. Information obtained from and based on third party sources are believed to be reliable, but accuracy cannot be guaranteed. The information in this document is for general information purposes only and is not to be construed as providing legal, tax, financial or professional advice. The Empire Life Insurance Company and its affiliates assume no responsibility for any reliance on or misuse or omissions of the information contained in this document. Please seek professional advice before making any decisions.

Segregated Fund contracts are issued by The Empire Life Insurance Company ("Empire Life"). A description of the key features of the individual variable insurance contract is contained in the Information Folder for the product being considered. **Any amount that is allocated to a segregated fund is invested at the risk of the contract owner and may increase or decrease in value**. Past performance is no guarantee of future performance.

January 2024

FOR ADVISOR USE ONLY.

The Empire Life Insurance Company

259 King Street East, Kingston, ON K7L 3A8 • 1 877 548-1881 • info@empire.ca • empire.ca