Why Millennials Need an RRSP More Than a TFSA

Description

Millennials visiting the Motley Fool today may already be investing, and are for sure already saving. And that's great! Millennials are in fact great savers. They've had to be. They were born during a recession, graduated during a recession, and are now trying to start a life during a pandemic and economic downturn.

But all that saving doesn't do much good if it isn't invested. In fact, because of banking fees you may actually be *losing* money keeping it in a savings account rather than investing it.

So sure, you might choose to open up a Tax-Free Savings Account (TFSA). And granted, that's a great option. But many millennials may think the TFSA is better than other options. That includes the Registered Retirement Savings Plan.

Here's why that's wrong.

Tax-free too

Now granted, the RRSP isn't tax-free in *some* respects. If you want to take out cash and spend it at any time, the TFSA is definitely for you. However, that's not the point of investing. What you want is to put cash away long term. That means leaving your investments alone for as long as possible. Say, until retirement?

I know, I know, that's a long way away for most millennials. But here's the thing: an RRSP has tax benefits too. Enormous ones, in fact. There are several that I'll go over quickly, but I highly recommend meeting with your financial advisor to go over which you can benefit from today.

The easiest one to see the benefit of is through your income tax deductions. Every dollar you put into your RRSP (below your contribution limit) you can take off your taxable income. Made $50,000 and contributed $5,000? You now get to claim $45,000 on your taxes. This could bring you to a whole different tax bracket, and literally save you hundreds if not thousands of dollars in tax payments.

There are other benefits too. If you need money from your RRSP for a home, you can take the cash out tax-free and pay it back over a few years. Again, there are even more benefits so make sure to find out what's right for you.

Invest right

Now if you're a riskier investor, that's another reason why the RRSP isn't right for you. And it's why TFSAs have been increasing in popularity. But that's not what investing should be about. Instead, it's a long game. You need to look decades ahead, not just months, or even a few years. So finding the right investment should be a long-term goal as well.

A great stock to consider then would be **Toronto Dominion Bank** (TSX:TD)(NYSE:TD). TD bank has been around for over a hundred years, offering up dividend payments you can also use to put back into your RRSP. Furthermore, it's one of the top growers of the Big Six Banks, expanding in the U.S. and also through its online presence.

But you gain a lot of access to stable share growth and passive income. TD bank grew 430% in the last decade for a compound annual growth rate (CAGR) of 18.15%! And it just upped its dividend, now offering a yield of 3.3%. Better still? It's cheap trading at just 13.83 times earnings despite at all-time highs.

Foolish takeaway

Now I'm not saying you shouldn't get a TFSA. But if you're a Millennial looking for benefits you can access with no risk, then an RRSP is even better. Especially if you're an investor looking at the long-term view, and not a retail investor looking for the next big thing.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:TD (The Toronto-Dominion Bank)
2. TSX:TD (The Toronto-Dominion Bank)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. alegatewolfe
2. jguest

Category

1. Bank Stocks
2. Investing

Date
2025/09/09
Date Created
2022/02/20
Author
alegatewolfe