Wealth Management

Aaron Fennell, MBA, CFA
Portfolio Manager & Investment Advisor
Tel: 416-313-6397
aaron.fennell@rbc.com

RBC Dominion Securities
181 Bay Street, Suite 2350
Toronto, ON M5J 2T3
www.aaronwfennell.com

Types of accounts

Understanding the “alphabet soup” of savings and investment accounts

Depending on your financial situation and stage of life, you may be familiar with—or using—accounts such as a Registered Retirement Savings Plan (RRSP), Tax-Free Savings Account (TFSA), Registered Education Savings Plan (RESP) or Registered Pension Plan (RPP), to name a few. Whether more short term or long term in nature, when it comes to investing and building your savings, there are a range of account types that suit different purposes and goals.

In determining which account options may be the best fit for your circumstances and needs, and where you should invest your money, it’s important to understand how these structures work and the key differences among them. Using the most appropriate account at the right times will help in both building your savings faster and managing your money more efficiently.

In the Canadian landscape, at the highest level, accounts can be separated into two basic types: taxable and non-taxable.

Taxable vs. non-taxable accounts

Generally speaking, in Canada, all income is taxable unless the government specifically says it isn’t. In a bank account or investment account, when your money grows, you generally have to pay some taxes on the earned income. To help in facilitating tax-free or tax-deferred saving for particular goals, the government allows individuals to set up what are called “registered” accounts (explained in more detail later). So, depending on the type of accounts in which you have your money invested, the income earned in those accounts may be taxed in different ways and at certain times.

Here’s a basic breakdown of taxable vs. non-taxable accounts.

Taxable Bank account Investment account	→	**TAXED ANNUALLY**
Taxable (tax-deferred) Registered Retirement Savings Plan Registered Pension Plan	→	**TAXED AT RETIREMENT**
Registered Education Savings Plan Registered Disability Savings Plan	→	**TAXED IN YEAR OF WITHDRAWAL**
Non-taxable Tax-Free Savings Account	→	**NEVER TAXED**

To find out more about account types or the RBC Wealth Management Financial Literacy program, please contact us today.

Registered vs. non-registered accounts

Accounts are also categorized as registered and non-registered. The main point to recognize here is that registered accounts offer a range of tax benefits.

When it comes to saving for specific goals, such as education or retirement, the government recognizes the importance of doing so, so registered accounts exist to help Canadians grow and protect their savings in a tax-free or tax-deferred manner. By using registered accounts, more money stays in your pocket over the short term, because most of these accounts allow you to defer paying taxes on the income earned within them.

Account types at a glance

Non-registered	Registered
• Bank account • Investment account Non-registered accounts enable you to save money, short term via a bank account and long term via an investment account. The income earned in both are taxed annually.	• Registered Retirement Savings Plan • Registered Pension Plan • Registered Retirement Income Fund • Tax-Free Savings Account • Registered Education Savings Plan • Registered Disability Savings Plan Registered accounts exist as a way for governments to encourage people to save for things they feel are important to save for. The encouragement can be in the form of deferring tax, providing additional matching funds or not taxing funds at all.

Choosing the right account for you

- Identify the goals you want to save for.
- Check if a registered account is available to save for that particular goal, as all registered accounts are designed to satisfy a unique purpose. If one exists, choose it first, since it will offer tax savings features. If there isn't a registered account specific to your goal, then consider opting for a non-registered taxable account.

Types of accounts – An overview

Account	Tax classification	Details
Bank account	Taxable, taxed annually	• Simplest, non-registered account type. • Can be either a chequing or savings account, or a blend of the two. • Can hold cash only and earns minimal interest but the cash is readily accessible.
Investment account	Taxable, taxed annually	• Non-registered account that allows for a variety of investments including cash, GICs, bonds, mutual funds and stocks. • Commonly opened through a brokerage firm for maximum investment options, but it's also possible to hold an investment account at a bank, usually with limited choices. • Can be a cash account (purchases must be paid in full by the settlement date) or margin account (allows you to borrow money or securities from the brokerage firm to leverage your investments). • Unlike a registered account, offers no tax advantages. • Assets are usually not as readily available as a bank account.
Registered Retirement Savings Plan (RRSP)	Tax-deferred, taxed at retirement	• An account that allows individuals to accumulate and grow funds in preparation for retirement. • Tax deduction when you put money into the account. • No annual taxes on income earned in the account while funds are accumulating. • Any money withdrawn is fully taxable in the year it's withdrawn. • Contribution room is 18% of your employment income up to a maximum. • Different types of RRSPs include individual, spousal, self-directed and group plans.
Registered Retirement Income Fund (RRIF)	Tax-deferred, taxed at withdrawal	• When people retire, their RRSP typically gets moved into a RRIF; must be done by the end of the year in which the RRSP annuitant turns 71. • Designed to provide retirement income from funds accumulated in an RRSP; there are minimums that must be paid out annually. • Amounts withdrawn from a RRIF are taxable but remaining funds continue to grow in the RRIF tax-free. • Contributions are not allowed.
Registered Pension Plan (RPP)	Tax-deferred, taxed at retirement	• Offered by employers for their employees' retirement; the employer deposits funds into a pension fund each year, which become available for use when the employee retires. • Funds grow tax-free until retirement; payments from the plan to the member are taxed. • Three basic types: – **DC plan:** Employer and/or employee makes contributions, usually based on a percentage of the employee salary; whatever it grows to at retirement is used to provide a monthly pension. – **DB plan:** Provides a set benefit or fixed amount to pay a monthly income at retirement, no matter how much is actually in the account. – **IPP:** Essentially a DB plan for business owners, which is often established for a limited number of participants (e.g. owner and his/her spouse or key employees); the company must contribute and members can contribute.

Types of accounts – An overview

Account	Tax classification	Details
Registered Education Savings Plan (RESP)	Tax-deferred, taxable in year of withdrawal	• Designed to help save for education, for you or your children (or potentially your grandchildren). • Funds in the plan grow tax-free until the year they're withdrawn. • No tax deduction on contributions made. • Lifetime contribution limit of $50,000; beneficiaries may be eligible for a government grant of 20% of the first $2,500 contributed per year. • Government grants and incentives grow tax-free while in the plan. • Contribution amounts are never taxed; grants, growth and income are taxable in the withdrawal year.
Tax-Free Savings Account (TFSA)	The only registered account that's never taxed	• Designed for short- and long-term savings goals; should not be used as a regular banking account due to contribution limits and CRA reporting requirements. • No tax deduction on contributions made. • Contribution room starts to accumulate at age 18 (or since 2009, whichever occurred last). • There are annual contribution room limits. Room not used in one year can be carried forward and accumulate. No annual taxes and funds aren't taxed when withdrawn.
Registered Disability Savings Plan (RDSP)	Tax-deferred, taxable in year of withdrawal	• Designed to assist eligible Canadians with disabilities and their families in saving for the long-term financial security of the person with a disability; individual must qualify for the Disability Tax Credit. • Lifetime contribution limit of $200,000. • No tax deduction on contributions made. No tax on contributions withdrawn either. • Government may contribute up to $70,000 of grant amounts and $20,000 of bonds. • Income earned in the account is not taxed; income is taxed when withdrawn.