RRSPs, TFSAs, and PPPs: Which Is Right for You?

Description

If you're a Canadian planning for retirement, you have a number of tax-deferred/tax-free accounts to choose from. The challenge is to decide which is right for you. Each of the three main accounts–RRSPs, TFSAs and PPPs–has its own advantages and disadvantages. To know which one is best for your situation, you need an accurate appraisal of your own financial situation and retirement goals.

Ultimately it's up to you to decide what kind of retirement you want. However, once you've made that decision, the next step–opening the right account–is more about facts than about personal taste. Simply put, certain saving vehicles are better for certain retirement plans than others. In this article we'll be taking a look at the three main ones: RRSPs, TFSAs and PPPs.

RRSPs

Registered Retirement Savings Plans (RRSPs) are tax-deferred accounts that let you hold investments without paying taxes on them. You'll pay taxes on the withdrawals when you retire, but if you're not earning any other income at that point, it's net-positive for your tax situation. In addition to tax deferment, RRSPs also offer a tax deduction, so the whole package of tax benefits they offer is considerable.

There are two things to keep in mind with RRSPs:

One, if you withdraw while still earning an income, you'll be taxed at your marginal rate–if you're a high earner, that will more than cancel the dividend and capital gains taxes you saved by holding investments in the account. Two, there's a limit on RRSP contributions, so don't put in more than you're allowed.

TFSAs

Tax-free savings accounts (TFSAs) are the most flexible tax-free accounts available in Canada.

Offering withdrawal at any time, they let you grow investments tax-free and take out the proceeds tax-free too. The downside is that they offer no tax deduction.

Because TFSAs have tax-free withdrawals, they can be good accounts for holding growth stocks like **Shopify Inc** (TSX:SHOP)(NYSE:SHOP). Up 119% year-to-date, Shopify is a market beating stock that has delivered big returns in a small amount of time. The company is growing its revenue at 50% year-over-year, and rapidly expanding into new business niches like film production and retail outlets.

Should the company's growth initiatives play out, its past bullishness may continue into the future, providing easy, quick gains–gains that investors may be tempted to cash out *before* retirement.

The lesson…

If you like to sell stock and spend the proceeds of your trading, then TFSAs can be great accounts to facilitate this. However, because of the small contribution limit ($6000 in 2019), they're not ideal for long-term retirement saving.

PPPs

Personal pension plans (PPPs) are a new pension solution offered by Integris Pension Management Corp. They are similar to employer-sponsored pension plans, but with extra flexibility for individuals. With a higher contribution ceiling than RRSPs, they're ideal for high earning self-employed individuals.

PPPs offer generous tax deductions, not only on any returns you gain in the account, but also on transaction fees. However, because they're somewhat harder to set up than RRSPs, they may not make sense for the average worker. They are generally easier to set up than individual pension plans (IPPs), however, so they may be the best option for their intended users.

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