



Quarterly Exchange

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The 2021 Money Makeover



Many of us will look back on 2020 as a year of great hardship and we may all be eager to turn the calendar and hope for brighter news for the world in 2021. If your finances took a hit or you want a new start for your money, here are 10 things to consider.

Looking back on the past year, the reverberations of the COVID-19 pandemic almost certainly had an impact on your wallet. Many Canadians experienced a loss of income and added uncertainty. For some Canadians, we watched our savings grow as our spending dropped.

“There’s no silver lining to 2020 because of our health emergency. But many people’s finances have endured a stress test and they have seen whether their money plans can weather financial strain or if they need to make a stronger plan,” says Bernice Marien, a High Net Worth Planner at TD Wealth.

Even if you kept your income and did not suffer any large setbacks, you probably thought long and hard about what was happening to other people around you. And whether your situation could sustain a major blow.

Marien says everybody should learn lessons from the after-effects of the pandemic and the downward pressure it has placed on the economy. If it was a tough year, getting back on your feet will be a priority. If you managed to save more money because of the lockdown, you may want to ensure that money will help you get to a goal like a vacation.

Marien points out that if you have saved a bundle, you may want to continue those good habits to see how much more you are able to put aside. Now could be an opportune time to top up your Registered Retirement Savings Plan (RRSP), Tax-Free Savings

Account (TFSA) or Registered Education Savings Plan (RESP) contributions or even make an extra mortgage payment.

Marien offers 10 ideas we can all think about when we’re contemplating better times next year.

1. Get a checkup

If this year has unsettled your finances, you should get an objective view of what state you and your finances are in. This helps show any gaps in your thinking and keeps you from putting your head in the sand if your problems are making you feel powerless. It means making a visit to a financial advisor, lawyer or accountant to see exactly where you’re at, and see if you are on track to reach your financial goals. Even if you think you’re in good shape, you might have a tiny blind spot — forgetting a tax credit or not maximizing your RRSP — that could hurt you over the long term.

2. Knock down high-interest debt

Especially after the holiday season, many of us find that our January credit card statements are eyebrow-raising. Fortunately, while it may not be easy to pay the bill in one shot, there are some methods available to help lower the cost of that debt, Marien says. Although everyone’s financial situation is different, one option to consider is getting a line of credit — with a lower interest rate — to pay off high-interest credit card bills. When the weight of those high interest rates are off your back, you may want to think about paying off that line of credit as well.

3. Make a new spending plan

If falling behind on credit card payments is a constant predicament, there may be a bigger problem that needs fixing, says Marien. More money going out than

coming in could indicate some trouble living within your means. The remedy can include (big breath) making a budget, tracking where the money is going, evaluating what spending is essential and what isn't. She says it can go a long way to turning your cash flow from negative to positive. Even if it means big lifestyle changes — like forgoing an anticipated renovation — it's better to keep yourself financially fit than to fall into an abyss of debt.

4. Re-evaluate your goals

If you have been diligently saving money in your RRSP and TFSA, don't forget you should have an objective in mind for all this saving, says Marien. Even if retirement isn't imminent or if you've had to delay retirement (or even if you had to retire earlier than expected) because of the pandemic, make a plan for yourself. Consider when you want to retire, what you think retirement looks like and whether you think can meet your goals. Same with leaving your kids money in your estate: Is this just wishful thinking or are you really going to meet those promises you made? Plus, don't forget to compare notes with your spouse or partner on this. Your idea of the future may not jive with what your better half is thinking — better to start discussing it now rather than later.

5. Resolve to pay less tax

It may come as a surprise that there are steps you can take to help reduce the amount of tax you owe. For most of us, that means being vigilant about tax credits and deductions, and observing whether any recent life changes now make you eligible for different tax treatment. For instance, if you have had to miss work to care for someone because of COVID-19, you may be eligible for a Canada Recovery Caregiving Benefit of \$450 a week. It also makes sense to keep up with any changes to tax credits that have been recently introduced.

6. Dust off that Will

You may be facing a long winter at home. One way to make you feel more productive is to look into your Will or your Powers of Attorney. If you've set these up, that's great. If you haven't or it's been a while since you did so, now can be the perfect time to ensure they are up to date and that your instructions are still in line with recent events, says Marien. As well, if you've had a major event in your life — a second marriage, a new grandchild, the sale of a home — it may mean an ensuing revision to the Will. Also, double-check that your beneficiaries for your RRSPs and insurance policy still fit into your overall plan.

7. Have a money talk

While you are deciding on a financial plan, writing your Will or making an estate plan, make sure you communicate your intentions clearly to those who will benefit, usually your children. Not doing so can contribute to family conflict if people have different expectations about their parents' money, if they think one sibling is being treated more favourably or if unexpected family secrets come out of the closet that may tangle up family inheritances. This can be especially true for second marriages or blended families. Talk to people individually and let them know what the deal is and why. It will go a long way to sooth family feelings (and avoid expensive fights in court) when you're gone.

8. Revisit your emergency strategy

The year 2020 was a perfect instance of how an emergency fund can be helpful when the unexpected happens. Having an emergency fund of about three months' salary for example could see you through a situation such as the loss of employment or an extended illness. Those funds may forestall having to do something drastic such as selling property or taking the first job that comes along.

9. While you're at it, check your insurance

This year has taught us that no one can foresee the future. As part of your overall financial plan, check to see if your life and critical illness insurance coverage is still meeting your needs. If you are newly retired and no longer under a company plan, you may wish to top up your coverage. If you have a sizeable estate or a business, think about how insurance can play a role as part of your estate planning as a tax strategy when dealing with probate fees and income taxes.

10. Make a list of upcoming deadlines

Whether it's liquidating funds in a RESP for a child's university tuition, deciding whether to delay your Canada Pension Plan or withdrawing funds from your Registered Retirement Income Fund (RRIF), your finances are governed by deadlines and usually it's bad news if you miss them. Familiarize yourself with upcoming deadlines and prepare your finances accordingly so that you never penalize yourself accidentally.

— Don Sutton, *MoneyTalk Life*

5 super cool facts about your TFSA



Many Canadians love their Tax-Free Savings Accounts and no wonder — they are one of the best tools available to save for your financial goals. Here are five amazingly cool things you may not know about your TFSA.

The latest statistics show more than 14 million Canadians hold Tax-Free Savings Accounts (TFSAs) with a total value in excess of \$276 billion¹. It's no wonder TFSAs are so popular with Canadians: They offer a tax-free method to save and invest for your financial goals — everything from your next vacation to retirement. The flexibility of a TFSA can be used to complement any financial strategy or as a stand-alone savings option.

There are many cool features TFSAs have that can benefit your finances. Here are five ways a TFSA may be able to help you accelerate your savings strategy.

1. They're truly tax-free

The funds you contribute to your TFSA will be with after-tax dollars. However, as the name suggests, TFSAs are tax-free in that you won't pay tax when your investments increase in value, nor will you pay tax when you choose to take money out.

2. TFSAs can hold most kinds of investments

TFSAs are flexible enough to hold a range of investments, including cash, mutual funds, ETFs, stocks, bonds and GICs. One method to grow your TFSA is to take advantage of compound interest — that is, interest paid on both your principal investments and accrued interest. For example, some mutual fund investments, while they tend to fluctuate in the market, may provide the growth needed to achieve your financial goals over time, as opposed to cash which generates minimal growth in interest.

3. You never lose contribution room

One of the best features of a TFSA is that there's no need to miss out if you are unable to use all of your annual contribution room.

The contribution limit for 2021 — as set by the federal government — is \$6,000, but unused contribution room gets carried forward each year. In fact, if you were at least 18 years old and were eligible when the TFSA was introduced in 2009, you would have accumulated \$75,500 in contribution room by 2021. That means, if you are unable to maximize your contribution in a particular year, you could make up those contributions later. And, if you

choose to withdraw funds for any purpose, the amount you withdraw gets added to the next year's contribution room. You can even recontribute amounts you have withdrawn in previous years and your contribution room carries forward indefinitely. Check with the CRA to see how much unused contribution room you may have.

4. You can save automatically

TFSA's are a great way to save money. But reaching the current \$6,000 annual maximum with a lump sum contribution may be a challenge for some. Setting up regular contributions from a bank account to your TFSA through an automatic payment plan can help make it easier. That way, small contributions are made with less effort and can begin growing within your TFSA.

5. There's no age limit on contributing

Unlike an RRSP, there is no age limit on how long you can hold a TFSA. By law, you have to be at least 18 to open a TFSA (though bank policies may require you


to be the age of majority in the respective province or territory in which you reside) to begin contributing. However, once the account is opened, you can continue to make contributions for as long as you want. For investing purposes, this allows funds to continue to compound well into your senior years when you may have additional expenses such as health and long-term care. Moreover, TFSA contributions or withdrawals won't affect any Canada Pension Plan (CPP) or Old Age Security (OAS) payments you may be eligible to receive.

Saving money for your financial goals can be challenging when there are competing demands for your money. A TFSA allows you to contribute what you can, when you can, and catch up later if you don't maximize your contributions. Opening and using your TFSA doesn't have to be difficult. If you need some help, talk to your financial advisor.

If you would like to see how your money could grow inside a TFSA, use TD's TFSA calculator.

— Don Sutton, *MoneyTalk Life*





RRSP vs. TFSA: Which one do I choose?

Many of us find the differences between RRSPs and TFSAs difficult to understand. Here's a handy guide to help you choose which is right for you.

Every year, Canadians contribute to Registered Retirement Savings Plans (RRSPs) and Tax-Free Savings Accounts (TFSAs).¹ But according to one survey by TD Bank, one in four of us doesn't know the differences between them.² If you're confused, don't feel embarrassed! While the two registered plans share some similarities — both are designed to offer tax advantages to help you grow your money — there are also big differences. If you are managing to save money at this time and are wondering how you can make those savings grow, the questions and answers below may help you decide which plan can benefit you best. For a limited time, you can get \$100 when you invest \$2,500 in a new RRSP or TFSA at TD*.

How much can I contribute?

RRSPs : Your annual contribution limit is related to how much you earn. In 2020, the RRSP contribution limit is 18% of your previous year's earned income, up to the maximum amount of \$27,230 (a number set each year by the government), plus previous unused contribution room less any pension adjustments.

TFSAs: The annual contribution limit is set by the government and is the same for everyone: For 2020, the maximum is \$6,000. Keep in mind that unused contribution room gets carried forward

every year. For example, if you were at least 18 years old and were eligible when TFSAs were introduced in 2009, and have never contributed to a TFSA, you would have \$69,500 in contribution room by 2020.

Do I get tax deductions on my contributions?

RRSPs: Yes. RRSP contributions are tax-deductible. This means any contributions you make may reduce the amount of tax you pay on your income.

TFSAs: No. Contributions to your TFSA are not tax-deductible. Rather than a deduction, a TFSA allows your investments to grow tax-free inside the account.

Will I pay tax when I withdraw the funds?

RRSPs: In most cases yes. (Exceptions include the Home Buyers' Plan and Lifelong Learning Plan. More on those below.) When you withdraw funds from your RRSP, it gets taxed as income. That's why it may make sense to wait until retirement to begin withdrawals, when your income and tax rate may be lower.

TFSAs: No. The investments within your account grow tax-free and you won't need to pay tax on any investment income earned or when you withdraw the funds.

What kind of investments are eligible?

RRSPs: You can invest your savings into a wide range of qualified investments including Guaranteed Investment Certificates (GICs), mutual funds, exchange-traded funds (ETFs), stocks and bonds among others.

TFSAs: Your TFSA can hold the same types of

*Conditions apply. Offer ends January 31, 2021.

qualified investments your RRSP can hold: GICs, mutual funds, ETFs, stocks and bonds, etc.

Can I make withdrawals when I want to?

RRSPs: You can withdraw funds at any time (subject to any restrictions in the investments chosen). But, since the money will be taxed on withdrawal, usually it's best to wait until you retire when your income may be lower.

TFSAs: You can withdraw funds at any time (subject to any restrictions in the investments chosen). This can make it a flexible option for important life goals like major purchases, renovations or vacations.

Can I keep contributing after I'm retired?

RRSPs: Yes, but only up to the end of the year you turn 71. At that point, there are several options available to you, including a Registered Retirement Income Fund (RRIF). If you convert your RRSP into a RRIF, you are required to withdraw a certain percentage of that RRIF annually.

TFSAs: Yes. There is no upper age limit for contributions to a TFSA. You may make your maximum annual contribution every year without any tax consequences.

Are there any other key features of these registered plans I should know about?

RRSPs: The Home Buyers' Plan (HBP) allows you to withdraw up to \$35,000 towards the purchase of your first home without triggering additional taxes. Likewise, you may withdraw up to \$20,000 for education purposes under the Lifelong Learning Plan (LLP). Both these plans have eligibility requirements, conditions, and come with strict schedules for payback into the RRSP.

TFSAs: You can never lose your contribution room. If you don't contribute for several years, you can make up those contributions at any time in the future. If you withdraw some funds one year, that amount is added back to your contribution room the next year.



Where can I see how my contributions might grow?

RRSPs: You can see how your RRSP savings might grow using TD's Retirement Calculator.

TFSAs: You can see how your TFSA savings could grow using TD's TFSA Calculator.

So...which one is best for me?

If you are able, you can maximize your contributions for both. Generally, RRSPs are ideally suited for retirement saving and may be beneficial for individuals with a high income. On the other hand, TFSAs offer more flexibility when withdrawing funds which can be helpful when saving for long- and medium-term goals. But everyone's situation is different: A chat with a financial advisor may help determine which choice is right for you.

— Don Sutton, *MoneyTalk Life*

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