



Millennials: Should You Have a TFSA or RRSP?

Description

The [Tax-Free Savings Account](#) (TFSA) and Registered Retirement Savings Plan (RRSP) are both excellent programs offered by the Canada Revenue Agency (CRA). When it comes to investing, either is a great choice for millennials. After all, you have time on your side. Here at the Motley Fool, we always tend to recommend long-term stocks that can see growth over decades. So, whether you invest in the TFSA or RRSP, either is an excellent option when considering a long-term hold.

However, not everyone has the cash available to invest in both programs. Or, even more commonly, you may need that cash at some point. Whereas millennials can take out cash at any point from a TFSA, you can only do the same with an RRSP under specific circumstances. Yet this could also be good if your main goal is retirement.

Cash on hand

The great thing about millennials is that they know how to save. And that's even before the pandemic. Most had around \$25,000 in savings on hand before the pandemic hit. Afterwards, Canadians in general learned to save in abundance. In fact, most saved more in the last year than they had in the last *three decades*, according to analysts.

The problem? Millennials don't invest! Yet with financial education and do-it-yourself investing becoming increasingly popular, many millennials are at least starting to show interest. And that's what we're here for at the Motley Fool.

Let's say you're one of the millennials who has cash on hand to invest. You're likely to need cash before retirement on several occasions. There's buying a house, having children, getting married, or simply just travelling! But you still want to have that retirement cash available down the line. So, which is better in that case: the RRSP or TFSA?

TFSA vs. RRSP

Canadians have been using the RRSP for decades. The main incentive? Taxes. Whatever you contribute towards your RRSP can be taken off your income when you do your taxes. So, if you made \$90,000 and contribute \$10,000, you report \$80,000 on your income tax. This can save significant taxes, bringing you down from one tax bracket to a lower one.

Once you need your RRSP in retirement, many individuals then switch the RRSP to a Registered Retirement Income Fund (RRIF), taking out cash when they need it and simply continuing their investments. Let's say you invested in **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)). You can continue that [investment for decades](#)! Especially if you start now. Given it's risen by a compound annual growth rate (CAGR) of 11.45% in the last two decades, that's a strong investment to make!

But as I mentioned, millennials may need cash before retirement on several occasions. If you were to take out cash from your RRSP before you retire, for example, that will be taxed by the CRA in most cases. Also, many millennials aren't worried about bringing a high income down a tax bracket. Until you're older and making more money, it's far more likely you're already in a lower tax bracket. So, that's not as much of a benefit.

The TFSA, however, gives you an opportunity to slowly add cash each year, putting it towards long-term investments. Need the cash? No problem! You can take it out at any point, tax free! While you cannot then contribute the amount you took out until the next year, you don't have to worry about reporting any of the returns you made on your income tax return. This is ideal if you need that money for a down payment or schooling.

And let's say you never become a high-income earner. The TFSA is definitely the right choice, offering you a way to continue investing what you can and giving you access to that cash whenever you need it. On top of that, you can still use it for retirement. Down the line, you can simply take it out whenever you need, continue investing, *and* even pass it on to heirs tax free!

Bottom line

If you're one of the millennials looking to start investing, the TFSA is likely the first choice I would recommend starting with. The second would be finding a long-term investment. Here at the Motley Fool, we have [plenty of options](#) for you to get started!

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