

Today's Objectives

- To discuss types of individual savings plans
- To discuss features of **Tax-Free Savings Accounts (TFSA's)**
- To discuss features of **Registered Retirement Savings Plans (RRSP's)**

Module 2 – Old Age

→ Individual Savings Plans (Ch 14 of *Morneau Shepell Handbook*)

Recall:

- The (*traditional*) **Three Pillars of Old Age Financial Security** (aka the three-legged stool)



Pillar I – Government Plans

Pillar II – Group or Employer (E'er) Plans

Pillar III – Individual Savings Plans

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→ Individual Savings Plans (Ch 14 of *Morneau Shepell Handbook*)

- An individual can save for retirement in one of two main ways:

- 1. Non-registered savings plans (NRSP's)**
- 2. Registered retirement savings plans (RRSP's)**

1. Non-Registered Savings Plans (NRSP's)

- Includes **all money saved outside of a RRSP or pension plan**
- **A key characteristic is that money invested comes from your after-tax income and thus this savings is not taxable when turned into retirement income** (Note: would still pay taxes on interest income, gains/losses unless money is invested in a TFSA, see below)
- An option for this type that is increasing in popularity is the Tax-Free Savings Account (TFSA) introduced in 2009
 - Note: A TFSA is a government sponsored program

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→ Individual Savings Plans (Ch 14 of *Morneau Shepell Handbook*)

1. Non-Registered Savings Plans (NRSP's)

TFSA features and Highlights

- Introduced in 2009, they are a “tax assisted savings vehicle”
- TFSA contributions are **not tax deductible**, however **there is no taxes on interest earned or Gains/losses incurred on investments inside a TFSA**
- TFSAs are not designed ‘specifically’ to provide for retirement income but can be and this is becoming increasingly popular
- **Anyone 18+ can make contributions to a TFSA**
 - Note: There is **no upper age limit** on TFSA contributions
- TFSA withdrawals in year x can be replaced in year $(x+1)$ or later
- TFSA withdrawals made are not included as income for federal government means tested benefits

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1. Non-Registered Savings Plans (NRSP's)

TFSA features and Highlights

- TFSA contribution limits are indexed (started at \$5,000 in 2009) and the current (2020) annual limit is \$6,000
 - Note: 2015 limit was increased to \$10,000, but newly elected government reduced it to \$5,500 in 2016 to 2018
 - 2020 cumulative contribution limit is \$69,500 (if eligible since 2009)

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2. Registered Retirement Savings Plans (RRSP's)

- Legislation creating RRSP's has been in place for some time
 - Enacted in 1957 (government sponsored initiative)
- **RRSP's were designed to encourage individuals to save for their retirement on a tax-sheltered basis**
- RRSPs are particularly important for:
 - Self-employed people who do not participate in an employer pension plan, AND
 - The $\approx 70\%$ of the working population (private industry) who do not participate in an employer provided pension plan

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2. Registered Retirement Savings Plans (RRSP's)

Characteristics of RRSP's

- **RRSP contributions are tax deductible**
- The interest income inside an RRSP is not taxable, but **contributions, interest income and capital gains are taxable when withdrawn from RRSP** (i.e., tax is deferred until withdrawal)
- RRSP's can be set up through most financial institutions
- There is a wide range of investment choices (or financial products) that can be used for RRSP investments
- Contributions can be made as late as end of year one turns age 71
- RRSP's can be used to purchase a life annuity, a RRIF, or a fixed term annuity (more on this later)
- Registered Pension Plan (RPP) commuted values can be transferred into an RRSP (may be 'locked in' → restrictions)

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2. Registered Retirement Savings Plans (RRSP's)

TFSA's vs. RRSP's



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2. Registered Retirement Savings Plans (RRSP's)

RRSP Eligibility

- To be eligible to contribute to an RRSP in a given year you must have earned income from employment from the previous year OR have some contribution room carried over from previous years
- You can deposit money into an RRSP for:
 - yourself
 - your spouse or common-law partner (income-splitting in retirement for tax planning purposes)

Annual Contribution Limit?

- Prescribed by Income Tax Act (ITA)
- Starting point - maximum contribution that can be made (formula)?

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2. Registered Retirement Savings Plans (RRSP's)

Annual Contribution Limit

- Starting point: lesser of {18% of earned income (from previous yr), maximum contribution for that year}

Notes:

1. If you are a member of an employer pension plan, this limit will be reduced by a “pension adjustment (PA)”, to take into account that you (and/or your e'er) have made tax-deductible contributions into a pension plan
2. Some individuals make their maximum contributions each and every year, but if you don't contribute the maximum amount to your RRSP in a given year, unused portion can be carried forward and used in a future year

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2. Registered Retirement Savings Plans (RRSP's)

Annual Contribution Limit

- Complete annual contribution limit formula is actually net sum of 4 components: **A + B + C - D** (often only 1st two components apply) where:

A = unused contribution room from the previous year (carry-forward)

B = [lesser of 18% earned income, max for that year] less PA for preceeding yr where PA = pension adjustment (included on T4 slip)

Note: both earned income and PA are based on previous year

C = Pension adjustment reversal (PAR) for the year

D = Net Past Service Pension Adjustment (PSPA) for the year

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2. Registered Retirement Savings Plans (RRSP's)

Annual Contribution Limit

- What is considered 'earned income'?

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2. Registered Retirement Savings Plans (RRSP's)

Annual Contribution Limit

- Maximum (or “RRSP \$ limit”) is indexed to average industrial wage (AIW)

	TFSA Annual Contribution	TFSA Cumulative Contribution	RRSP Annual Contribution
Year	Limit	Limit	Limit
2020	\$6,000	\$69,500	\$27,230
2019	\$6,000	\$63,500	\$26,500
2018	\$5,500	\$57,500	\$26,230
2017	\$5,500	\$52,000	\$26,010
2016	\$5,500	\$46,500	\$25,370
2015	\$10,000	\$41,000	\$24,930
2014	\$5,500	\$31,000	\$24,270
2013	\$5,500	\$25,500	\$23,820
2009-2012	\$5,000	\$20,000	

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2. Registered Retirement Savings Plans (RRSP's)

Annual Contribution Limit

- When can RRSP contributions be made?
 - Anytime during the given calendar year plus 60 days into the next year (e.g.. deadline for 2019 contributions is March 2, 2020
 - extended by 2 days since February 29 falls on a weekend)

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→ Government Pension Programs (Ch 2 of *Morneau Shepell Handbook*)

Example 1 – RRSP Contribution Limit

- a) Calculate the maximum “2018 RRSP contribution” that can be made for the following individual

Year	Earned Income	Max. RRSP Limit	PA Value**	RRSP Contributions Actually Made	Carry-Forward at EOY
2017	110,000	26,010	6,000	12,500	None
2018	160,000	26,230	7,000	12,500	
2019	165,000	26,500			

** reported on T4 for that year

- b) How does answer change if $PA = 0$ (i.e., individual has no e'er pension)

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→ Government Pension Programs (Ch 2 of *Morneau Shepell Handbook*)

Example 2 – RRSP Contribution Limit

- Based on the information below, what is the amount of RRSP carry-forward for 2019 (after all deposits made for 2018 year)?

Year	Earned Income	Max. RRSP Limit	PA Value**	RRSP Contributions Actually Made	Carry-Forward at EOY
2015	137,500	24,930	9,050		7,100
2016	132,500	25,370	9,150	Own: 8,100 Spousal: 8,100	
2017	136,375	26,010	9,670	Own: 16,300	
2018	140,500	26,230	10,200	Own: 15,300	???
2019		26,500			

** reported on T4 for that year

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2. Registered Retirement Savings Plans (RRSP's)

RRSP Withdrawals

- You can withdraw your money at any time from an RRSP (and this is promoted as an advantage),
- BUT if you take out RRSP money before 'retirement' **any withdrawals will be taxed as income in year it is withdrawn***
 - RRSP issuer will withhold some of the tax right off the top (up to 30% of the withdrawal - this withholding tax would reduce taxes owing at annual tax filing)
 - You will have to claim the full amount of the withdrawal as income

* There are two exceptions though (e.g. two situations where you would not be taxed if you take the money out before retirement)

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2. Registered Retirement Savings Plans (RRSP's)

RRSP Withdrawals

- The two exceptions are:
 - a) Lifelong learning plan (LLP): Here, up to \$20,000 in total can be withdrawn (tax free) from an RRSP to pay for tuition and books to go back to school full time (RRSP owner or partner) – \$10,000 maximum yearly withdrawal for this purpose
 - b) Home buyers plan (HBP): Up to \$25,000 (tax free) can be withdrawn from an RRSP and be used to purchase or build a home for first time home-owners (or a home for a related person with a disability)

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2. Registered Retirement Savings Plans (RRSP's)

RRSP Withdrawals

- There are rules about paying back any withdrawals (i.e., back into the RRSP) for these two exceptions. What are these rules?