Best Canadian Retirement Accounts

Description

A retirement account or plan is simply a place where you can safely store retirement savings. Some of these plans are self-managed, such as an RRSP or TFSA, which means you control how much you contribute. Others are government-sponsored programs that pay you in retirement based on how long you worked and how much you make.

Fortunately, Canada’s retirement plans are surprisingly simple. And no — you don’t have to open just one. Below we’ll break down the top retirement accounts and plans, helping you build a solid retirement savings strategy.

What are the different retirement plans in Canada?

The Canada Pension Plan (CPP)

The Canada Pension Plan (CPP) is, for many, one of the principal sources of retirement income. If you’ve contributed to the CPP at some point during your working years, you’ll receive monthly CPP payments starting at age 60.

How much you get from the CPP depends entirely on how much you and your employer contribute to the plan, as well as how long you make contributions. CPP contributions are deducted directly from payroll, and they’re invested in several securities by the Canada Pension Plan Investment Board (CPPIB).

The CPP is designed to replace about 25% of your pre-retirement income which, truthfully, for many Canadians, isn’t enough to retire with. That’s why it’s wise to consider the CPP as a supplementary source of income, with more hefty income-generating tools, such as an RRSP or TFSA, being your primary source.

Old Age Security (OAS)

Old Age Security (OAS) is another government-sponsored plan that pays retirement income to eligible Canadians. Basically, to receive OAS, you must be a Canadian citizen with at least 10 years of residence in Canada (counted after you turn 18), and 65 or older.

Unlike the Canada Pension Plan, you don't have to contribute to the OAS in order to receive payouts. Instead, your payouts are determined by how long you've lived in Canada since you were 18, your marital status, and how much income you made when you retired. In general, the more income you made before retirement, the less your OAS payouts. To check maximum OAS payouts, you can check Canada's official OAS page, as the maximums tend to fluctuate every year.

Guaranteed Income Supplement (GIS)

The Guaranteed Income Supplement (GIS) is available to Canadians who are 65 and have a household income below the maximum annual income threshold. For instance, between October and December 2022, you'll get GIS payouts if your annual income is below $38,448.

The great thing about GIS payouts — you don't have to pay taxes on the amount you receive. Often, the Canadian government will automatically enroll you in the GIS program, though if your income falls into the eligibility range and you don't receive payouts automatically, you should apply directly to get your benefits.

Employer Pension Plans

Finally, you may be one of the lucky few whose employer still offers a pension plan. If so, your employer will provide you with a source of income in retirement, with the payouts depending on whether the plan is a benefits plan or a contribution plan.

With a benefits plan, your employer will pay you fixed monthly payments based on how long you worked and how much income you made at their company. Behind the scenes, your employer will probably invest a certain percentage of your annual income (along with that of other employees) in a pension fund. No matter how well these investments perform, however, you'll get a fixed amount in retirement.

A contribution plan works differently. You and your employer will contribute a fixed amount to the pension plan every year. You will then choose to invest this money in certain securities (stocks, bonds, funds), or have someone do it for you. At the very end, you'll get payouts based on how your investments performed.

What are the different retirement accounts in Canada?

Let's look closely at the two most popular retirement savings accounts in Canada: RRSPs and TFSAs.

Registered Retirement Savings Plan (RRSP)

A Registered Retirement Savings Plan (RRSP) is a government-sponsored savings account that helps you not only save for retirement, but also cut your tax bill. You'll save on taxes in two big ways:

- **RRSP contributions are tax deductible**. You can deduct whatever you contribute to your RRSP from your taxable income.

- **Investment earnings are tax deferrable.** Whatever you earn inside your RRSP, whether it's interest off a GIC or dividends off your stocks, won't be taxed until you withdraw money in retirement. At that time, your withdrawals will be taxed at your marginal tax rate. The idea is that by the time you retire, your marginal tax rate will be lower than it is now, helping you save even more on taxes owed.

To open an RRSP, you must have filed a tax return and be between the ages of 18 and 71. Every year, you can contribute up to 18% of your earned income from the previous year, or an amount specified by the CRA, whichever is less (the amount is $30,780 for 2023). You can use your RRSP contributions to invest in stocks, mutual funds, index funds, bonds, and GICs, or you can put it aside in a savings account.

If you over-contribute, you'll be penalized. But if you under-contribute, meaning you don't contribute your maximum, the "unused space" will rollover into the next year. Finally, when you turn 71, you have to convert your RRSP into an income-paying account, such as a Registered Retirement Income Fund (RRIF) or an annuity.

Tax-Free Savings Account (TFSA)

A Tax-Free Savings Account (TFSA) is a tax-sheltered retirement account that allows you to invest or save money without paying taxes on interest or gains. Like RRSPs, you can invest TFSA contributions in a number of securities, including stocks, bonds, ETFs, and mutual funds.

The biggest difference between an RRSP and TFSA is that you won't pay taxes on TFSA withdrawals — *ever.* You can withdraw money before or after retirement, with no requirements on what you use your money for.

You can open a TFSA through most banks and financial institutions. You'll need to provide your social insurance number and date of birth. You might also need to provide supporting documents confirming your identity. Most banks will charge no annual administrative or withdrawal fees on TFSAs.

RELATED: Can You Buy U.S. Stocks in a TFSA?

Which Canadian retirement accounts and plans are best for you?

Perhaps the best way to use Canada's retirement accounts is to build a strategy with more than one.Of course, if you're eligible, you'll benefit automatically from certain government plans, such as theCPP, OAS, and GIS, as well as your employer-sponsored pension. The choice, then, comes down to choosing between an RRSP and TFSA.

A good place to start is with your employer. Many companies offer a Group RRSP, which is simply an RRSP that's sponsored by your employer. All you have to do is decide how much you want to contribute, and your employer will deduct it from your paycheck. The best part about Group RRSPs: employers often match contributions up to a certain amount. If your employer matches contributions, then definitely contribute to their Group RRSP first.

How do you choose between an RRSP and TFSA?

As far as choosing between a personal RRSP and a TFSA: the choice will ultimately depend on you. An RRSP will lower your taxable income, as well as offer you the benefit of tax deferral.

Once you contribute, however, your money is typically locked in. If you withdraw early, you will pay a withholding tax, which can become pretty hefty. A TFSA, on the other hand, gives you more withdrawal flexibility, though your contributions won't lower your taxable income.

Again, it's not an either-or choice. You can use both an RRSP and TFSA to save for retirement, along with any of the retirement plans listed above.

Just as important as opening these retirement accounts is learning what to hold inside them. Your retirement account is only as strong as your investments, so you'll definitely want to spend some time learning how to invest.

Many of the best brokerages in Canada will also allow you to open TFSAs and RRSPs within their online platforms, making it easier for you to have all your investments in one place.

PP NOTIFY USER

1. cleona
2. metienne
3. tmfbwelch

Date
2025/06/27
Date Created
2021/12/10
Author
sporrello