Who Still Uses the RRSP? Why Younger People Are Choosing the TFSA in 2020

Description

Canadian retirees don't feel as stressful as their counterparts across the border. The tax-advantaged retirement accounts available to them have generous contribution limits and offer substantial tax-saving benefits. The Registered Retirement Savings Plan (RRSP) has been in existence for 63 years.

However, the number of contributors to the first unique financial tool that helps Canadians plan for retirement is declining. The coming of the Tax-Free Saving Account (TFSA) in 2009 stole the thunder away from the RRSP. The feature of earning tax-free for life is hard to beat.

Question of suitability

Be aware that you don't have to use the RRSP and TFSA as mere savings accounts. You can supercharge both and build a retirement fund to boost your pension. The fear of financial dislocation during retirement diminishes if you have income sources other than your government retirement benefits.

The RRSP is a retirement-focused plan, so mostly older and well-off Canadians are its users. The TFSA was partly responsible for the significant 4.6% drop in RRSP contributors from 2000 to 2018. As of 2018, too, one in every three users were 55 years old and older. Only 16% of this age group was using the RRSP in 2020.

Also, one reason why the older generation is dominating in RRSP contributions is that their salaries are higher. The younger folks, however, are finding the TFSA more appealing. You can have a better head start to retirement or withdraw any time you need the money without paying taxes.

Same eligible investments

In general, the eligible investments in the RRSP are the same type of investments you can place in your TFSA. A favourite investment pick for both accounts is **Toronto-Dominion Bank** (TSX:TD)(NYSE: TD). Over the past decade, the total return on a $10,000 investment is 462.63%.

Many invest in the second-largest bank in Canada because of its exceptional dividend track record (163 years), safe distribution, and resiliency during financial crises or recessions. Young and old investors who are income-hungry can depend on this $108.91 billion bank to meet short- and long-term financial goals.

Currently, TD pays a 4.6% dividend. A $50,000 investment today can grow by 245.83% to $122,914.66 in 20 years. With the threat of recession looming due to a health crisis, the bank's performance during the 2008 global recession comes to mind. TD was the only firm that reported steady revenue and earnings growth.

Although the fear factor remains high, a blue-chip stock like TD should be able to weather an incoming storm. Also, markets could rebound rapidly if new coronavirus cases decrease.

The catch

Without a doubt, the TFSA is the culprit for the fading charm of the RRSP. But it doesn't mean you stick to one and drop the other. If you're young, it makes more financial sense to prioritize the TFSA. You have a budding career but belong to the lower-income bracket. Besides, you can use your TFSA for anything.

The RRSP suits an older taxpayer whose current tax rate is likely higher than the tax rate in retirement. Optimizing the tax advantages of each account will depend on your circumstances and when you need to withdraw the fund.

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