

Introducing  
Tax-Free Savings Accounts



UNITED FINANCIAL



# Tax-Free Savings Accounts

## A new way to save

Tax-free savings accounts were introduced by the federal government in the 2008 budget as an incentive for Canadians to save and invest for their future. While other countries, such as the U.S. and the United Kingdom, already have similar savings accounts, it is the first of its kind in Canada. The government is calling the TFSA the single most important personal savings vehicle since the introduction of the Registered Retirement Savings Plan (RRSP) in 1957.



*“We must ensure Canadians have  
the right incentives to save for the future.”*

– Government of Canada, 2008 budget, February 2008

*“One real advantage of TFSAs for individuals without  
an occupational pension is that they will have  
a mechanism to save effectively.”*

– C.D. Howe Institute, September 2008

*“A TFSA should be considered as part of an overall  
saving strategy, a strategy that includes an RRSP,  
as well as an RESP if there are dependent children.”*

– Deloitte & Touche LLP, summer 2008

# TFSA Fundamentals

A tax-free savings account is a registered savings vehicle, where contributions are made with after-tax dollars and withdrawals are tax free. This means that money can be earned in the account and withdrawn at any time without being taxed.

As of 2009, any Canadian resident over the age of 18 can save up to \$5,000 every year in a TFSA. The \$5,000 annual contribution limit will be indexed to the Consumer Price Index and rounded to the nearest \$500. For example, with a 2% rate of inflation, the first increase to \$5,500 would occur in 2012.

TFSAs can hold the same investments as other registered accounts, including mutual funds, segregated funds, stocks, bonds, and GICs. But they are different from RRSPs because any amount withdrawn from the account is automatically added back to the contribution room for the following year. Any unused contribution room can be carried forward indefinitely to future years.

TFSAs are more flexible than RRSPs, which require you to have an earned income and be under the age of 71 in order to make a contribution.

## Comparing Savings Vehicles

### TFSA versus a non-registered account

Capital gains and other investment income earned in a TFSA are not taxed.

So, if you contributed \$5,000 a year for 20 years to a TFSA, you would enjoy a total tax savings of \$51,865 over a non-registered account.



Assumes a \$5,000 annual contribution for 20 years, a 6% rate of return and an average tax rate of 45%.

The table shown here is used only to illustrate the effects of the compound growth rates and is not intended to reflect future values of invested contributions. The rate of return used is for illustrative purposes only.

### Calculating contribution room

In 2009, Kim contributes the maximum \$5,000 to her TFSA. The following year, 2010, she withdraws \$2,200 and makes no further contributions during 2010 and 2011. At the end of 2011 her TFSA has \$3,500.

#### In 2012, she can contribute:

- the \$2,200 that was withdrawn in 2010
- \$10,000 (\$5,000 for her 2010 and 2011 unused contribution room)
- and, \$5,500 for 2012\*
- for a total of \$17,700.

Any deposits made during 2012 will be deducted from \$17,700. If she does not use up her full contribution room during the year, she can carry it forward to future years.

\* Includes estimated \$500 increase for inflation

## TFSA or RRSP?

### TFSA

For virtually all savings and investment objectives

Contributions are made with after-tax income

Contribution room is added back when withdrawals are made

Withdrawals are tax free

No requirement to withdraw at any age

Contributions can be made any time for those age 18 and older

Annual maximum contribution – \$5,000 indexed to inflation

### RRSP

Primarily for retirement savings

Contributions are tax deductible

Contribution room is used up when withdrawals are made

Withdrawals are added to income and taxed at your current rate

Must be converted to a RRIF by age 71; withdrawals after that age are mandated according to a schedule based on age

Contributions cease at age 71

Annual maximum contribution – 18% of earned income in the previous year to a maximum of \$21,000 in 2009

## How taxation affects the choice

When choosing between a TFSA and an RRSP, one of the main considerations is your current and future levels of taxation.

Generally, savers who expect to have the same or lower tax rates during retirement as during their working years benefit more from the RRSP, while others would benefit more from a TFSA.

In choosing between the two accounts, individuals should consider how much tax they will be paying in retirement. Another consideration may be an individual's eligibility for income-tested benefits such as Old Age Security and the Guaranteed Income Supplement. Unlike income from an RRSP or Registered Retirement Income Fund, which is included when calculating these benefits, withdrawals from a TFSA do not affect the level of benefits received. It should be kept in mind that every individual faces different circumstances and financial needs.



## Making an Investment Decision

Tax-free savings accounts can be valuable tools in financial planning. They can be used in many ways – for an emergency fund, for short or medium-term savings for a specific purpose, to generate supplemental income, or for long-term investments.

Since TFSAs are an excellent way to save for a house or for future education needs, they can provide a great alternative to tapping into an RRSP.

With a TFSA, investors can:

- Top up their retirement savings, beyond RRSP contributions
- Save tax free even if they have little or no contribution room in their RRSP (for those over the age of 71, or those with large pension adjustments)
- Use a spouse's or adult children's TFSA for income splitting
- Use a TFSA for estate planning purposes

## Talk to your financial advisor

With Assante, your advisor has exclusive access to the customized United Financial brand of solutions – Evolution Private Managed Accounts, Optima Strategy, Institutional Managed Portfolios and Artisan Portfolios – managed by CI Investments Inc. With active management from portfolio managers around the world, these leading

solutions combine investment expertise with wealth planning strategies. For high net worth clients with more sophisticated wealth planning needs, we offer our exclusive Private Client Managed Portfolios through the United Financial division of CI Private Counsel LP.

### Private Client Managed Portfolios

Private Client combines a customized, tax-efficient investment plan with the power of comprehensive personalized wealth planning for all your family's assets.

### Evolution Private Managed Accounts

Evolution offers clients an innovative investment solution that is beyond a traditional portfolio. It is designed to meet any client's level of risk tolerance and growth expectations, with the additional power to apply specific investment strategies to their portfolio – further enhancing the customization.

### Optima Strategy

Optima Strategy is a complete investment program that's tailored specifically to your investment objectives, cash needs, capital preservation and tax situation. It offers broad diversification across more asset classes than most other investment programs, allowing us to more precisely diversify your portfolio.

### Institutional Managed Portfolios

Institutional Managed Portfolios uses advanced portfolio theory and technology to precisely diversify your portfolio among various asset classes. Each portfolio is managed by multiple investment managers specializing in a particular asset class or investment style.

### SunWise Elite Plus United Institutional Managed Portfolios

As a segregated fund, SunWise Elite Plus Institutional Managed Portfolios offers you principal protection guarantees and guaranteed income for life.

### Artisan Portfolios

Six core portfolios offer multi-level diversification and outstanding investment management. Each portfolio has been designed to maximize returns while minimizing volatility for risk.



UNITED FINANCIAL

For more information on Tax-Free Savings Accounts, please contact your advisor or visit [www.assante.com](http://www.assante.com)

Sun Life Assurance Company of Canada, a member of the Sun Life Financial group of companies, is the sole issuer of the individual variable annuity contract providing for investment in SunWise Elite segregated funds. A description of the key features of the applicable individual variable annuity contract is contained in the information folder. SUBJECT TO ANY APPLICABLE DEATH AND MATURITY GUARANTEES, ANY PART OF THE PREMIUM OR OTHER AMOUNT THAT IS ALLOCATED TO A SEGREGATED FUND IS INVESTED AT THE RISK OF THE CONTRACT HOLDER AND MAY INCREASE OR DECREASE IN VALUE ACCORDING TO FLUCTUATIONS IN THE MARKET VALUE OF THE ASSETS OF THE RELEVANT SEGREGATED FUND. ®SunWise is a registered trademark of Sun Life Assurance Company of Canada.

The United Financial brand of solutions are managed by CI Investments Inc. ("CI"). CI provides portfolio management and investment advisory services as a registered adviser under applicable securities legislation. This document is intended solely for information purposes. It is not a sales prospectus, nor should it be construed as an offer or an invitation to take part in an offer. The United Financial brand of solutions are available exclusively through Assante Capital Management Ltd. (member – CIPF) and Assante Financial Management Ltd. Commissions, trailing commissions, management fees and expenses may all be associated with mutual fund investments and the use of an asset allocation service. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. Please read the applicable United Financial prospectus and consult your advisor before investing.

United Financial and/or United Financial and design are trademarks of CI Investments Inc.

03381 (12/09)