
Saving
Intentionally

Disclaimer

The information provided here is educational only and **is not financial or investment advice.** **Please consult a certified professional** for specific advice.

What is an Emergency Fund?

- **Unexpected events happen** (e.g. car break down, lay off during a recession etc.)

- Without an emergency fund **you may have to borrow at high interest** (e.g. credit card, line of credit or even pay day loans).

- Save **3 – 6 months of expenses** in an emergency fund, but focus on paying down any high interest debt first.

Key Question – What qualifies as an emergency?

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What is an Emergency? And what is Not?

- Emergencies include unforeseen medical or car repairs, urgent home repairs or unexpected job loss etc.

- Several situations might **feel** like an emergency but may **not be**. These include vacations, annual car expenses, down payment on a new home or a good sale at your favourite store.

Ask yourself is this event unexpected? Is it necessary? Is it urgent?

Key Consideration – You may want to disconnect your emergency funds from your debit card to reduce the temptation to spend on non emergencies.

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How to build an Emergency Fund?

- Saving for emergency fund is different than saving for long-term goals.

- Having **immediate access to cash** is more important than the return you generate on your emergency funds.

Key Idea – Building an Emergency Fund is easier than you think.

- **Make a monthly budget and commit to a specific amount to save each month.**
- **Pay yourself early.**
- **Choose the right type of account.**
- **Use future salary increases to accelerate your savings.**

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Pay yourself ~~first~~ second.

- We believe our **<u>first commitment is our tithe</u>**.
- We recommend **<u>your savings goal be your next commitment.</u>**
- As soon as you get paid, immediately move your savings commitment into a dedicated account that is not used for anything else.

Key Consideration - <u>Automate the transfer to your emergency fund</u>. That way you don’t “feel the pain” of the money coming out of the account where your paycheque is deposited, but you will <u>see your emergency fund grow</u>.

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Choose the right savings account type.

Tax-Free Savings Account (TFSA)

- Registered investment or savings account with higher interest rate than the average savings account (currently up to 4%).

- Able to invest in ETFs, stocks, bonds and cash etc. for **tax-free gains.**

- Annual deposit is limited (currently **$7,000 for 2024**), but any amount you don't use in a given year remains available to you going forward. Current lifetime maximum total contribution amount is **$95,000 as of 2024**.

Key Idea - TFSAs may be a good option for an emergency fund because you can make tax-free withdrawals.

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Choose the right savings account type

High-interest savings account

- Most banks and credit unions offer their own version of a HISA.
- Pays higher interest than standard savings accounts, **currently up to 4%.**
- Compare different options when looking at HISAs, because **some will charge transaction fees**.

Key Consideration - Note that the interest earned each year is taxable at your marginal tax rate.

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Use future salary increases to accelerate your savings

- Annual merit raises or cost of living adjustments often end up being spent if you don't have a proactive plan in place.

- For the smaller cost of living raises (2-3%), you'll likely want / need to put the entire amount towards your expenses.

Key Consideration - For any larger merit or promotion raises (5-10%), consider putting at least half or more towards savings before treating yourself to a "lifestyle inflation" with the rest.

Life Events Beyond Emergencies

Set a goal and <u>choose the right type of account</u>

- Vacation
- New Car
- New Home*
- Home Renovation
- Life Event (Wedding, New Baby etc.)
- Retirement*
- Post Secondary School*

Key Idea* - There are registered accounts for these life events that include special tax benefits

What is a Registered Retirement Savings Plan (RRSP)?

- Savings plan with special tax advantages and benefits designed to help you **save for retirement**.

- Many places offer RRSP accounts including banks, credit unions, mutual fund companies, investment firms and life insurance companies.

- Anyone over 18 who has earned income can open and contribute to an RRSP.

- You can make withdrawals earlier, but you must convert your RRSP to a RRIF when you turn 71 at the latest and make **minimum withdrawals after that**.

Key Question – What are the tax benefits?

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Why consider an RRSP to save for retirement?

- **RRSP contributions are tax deductible** so you may **owe less at tax time or get a larger refund**. The amount of your tax credit depends on your marginal tax rate.

- **Your savings grows tax-free while in the plan.** Any interest or investment earnings you make from the money in your RRSP is **not taxed if it stays in the plan**.

- **Get regular payments when you retire** by converting your account to a Registered Retirement Income Fund (RRIF) or an annuity.

Key Idea – RRSPs defer taxes until you are in a lower tax bracket. You get a tax credit on contributions now and money grows over time without being taxed. You're likely to pay less tax when you withdraw it, than you would have during your working years.

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Additional benefit of an RRSP

- **Borrow from your RRSP to buy your first home or pay for your education.** You can take out up to $60,000 for a down payment for your first home under the Home Buyers' Plan (HBP) or take out up to $20,000 to pay education costs under the Lifelong Learning Plan (LLP).

- You won't pay any tax on these withdrawals as long as you pay the money back within the specified time periods.

Key Idea – RRSPs can be used for more than just retirement.

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How much can you contribute to an RRSP?

- You can contribute the lower of **18%** of your income in the previous year, or the maximum annual contribution amount (**$31,560** for 2024).

- If you don't have the money to contribute in one year, you can **carry forward your RRSP contribution room** and use it in the future.

- If you are a member of a pension plan, your pension adjustment will **reduce the amount you can contribute to your RRSP.**

Key Question – How much RRSP room do I have? You can check your RRSP contribution room in your CRA MyAccount or on the Notice of Assessment you receive after filing your tax return.

What are the different types of RRSPs?

- **An Individual RRSP** is an account that is registered in your name. The investments held in the RRSP, and the tax advantages associated with them **belong to you**.

- **A Spousal RRSP** is registered in the name of your spouse. **They own the investments** in the RRSP, but **you contribute to it**. **You get the tax deduction for any contributions** , but any contributions you make reduce your own RRSP deduction limit for the year. They won't affect how much your spouse can contribute to their own RRSP.

Key Consideration - A spousal RRSP is a way to split your income more evenly in retirement. You may want to do this if you earn more money than your spouse.

What are the different types of RRSPs?

- **A Group RRSP** may be offered by your employer. You open an individual RRSP, but you contribute to it **through your employer**. The RRSPs of all of the employees are held at the same financial institution.

- Your plan contributions are usually **automatically deducted from your pay**. Your employer may match or add to your contributions.

- The range of investment options is usually limited, depending on where the group RRSP is held.

Key Consideration - If your employer matches any percentage of your contribution don't miss out on this free money!

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TFSA vs RRSP – which is better for you?

- Depends on your **individual financial situation and goals**.
- With a TFSA, you pay tax on money you've earned before you make a contribution, but **no tax when you withdraw.**
- With an RRSP you get a **tax refund now on money you contribute now**, but will have to **pay tax when you withdraw money** from the plan.

Key Idea - Your income, your investment timeline, and other factors will all contribute to making the right decision for your investment dollars. You may find that you can use both vehicles simultaneously.

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TFSA vs RRSP – Cheat Codes

- As a general rule, for retirement savings, **if you make more than $50,000 annually** the tax deduction for RRSP contributions will make it the best option.

- RRSP works well for its intended purpose, but does not help you with **short or med term goals**. That's where a TFSA might work better, given that you can make withdrawals tax-free, and with no penalties.

Key Idea – TFSA is a better option for short or medium term saving goals. If you make less than $50,000 a TFSA is likely the best option for retirement savings. If you make more than $50,000, consider using both accounts simultaneously.

What is a Registered Education Savings Plan (RESP)?

- Tax-deferred savings vehicle for a child's **post-secondary education**.

- The difference between an RESP and other registered accounts is the **ability to earn 20% government grants on annual contributions**, known as the Canada Education Savings Grant (CESG), up to a maximum of $2,500 per year. There is no annual contribution limit so long as it doesn't surpass the lifetime RESP contribution limit of $50,000 per beneficiary.

Key Consideration - To get the full $7,200 in CESG, you would need to contribute $2,500 every year for 14 years, plus $1,000 in the 15th year. However, if you can afford it, the best strategy is to front load the contributions to maximize the compound growth while the CESG payments catch up over time.

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What are the RESP withdrawal rules?

- **Post-Secondary Education Payment (PSE):** This simply returns the original contributions to the subscriber (parent or guardian), tax-free.

- **Educational Assistance Payment (EAP):** This includes investment earnings, government grants and growth. However, EAPs are taxed in the student's hands, usually when they earn too little to owe income tax in most cases—**<u>or they pay very little.</u>**

- **Accumulated Income Payment (AIP):** This occurs when a child doesn't attend a post-secondary program, AIPs are taxed at the contributor's marginal tax rate plus an additional 20%.

Key Consideration – Withdraw EAP funds first. If there is any money left at graduation the PSE funds can be withdrawn with <u>no taxes owed.</u>

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Single RESP vs Family RESP?

- In a Family RESP, government grants and growth can be allocated between multiple children. So, if one child attends for less time or attends a cheaper post-secondary school, you can use more of the RESP funds for one child and less for another.

- Contribute to a Family RESP and get government grants just like you can with an individual RESP. And you can **<u>simultaneously take withdrawals for multiple children at the same time</u>**.

Key Consideration - Managing one account is usually easier than managing multiple accounts. As a result, many professionals generally recommend family RESPs. Even if you have a single child, you can open a family RESP and add subsequent children to it.

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Any
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Questions


COMING
SOON!


Budgeting Purposefully

Investing Knowledgeably