



Will the RRSP Ever Become Extinct Because of the TFSA?

Description

The tenth anniversary of the Tax-Free Savings Account (TFSA) was last January 1, 2020. Until this tax policy took effect in 2009, the Registered Retirement Savings Bank (RRSP) was the model of modern retirement planning in Canada.

Today, the 63-year old RRSP is a dinosaur compared with the TFSA. Data is showing that many Canadians are contributing more to the TFSA than the original retirement savings or investment vehicle. As such, will the RRSP ever become extinct because of the TFSA?

Shifting trend

The Government of Canada created both the RRSP and TFSA to encourage Canadians to save for the future and enjoy a comfortable retirement. Similarly, both investment accounts intend to [supplement the Old Age Security \(OAS\) and the Canadian Pension Plan \(CPP\) payments](#).

I suspect that the TFSA has a great deal to do with the declining number of people contributing to the RRSP. Between 2000 and 2018, there was a 4.6% drop (6.3 million) in RRSP users.

In 2016, TFSA contributions overtook RRSP contributions, \$55 million versus \$42 billion. The trend is shifting in favour of the TFSA.

Superior incentive

I will only look at the enticements, not the mechanics of each account because that's where the TFSA has the advantage. The tax deductible and upfront tax savings are the main advantages of the RRSP. As there was no alternative since 1957, there's pressure to contribute to the RRSP.

But 52 years later, the TFSA became an instant superhero. The tax-free incentive is one of a kind. Also, the reason why the TFSA is more popular is that [people hate taxes](#).

Tax-free money growth

Opening a TFSA will allow you to invest in a high-yield stock like **Inter Pipeline** (TSX:IPL). Each time you set aside money to purchase the energy stock, your savings will grow significantly. If you're building a nest egg, Inter Pipeline is a suitable investment within the TFSA.

This \$8.2 billion oil and gas company pays a super high 8.57% dividend. Over the last 20 years, Inter Pipeline has returned 2,182.66% to shareholders. Similarly, it has a dividend streak of 11 years.

As of this writing, the share price is \$19.50. If you buy \$50,000 worth of shares, your annual earnings of \$4,285 are not subject to tax. The same amount of investment will double in eight-and-a-half years.

Investors are eagerly awaiting the opening of the multi-billion Heartland Petrochemical Complex in late 2021. The plant can produce 525 kilotons of polypropylene plastic, a high-profit-margin product, annually. Management expects additional \$500 million in EBITDA once it opens.

Status quo

Although RRSP contributions are declining, they're far from becoming extinct. The effectiveness of the account to nurture retirement funds and create a larger nest egg is still there. But let us concede the RRSP will not outshine the TFSA in terms of popularity.

The RRSP and TFSA are both powerful investment accounts you can use to fully fund your retirement or boost your OAS and CPP pensions.

Even if you prioritize the TFSA contribution, it will be to your advantage to contribute to the RRSP as well if you have spare cash.

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