



## TFSA Users: 40% of You Are Making This Huge Mistake

### Description

As a Canadian, you might have embraced the Tax-Free Savings Account (TFSA) as your new favourite registered investment account. Since its inception in 2009, the TFSA has become the most popular investment account for Canadians.

Here's a shocking statistic though: 40% of you are [using the TFSA](#) wrong. You are only using it as a savings account and have the balance sitting in cash, when the real power of the TFSA is unlocked when you use it for investments.

I believe that the government should have named the TFSA the TFIA, for Tax-Free Investment Account. Calling it a savings account has likely confused a lot of Canadians who might think that all you can use it for is a savings account.

Here's why using your TFSA as just a savings account should be avoided.

## You are losing the real value of your money

Inflation has always been an enemy for your savings. In 2018, inflation in Canada was 2.24%. While this is relatively low, an even smaller amount is the savings rate you can earn on your TFSA. Let's use **CIBC's** TFSA savings rate as an example. If you have money sitting in cash in your TFSA in a CIBC TFSA, you will only be earning a measly 1% per year.

So, if you have money in your TFSA, you're losing over 1% of the real value of your savings every year. That might not mean much in the short term but could add up to significant amounts after a few years.

## Investments are where the TFSA shines

Having some emergency cash ready is a fantastic idea, but the TFSA is not a great place to do this. Although you would be earning the interest tax-free, with the very low interest rates available today,

this isn't usually a significant amount. Instead, the real power is unlocked when you can save on the interest, dividends, and capital gains of a stock investment.

Take **Brookfield Infrastructure** ([TSX:BIP.UN](#))([NYSE:BIP](#)) as an example. [Brookfield owns 35 global](#) infrastructure assets on five continents and is a \$16.8 billion diversified utility limited partnership.

Brookfield Infrastructure's cash flow is stable, of which nearly 95% comes from regulated industries as well as long-term, fixed-rate contracts. Further, the contracts have escalation clauses due to inflation.

Brookfield Infrastructure has steadily grown dividend distribution since its 2008 IPO. The company has a healthy 4.28% dividend yield.

Had you invested \$10,000 just five years ago in Brookfield in your TFSA and reinvested your dividends, your investment would be worth \$25,401 today. All your capital gains and dividends reinvested would be tax-free. Had you invested this in a regular account, if you wanted to sell your stock you would be hit with a huge tax bill for the capital gains.

## TFSA's for retirement

Take the long-term approach for your TFSA. 38% of TFSA investors are using the TFSA for retirement savings. If your money is in just a savings account, you likely won't be able to grow your investments large enough by the time you're retired. Investing for retirement is ideal for the TFSA.

A savvy strategy is for investors to start investing in their TFSA when they are young. Then, when they are earning more as their income grows, they should move that TFSA money into their RRSP. This will maximize the gains on saving with their RRSP taxes.

## In conclusion

If you're using your TFSA just as a savings or emergency account, consider investing instead. Your future self will thank you.

### CATEGORY

1. Dividend Stocks
2. Investing

### TICKERS GLOBAL

1. NYSE:BIP (Brookfield Infrastructure Partners L.P.)
2. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)

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