

Turbocharge your investments with the TFSA

Why it's today's high performance vehicle – and not a savings parking lot

Are you a raving fan of the TFSA yet? You should be! In this five-part series we are going to show you why our advisors are all revved up about this 'greatest gift of the Canadian government. As an educator, there are so many marvelous ways it can drive your financial future, especially now that gratuities are no longer the final fallback plan. In fact, the only downside of the TFSA is that we all wish you could contribute even more than \$5500 annually which is the current maximum.

Beyond a bank account

So let's start by dispelling the myths. For those of you who don't know it yet – a TFSA is not a bank account. Nor is it somewhere you just 'park your cash'. Most of you fully grasp the 'tax-free' aspect, but may not know is that a TFSA can hold almost anything – yes just about anything – and not just a high interest savings account at an unappealing 1.25% return.

For example, if you had a growth fund last year sheltered in an Educators TFSA, you would have achieved a whopping 17% return – tax-free whenever you withdraw it. Other options include mutual funds, guaranteed investment certificates, listed securities and a wide range of qualified investment products. What you hold in your TFSA is limited only by the creativity of your investment strategy and how conservative or growth oriented you are in your overall approach to money.

And here is the real kicker: Any interest, investment income, dividends and capital gains earned within a TFSA are never subject to tax. Ever, Even when withdrawn!

Accelerate your savings

Parking lots, after all, are places for stationary vehicles. With a TFSA, however, you have almost unlimited motion and flexibility. Rather than put your coins in the metre and receive static shelter for a set period, TFSAs are on the move with great traction and no imposed time limits – giving you ultimate in- and out- privileges. That means, unlike an RRSP, you can add funds to your TFSA whenever you please, with no risk of penalties. The only restriction is that it is not possible to withdraw and recontribute within the same calendar year. But we will deal more with this in future articles

No road blocks

Also unlike RRSPs, there are no deadlines regarding when you can contribute. You can do so at any time during the calendar year. And if you have never contributed, your allowable contributions accumulate from past years to increase your annual contribution limit. That means if you've never contributed before in the past, you could deposit as much as \$25,500 into a TFSA in 2013. And if you have contributed before but not your maximum amounts annually, you will have all those unused funds still available for you to contribute this year, next year – or whenever you are ready.

How TFSAs can add up.

For all these reasons and more, TFSAs have recently eclipsed RRSPs as the most popular investment strategy for Canadians. Based on a November 2012 Bank of Montreal poll, 10 million, or 39 per cent of Canadians now have a TFSA as compared to just 36% that hold an RRSP account. And of the people who have put their funds into TFSAs, a full 44 per cent made

their maximum annual contribution of \$5,000 for 2012. The popularity continues to grow for so many reasons.

And when you do the math, the returns are especially irresistible: Let's say you are a 25-year-old educator who started contributing your maximum into a TFSA in 2013, and continued to do so every year until age 65. If you figure in a totally achievable 5.5% interest return, you will have saved \$719,150 by retirement in your TFSA versus a non-registered account earning you just \$433,954. And this amount, unlike those funds in an RRSP savings account, can be withdrawn without any tax implications.

Far from a parking lot to park your extra cash, the TFSA is indeed a dynamic and drivable savings dynamo. If you have not already done so, be sure to max it out and speak to your advisor on the correct TFSA investment strategy to get the most mileage out of yours -- and ensure it is on track to transport you to your dream destination.