

# GUIDE TO SAVINGS AND INVESTING

TFSA, RRSP, RESP, OMG!



**Maybe it's a condo in the heart of the city. Or having the freedom to travel. It could be having a nest egg set aside for a rainy day. No matter what your dreams are for the future, starting to save and invest now can help you turn your dreams into a reality.**

It can be intimidating to get started. Learning all those new terms and words can feel like you're learning an entirely different language. So, if you're not quite sure where to start, we can help.

From setting goals to the different investment options out there, we'll help you get the information you need to get your savings started.

## Setting goals

When it comes to starting to save and invest, start with your goals for the future. Not only can goals help you when starting a savings plan, keeping them in mind can also help keep you on track once you've started.

Start by thinking long-term. Fast forward 10, 20, 30, or more years and think about where you want to be. Driving a sports car with the top down? Sipping espresso at a café in Europe? Living comfortably in your own home?

Short-term goals should be simple, specific, and most importantly—reasonable. These smaller goals will help you move toward the bigger, long-term goals that may seem out of reach right now.

## Get your savings started

Now that you have an idea of where you want to be, you can start to think about how you want to get there. You don't need to be flush with cash to save and invest. In fact, a little can go a long way.

### GOOD TO KNOW

What makes a goal long-term vs. short-term? When it comes to investing, long-term goals are typically 10 years in the future or more. Short-term goals tend to be five years or less.

## HERE ARE SOME EASY THINGS YOU CAN DO TO PLAN FOR SUCCESS:



### GET IN GOOD FINANCIAL SHAPE

When you're starting a savings plan, it's important to make sure you're on track to being in a good financial position.

- **HAVE YOUR DEBT UNDER CONTROL.** This doesn't necessarily mean you're debt-free, just that you're managing your debt well and have a plan for paying it off.
- **BUILD AN EMERGENCY FUND.** Ideally, an emergency fund should include enough to cover three months of your basic living expenses. If you don't have this much rainy-day money set aside, don't worry—make this part of your savings plan.
- **CONTRIBUTE TO YOUR EMPLOYER'S PENSION PLAN.** If your company has this kind of plan, contribute to it to maximize your investments. Often, employers will match a portion of the money you invest which can help you build up your investments that much faster.



### PAY YOURSELF FIRST

We've all heard this one before. But how many people actually do it? Most people only think about what they can save after they've paid for everything else, leaving little (if anything) left to put away. Treat your savings like any other monthly bill—when you get paid, put aside a set amount toward your savings right away. Not only will paying yourself first help you commit to a manageable savings plan, it will help you save more and faster.



### STICK TO YOUR BUDGET

Build your savings and investments into your monthly budget and stick to it. If you don't already have a budget, check out our [First Timer's Guide to Budgeting](#) to get started.



## CHOOSE THE RIGHT SAVINGS PLAN FOR YOU

Once you've figured out how much you can save, you need to choose the right savings plan to meet your goals. Not sure what that might be? Your local credit union can help.

## SET UP A PRE-AUTHORIZED PLAN

If you're finding it hard to save on a regular basis, set up monthly, bi-weekly, or weekly pre-authorized contributions from your account to a savings or investment account. That way you don't have to remember to do it. And saving regularly means you can start earning interest on your savings right away.



## SPEND LESS THAN YOU EARN

Seems pretty obvious, right? In reality, it can be a lot harder than it sounds. But when you overspend, that contributes to your debt which can take away from your ability to save. Try using cash instead of credit. Set a budget and stick to it. Track your spending. Put any extra cash toward paying down your debt. Every little bit counts!

# Understanding your options:

Now that you know where you're going and how you're going to get there, it's important to understand what exactly "there" is.



## WHAT IS INVESTING?

First things first: What exactly is an investment? At the most basic level, investing your money means that you're putting your money to work and in exchange your money earns a return. There are many different ways to invest your money, each with varying levels of potential risk and potential returns.

## REGISTERED VS. NON-REGISTERED SAVINGS

Registered savings refer to savings plans that are registered with the Canada Revenue Agency (CRA). Some common examples are Registered Retirement Savings Plans (RRSPs) and Tax-Free Savings Accounts (TFSA).

You can hold different kinds of investments, from GICs to stocks and bonds, inside of your registered plans. These kinds of plans have built-in tax advantages that can help you work toward your goals, but also have certain limits and rules around how much you can contribute and how you can take money out.

## Common types of investments

TYPE	DESCRIPTION
Guaranteed Investment Certificate	A guaranteed investment certificate is often called a GIC or a term deposit. When you invest in a GIC, you deposit a set amount of money and lock it in for a fixed period of time with a set rate of return. Like the name suggests, the original amount of money that you choose to invest—also known as the principle—is guaranteed.
Bond	A bond is a contract between a bond issuer (typically a government or a business) and a bond holder (the investor) where the bond holder loans the issuer money that the issuer agrees to pay back on a set date with a set amount of interest. Unlike other forms of investment, bonds are not guaranteed, which means they can carry slightly more risk.
Stock	A stock is a share in the ownership of a company. If the company does well, shares increase in value and in some cases, companies will also pay out a portion of their profits to their shareholders (called dividends). If the company does not perform well, the value of its shares may decrease. Again, unlike other forms of investments, stock are not guaranteed.
Mutual Fund	A mutual fund is a professionally-managed collective investment that pools money from many investors to purchase many different kinds of securities like bonds, stocks, etc. The original amount you invest is not guaranteed and depending on the mutual fund, the potential for returns and potential risks can vary greatly from one mutual fund to another.

Non-registered savings refers to any investments (GICs, mutual funds, stocks, bonds, etc.) that are not held inside a registered savings plan, like an RRSP or a TFSA. While these kinds of the investments can be more flexible when it comes to contributions or withdrawals, they don't carry the same kinds of tax advantages that registered savings offer.

## RISK TOLERANCE

Risk tolerance is your ability to handle fluctuations in the value of your investment. There is no “right” amount of risk—it depends on what makes the most sense for you. Risk can be calculated based on how much time you have to invest, the amount you’re able to put away, and your own personal preferences. Your credit union financial expert can discuss this with you and help you figure out what’s right for you.



### RRSPS AND TFSAS

A Registered Retirement Savings Plan (RRSP) is primarily designed to help you save for retirement, although there are two exceptions: An RRSP can help you purchase your first home or further your education. A Tax Free Savings Account (TFSA) allows you to save for your short, medium, and long term goals by growing your investments tax free.



Which one is right for you? It all depends on your situation and what you’re looking for.

CONSIDERATIONS	TFSA	RRSP
Taxes and savings	You can't claim money you contribute to a TFSA on your income tax, so putting money into a TFSA won't affect your claim.	You can claim contributions on your tax return, which will lower your taxes in the year that you made the deposit—but you pay taxes when you withdraw.
Taxes when you withdraw <sup>1</sup>	Nothing. Because you pay taxes on the money up front, you can save for years. You won't pay tax when you withdraw it—and better still—in most circumstances, you won't pay any tax on any interest or returns earned.	Any money that you withdraw from your RRSP is treated like income. This means that you will pay tax on any amounts that you withdraw based on your income tax bracket.
Contribution limits <sup>2</sup>	To find out the TFSA limit for this year visit the <a href="#">CRA website</a> .	To find out the RRSP limit for this year, visit the <a href="#">CRA website</a> .

## WHAT'S THE BEST OPTION?

<sup>1</sup> Depending on your account and how you've arranged your investments, you can potentially withdraw from your TFSA and RRSP at any time or you may have to wait until they mature. It's important to understand the pros and cons before making any withdrawals.

<sup>2</sup> Both TFSAs and RRSPs have limits on the amount you can contribute each year and for both it accumulates. That means if you don't contribute the maximum each year, you can use your unused contribution room in following years. There are other factors that influence your contribution room, so it's important to check your CRA Notice of Assessment or contact CRA directly to find out your individual available room. You can see the maximum contribution amounts for both [here](#).

Both RRSPs and TFSAs have their pros and cons. It's about determining what's right for you.

With your RRSP, you only accumulate new contribution room if you're earning an income and filing taxes, so if you are not earning an income, you may not be able to put money into your RRSP. If your employer already contributes to a pension plan and maximizes your contribution room, you're also not eligible to contribute to an RRSP. Contributions over the maximum amount are taxed annually, so they're not recommended.

TFSAs still have set annual contribution limits, but unlike RRSPs, these are not set based on income, making TFSAs a great option if you're not earning a traditional income or have maximized your RRSP contribution room. There's also no penalty to withdraw money from a TFSA which means they are a great shorter-term savings option.

## PROS AND CONS OF TFSAS AND RRSPS

TFSA	
PRO	CON
<ul style="list-style-type: none"><li>· Better if you fall into a lower tax bracket or if you've maximized your RRSP contributions</li><li>· Can contribute even without an income</li><li>· Don't pay taxes when you withdraw money</li><li>· Don't pay taxes on any investment earnings<sup>1</sup></li></ul>	<ul style="list-style-type: none"><li>· TFSA contributions are not tax deductible</li></ul>

RRSP	
PRO	CON
<ul style="list-style-type: none"> <li>· Better if you need to reduce income tax</li> <li>· Can withdraw funds without penalty<sup>2</sup> to help finance your first home</li> <li>· Can withdraw funds without penalty<sup>2</sup> toward your full-time education</li> </ul>	<ul style="list-style-type: none"> <li>· Pay taxes when you withdraw money</li> </ul>

<sup>1</sup> There are some kinds of investments that pay foreign dividends that may be taxable, even inside of a TFSA.

Talk to your financial expert for more information.

<sup>2</sup> Withdrawals can be made under the Homebuyer's Plan and Lifelong Learning Plan. These plans are administered through CRA. To determine if you're eligible to participate, please visit the CRA website.



### WHEN SHOULD I CONSIDER AN RRSP LOAN?

RRSP loans can be a good choice if you have contribution room, but you're faced with a cash shortage. Make sure you have the ability to make the payments on the loan during the term. A good strategy is to use the RRSP loan to maximize your contributions now and—with your potential tax savings—pay down, or even pay off, your RRSP loan. If you're thinking about an RRSP loan, your financial expert can discuss your goals and options.

## What type of investment should I choose?

The best investment for you will depend on your short and long-term goals.

### SOCIALLY RESPONSIBLE INVESTMENTS

Ethical and socially responsible investments are increasingly becoming a product people are looking for—and you can get them from your local credit union. But this doesn't mean your money is invested in kombucha operations and kale farms—far from it. They can be every bit as profitable as standard investments, it's just that socially responsible investments often have to meet certain criteria, such as investing in companies with good environmental track records, in order to be considered ethical.

Sitting down with a credit union financial expert can help you determine your best investment strategy. Don't forget that as time goes on, your needs will change. You might go from being a part-time barista to being a full-time CEO. Maybe you'll get married or start a family. Your goals and priorities can also shift as you mature and your situation changes. It's a good idea to check in with your credit union financial expert regularly just to make sure your investments still align with your needs and goals.



## **IT'S NEVER TOO EARLY TO THINK ABOUT RETIREMENT**

When you close your eyes and picture your retirement, what does it look like? Are you walking toward the tee on the 18th hole with three of your oldest friends? Travelling the world? Sitting in a house you've owned for 20 years playing with your grandkids?

While retirement may seem like a distant dream right now, getting started early will help get you there comfortably. If you haven't started planning yet, don't worry. And if you have, great! It's important to ask yourself some questions to help ensure the future you see in your dreams becomes your reality.

- How much do I need for the type of retirement I want?
- Do I want to travel, volunteer, or work part-time?
- Will my savings last for up to 30 years after I retire?
- How can I save money for my future and pay fewer taxes today?
- How can I contribute to my savings based on my income today?
- Can regular pre-authorized contributions grow my savings and make investing more manageable?
- How much risk am I comfortable with when investing in my future?

If you already have a start on your savings, how well is your current plan working? When was the last time you updated it? Asking yourself these questions while thinking about the previous set of questions can help determine whether your priorities have changed since you started saving.

## **THESE MORE DETAILED QUESTIONS CAN HELP MAKE SURE YOU'RE ON TRACK:**

- How do RRSPs and TFSAs factor into my short and long-term goals?
- How much risk am I comfortable with at this stage of my savings plan?
- Am I maximizing my RRSP contributions to help grow my savings?
- Could a low interest RRSP loan be the best way to maximize my contribution?
- Would regular pre-authorized contributions grow my savings faster?
- How might a TFSA or non-registered investments factor into my short and long-term savings goals?

## **Getting started doesn't have to be complicated**

To get the future you've been dreaming about, you need to start planning now. Connect with your local credit union to book an appointment with one of our financial advice experts. We'll work with you to make sure you have a clear understanding of what your current financial situation is, to help you set financial goals, and to determine the plan that works best to get you there.