Wealth Management

Types of accounts

Understanding the "alphabet soup" of savings and investment accounts

When it comes to investing and building your savings, there are a range of account types that suit different purposes and goals.

Depending on your financial situation and stage of life, you may be familiar with investment accounts such as Registered Education Savings Plans (RESPs), Tax-Free Savings Accounts (TFSAs), or Registered Retirement Savings Plans (RRSPs), to name a few. When it comes to investing and building your savings, there are a range of account types that suit different purposes and goals. Using the most appropriate account at the right times will help in both building your savings faster and managing your money more efficiently.

Registered vs. non-registered accounts

In Canada, investment income is taxable income. You need to report income earned from your savings and investments on your income tax return. However, to encourage people to save for particular goals, the government allows individuals to open what are called **registered investment accounts**. Registered accounts offer tax benefits such as tax-deferral (which means you pay the income tax in the future), or tax-free investing (which means the growth and income are never taxed). By using registered accounts, more of your money stays invested, providing more opportunity to grow.

Account types at a glance

Non-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 is taxed annually.

Registered

- Registered Education Savings Plan (RESP)
- Registered Disability Savings Plan (RDSP)
- Tax-Free Savings Account (TFSA)
- Tax-Free First Home Savings Account (FHSA)
- Registered Retirement Savings Plan (RRSP)
- Registered Retirement Income Fund (RRIF)
- Registered Pension Plan (RPP)

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.

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, stocks and funds. • 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 Education Savings Plan (RESP)	Tax-deferred, taxable in year of withdrawal	• Designed to help save for education, for you or your children (or potentially another family member). • 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 year of withdrawal.
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. • Government may contribute up to $70,000 of grant amounts and $20,000 of bonds. • Lifetime contribution limit of $200,000. • No tax deduction on contributions made. • No tax on contributions when withdrawn. • Income earned in the account is not taxed annually. Income, grants, and bonds are taxed in the year of withdrawal.
Tax-Free Savings Account (TFSA)	Tax-free, income is not taxable	• Designed for short- and long-term saving and investing. • Should not be used as a regular banking account due to contribution limits and CRA reporting requirements. • No tax deduction on contributions made. • There are annual contribution room limits. The room that is not used in one year can be carried forward and accumulate. • No annual taxes and funds aren't taxed when withdrawn.

Tax-Free First Home Savings Account (FHSA)	Tax-free, deposits and income are not taxable when used for first home purchase	• An account to help individuals save to purchase their first home. • Tax deduction when you put money into the account. • No annual tax on income earned, and no tax on withdrawals (for eligible home purchase). • There are annual contribution limits. Some unused contribution room can be carried forward to the subsequent year. • Carry-forward amounts start accumulating after you open an FHSA for the first time.
Registered Retirement Savings Plan (RRSP)	Tax-deferred, taxed in year of withdrawal	• An account that allows individuals to accumulate and grow funds 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 previous year's 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	• RRSP accounts typically get moved into a RRIF; must be done by the end of the year in which the RRSP holder 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, which creates an income when the employee retires. • Funds grow tax-free until retirement; payments from the plan to the member are taxed. • Three basic types: – **Defined Contribution (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. – **Defined Benefit (DB) plan:** Provides a set benefit or fixed amount to pay a monthly income at retirement, based on average income and years of service. – **Individual Pension Plan (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.

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.
- Check for eligibility criteria and contribution limits on each registered account.
- If there isn't a registered account specific to your goal, then consider opting for a non-registered taxable account.

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