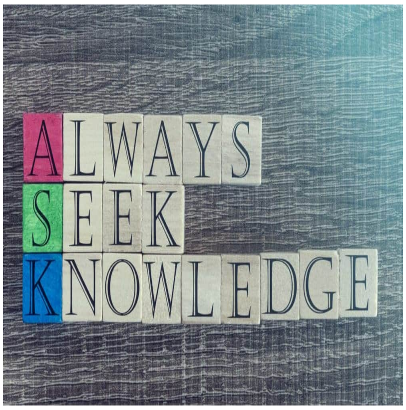

How to Choose Between an RRSP and a TFSA

Description

Are you saving for retirement and trying to decide whether to open an RRSP or a TFSA?

If the answer to that question is yes, there are many factors you need to take into a consideration.

Although both RRSPs and TFSAs have certain tax benefits if used correctly, either account can come back to bite you if used the wrong way. In general, RRSPs work if you hold your funds to retirement, but cost you if you withdraw early. TFSAs give you tax benefits if you realize gains but none if you lose money.

Deciding between an RRSP and a TFSA is one of the most important decisions you'll make for your retirement. With that in mind, here are three pointers to help you make the right one.

Have a clear retirement date set

Knowing what age at which you'll retire is crucial to deciding whether to put your savings in an RRSP or TFSA.

TFSAs offer tax-free withdrawals, which makes them ideal for those who hope to withdraw funds in the near future or in a lump sum.

RRSPs are subject to a withholding tax that increases the more you withdraw, which provides an incentive to withdraw over a long period. Additionally, RRSP taxes are higher if you take the funds out while still employed, so it's not a good idea to withdraw them if you're planning an early "semi-retirement" with part-time work.

For these reasons, TFSAs are better retirement savings accounts for those who hope to retire young, while RRSPs are better for those who will retire late in the game.

Choose your investments

Another factor in choosing between RRSPs and TFSAs is the type of investments you'll hold.

Because RRSPs incentivize long-term saving, they're ideal for long-term value plays like **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD).

TD Bank is a solid stock that usually delivers capital gains in the 5-10% range, while paying a dividend that yields about 4% at current prices. Most Canadian banks are fairly safe, RRSP-suitable picks, but TD offers a bit more growth than others because of its fast-growing U.S. retail business. TD also offers solid dividend growth, usually about 9-10% a year.

Lately, TD's U.S. banking and brokerage operations have been facing pressure from the no-fee trading trend. **TD Ameritrade** recently announced that it is eliminating fees on U.S.-listed stocks but keeping them on international stocks. This is a short-term challenge, but the brokerage could overcome it by ramping up its advisory and research services.

These factors make TD the type of long-term play that's good to hold in an RRSP. If you open a TFSA, you may wish to explore more aggressive growth stocks like **Shopify**, since TFSAs let you cash out quick gains without a tax penalty.

Consider getting both

A final thing for investors to remember is that they could always consider getting *both* an RRSP and a TFSA. With RRSP contribution space reaching as high as $26,000 a year and TFSAs at $6,000 for 2019, a high earner could easily max out both. In that event, there's no need to choose between the two accounts. Instead, you can sit back and watch your savings grow in both of them.

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