

# Investment UPDATE

## TFSAs and RRSPs — Let your goals guide you†

Registered Retirement Savings Plans (RRSPs) used to be just about the only way most Canadians could combine saving money with saving taxes. However, since the introduction of Tax-Free Savings Accounts (TFSAs) in 2009, more than six million<sup>5</sup> Canadians have taken advantage of the benefits these accounts offer. Whether you are saving for a rainy day, that big dream purchase or retirement, taking advantage of tax-sheltered savings is critical to achieving your goals.

As 2011 proved to be a challenging year for investors, the importance of staying focused on your long-term investment strategy and leveraging the tax advantages of these registered plans became even more paramount.

Unfortunately, many investors struggle to decide which plan is best suited to their individual goals. But it's important to remember that one plan is not inherently better than the other; they just provide different ways to save on taxes and compound your returns over time. A successful investor can use both plans to achieve the maximum benefit for their unique savings goals.

### HOW CAN I BENEFIT FROM BOTH PLANS IN THE LONG TERM?

While a TFSA is a great investment vehicle to meet a variety of goals, an RRSP is still one of the most effective ways to save for retirement. The main tax advantages of RRSPs are that they allow your savings to grow on a tax-deferred basis, and your taxable income is reduced each year you make a contribution. Withdrawals from an RRSP might also be taxable at a lower rate during your retirement years.

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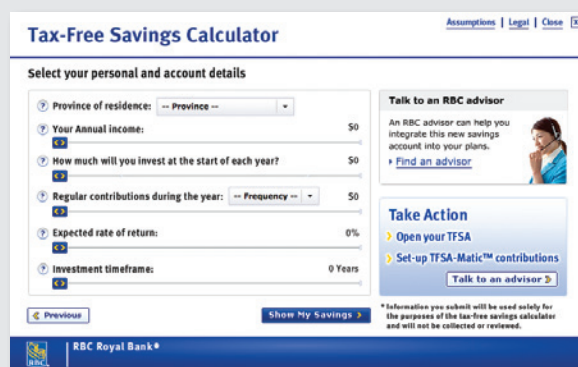
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That being said, a TFSA can complement your RRSP by giving you another way to shelter investment earnings from taxes. This is especially useful if you have maxed out your RRSP contribution room, or if you are beyond the age of 71 and no longer eligible to contribute to an RRSP. What's more, because you can withdraw funds from a TFSA without impacting your taxable income, it can be ideal for investors who have large RRSP balances, have good private pensions and are concerned about tax brackets or Old Age Security clawbacks. TFSAs may also be preferable for investors with minimal retirement income who are concerned about losing the Guaranteed Income Supplement (GIS) or other government assistance that is based on household income.

### SAVING FOR YOUR OTHER GOALS

One of the major benefits of a TFSA is that you can withdraw funds from the account tax-free whenever you want, (depending on the terms of your investments) and use the proceeds for any purpose you wish. Earnings from qualified investments in your TFSA — whether interest, dividends or capital gains — are not subject to Canadian tax. Thus, allocating a portion of your

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TFSA as an emergency fund or as savings for a major purchase like a new car or home renovation can be an ideal savings goal.

Like a TFSA, an RRSP can also provide short-term benefits for some investors. Although RRSPs are used primarily as retirement savings vehicles, there are government programs that allow you to borrow funds from your RRSP to buy your first home or continue your education, without tax consequences. The Home Buyers' Plan allows you to borrow up to \$25,000 from your RRSP to purchase your first home, and the Lifelong Learning Plan allows you to borrow up to \$20,000 to pay for training or education with RRSP funds. Please note that in both cases, you must repay

your RRSP for the funds withdrawn over a specific period of time.

Although it appears that there are economic headwinds still ahead, and many of the investment themes from 2011 will continue to be relevant in 2012, personalized advice from an investment professional at RBC® can make a difference in volatile markets. Your RBC advisor can help you maximize the benefits of your short- and long-term investments by understanding your goals, utilizing the tax-advantages of the various registered plans available to you, and helping you create a solid financial plan to help you reach your life goals.

**Contact your RBC advisor today or visit [www.rbcroyalbank.com/investing](http://www.rbcroyalbank.com/investing) for more information.**

### COMPARING THE BENEFITS OF A TFSA AND AN RRSP

Benefit	TFSA	RRSP
New contribution room created each year	\$5,000*	18% of previous year's earned income, less any pension adjustment for the previous year, up to the maximum annual RRSP contribution limit (2011 – \$22,450; 2012 – \$22,970)
Carryforward of unused contribution room	Unused contribution room carried forward indefinitely	Unused contribution room carried forward until the year in which you turn 71
Do I need earned income to contribute?	No	Yes
Do savings grow tax-free or tax-deferred, and are contributions tax-deductible?	Tax-free and not tax-deductible	Tax-deferred (until withdrawn) and tax-deductible
Tax implications of withdrawals	Withdrawals are tax-free	Withdrawals are added to your taxable income in the same year the funds are withdrawn
Can I withdraw savings for any reason?	Yes, at any time (depending on what you invest in)	Yes, the amount withdrawn is considered earned income and taxes are withheld at the time of the withdrawal (unless participating in the Home Buyer's Plan or Lifelong Learning Plan)
Am I required to convert my plan at a certain age?	No	Yes, you must convert an RRSP to a maturity option such as a RRIF or an annuity by the end of the year in which you turn age 71 or choose to close the plan.

\*The age of majority is 19 for residents of certain provinces and territories, which may delay the opening of a TFSA or RRSP. However, you start to accumulate TFSA contribution room at age 18 no matter which province you reside in.



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\* RBC Online Banking is provided by Royal Bank of Canada.



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## The one-minute market update

### ECONOMY

- The global economy continues to eke out growth despite repeated market shocks and political earthquakes.
- The Eurozone has deteriorated, political dysfunction has damaged confidence and fiscal drags are beginning to bite.
- While we expect any recession in Europe to be relatively mild and for recession in North America to be avoided, the road back to normal will be invariably long and slow.

### EQUITY MARKETS

- Global equity markets have exhibited unusually high volatility since mid-summer as investors have been forced to balance near-term uncertainty against historically attractive valuations.

- Corporate profitability and fundamentals are extremely healthy. As long as growth prevails, margins should be maintained and overall earnings can continue to rise.
- We are maintaining our modest overweight position in equities. Although growth next year will remain weak, severely depressed equity-market valuations provide upside potential.

### FIXED INCOME MARKETS

- Most major countries continue to enjoy near-record-low bond yields despite the unfolding crisis.
- The combination of elevated risk aversion and increased demand from quantitative easing is creating extremely, and persistently, low bond yields.

- It isn't clear how long this perfect storm depressing yields will last, but we believe it will be difficult for yields to move sustainably lower from here unless the feared collapse of the Eurozone becomes a reality.
- We remain underweight fixed income as we expect yields to rise in any environment that includes modest economic growth and progress toward crisis resolution.

For a summary of the Winter 2011 Investment Outlook, please visit our website at [rbcgam.com/investment-outlook](http://rbcgam.com/investment-outlook)

## Helping you get ready for tax season

At RBC, we want to make sure that you are ready for the upcoming tax season. To assist you, we are pleased to provide an easy-to-understand listing of the tax receipts you may receive in the coming months.

Tax Slip	Information	Mailed
T3, Relevé 16 in Quebec or NR4 for non-residents	For interest, dividends, capital gains, return of capital, foreign income, any foreign income taxes paid.	Late February
T5, Relevé 3 in Quebec or NR4 for non-residents	For non-registered GIC and deposit products with interest earned.	Late February
RRSP Contribution Receipts	For contributions made either from March 2 to December 31, 2011 or in the first 60 days of 2012.	Late January or mid-March*
T4RSP, T4RIF, Relevé 2 in Quebec or NR4 for non-residents	For withdrawals made from any RRSP, RRIF, PRIF or LIF and any withholding taxes applied to those withdrawals.	Late February
T4A, Relevé 1 in Quebec or NR4 for non-residents	For withdrawals made from an RESP or RDSP, and any withholding taxes applied to those withdrawals.	Late February

\* If receipts not previously received in branch at time of contribution.

For more information on taxes and investing, ask your RBC advisor for a copy of the [Taxes and Investing in Mutual Funds brochure](#), or download it at [www.rbcgam.com/taxes-and-investing](http://www.rbcgam.com/taxes-and-investing)

## Updates to GIC client agreements

Effective November 1, 2011, the federal government enacted new Deposit Type Instruments Regulations under the Bank Act, which apply to all term deposits issued by federal financial institutions. As a result, RBC Royal Bank has made changes to its client agreements for both non-registered GICs and GICs held in registered plans. We invite you to review the changes to our client agreements by obtaining a copy from your local branch.

In addition, if you hold GICs within a registered plan, your GIC renewal details will now be included in the Transaction Confirmation, which will be mailed to you immediately following the renewal date.

<sup>†</sup> Prior to implementing any tax planning strategies, a qualified tax advisor should be consulted about the tax implications specific to your situation. Financial planning services and investment advice are provided by Royal Mutual Funds Inc. (RMFI). RMFI, RBC Global Asset Management Inc. (RBC GAM), Royal Bank of Canada, Royal Trust Corporation of Canada and The Royal Trust Company are separate corporate entities which are affiliated. RMFI is licensed as a financial services firm in the province of Quebec.

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<sup>§</sup> Canada Revenue Agency – August 19, 2011. VPS64952

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