RRSP or TFSA: Which One Should Millennials Open?

Description

Millennials proved during the pandemic to be great savers. They've had to be, as millennials were born in a recession, entered the job market during a recession, and are now trying to start a life during a pandemic.

So it makes sense that many have to be careful with their money. And that means many millennials believe there is far too much risk from investing. But today I'm going to dispel that myth. Furthermore, when it comes to investing and the risks for millennials, we're going to dig into which is better to open: a Registered Retirement Savings Plan (RRSP) or Tax-Free Savings Account (TFSA).

Why do it?

Millennials should be investing their savings for a simple reason: the future. Millennials have so much time on their hands. This means that the risk for investing drops down to practically nothing as long as you stay away from volatile stocks. Time heals all wounds, and that goes for investing as well.

While there will be stock market crashes, pullbacks, and market corrections, overall the market trends upward. So if you're looking to save for retirement, for example, you have literally *decades* to put your cash aside and not touch it until you need it. By that time, no matter what the market has done, you'll have plenty put aside.

The case for an RRSP

If your main savings goal is retirement, then the RRSP is certainly a great choice. But don't be fooled! You can also get other benefits from your RRSP.

First of all, it's important to note that you will pay taxes when taking cash out of your RRSP before retirement. But there are a few instances when this isn't the case. One that certainly benefitsmillennials is as a first-time homebuyer. Under the government's home buyers' plan, you can borrowmoney from your RRSP tax-free. You then have 15 years to pay back the amount, interest-free.

Another benefit of contributing to your RRSP is it brings down your annual income. This can be a huge benefit as it may just put you in a new tax bracket! Let's say you pay $20 taxes from a $98,000 income and then you contribute $10,000 to your RRSP. That's taken off your income, giving you an income of $88,000.

This, just as an example, could put you in a tax bracket of 15%! That's *thousands* in savings from one contribution. And that's just an example. Make sure to find out exactly what your tax bracket is and put aside what you need to bring it down.

The case for a TFSA

Now those are some great benefits, but the TFSA is great for those who want zero worries when it comes to tax-free withdrawals. And for millennials that makes sense. You might buy a home, sure. But then you have a wedding, a child, an illness, a layoff, or any other reason for needing fast cash.

That's great for those investing in a TFSA. As long as you stay within your contribution limit, you can contribute and withdraw as much as you want. And if you were 18 in 2009, you have $75,500 available to contribute to your new TFSA as of writing.

And it's not as though there are limits when it comes to time or what you save for. You may decide to put cash aside for your child's education and then your child gets a scholarship! So you just keep your cash there and let it ride through to retirement.

Why not both?

As there are benefits to both the RRSP and TFSA, it's also a great option to open both! You can use your TFSA for earlier savings goals, and RRSP for retirement goals. In fact, you can also use them to play off one another.

Say you want to bring down your tax bracket for the year: simply take cash from your TFSA and invest it in your RRSP. Done. You've invested either way and saved thousands in the process! And it doesn't cost anything to open them, as they're both government programs.

So what are you waiting for? Millennials may be great savers, but so many don't invest. Even just low-risk options mean you'll make more than $0 per year. So talk to your financial advisor about opening a TFSA and RRSP today.

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