

# Part Five: RSP vs. TFSA

Registered Retirement Savings Plans or Tax-free savings accounts — if you can't afford to contribute to both, which is the better bet for Canadians saving for retirement?

It's worth bearing in mind that, although savers at all income levels are attracted to the relatively new tax-free savings accounts, they were designed for low-income earners who are ill-served by Registered Retirement Savings Plans.

TFSAs are especially favoured by people who pay minimal tax now, so they don't save much on RRSP contributions, and/or expect to pay a higher tax rate when they retire, perhaps following an inheritance or the sale of a major asset or business.

Also, unlike an RRSP, the income a TFSA earns does not affect entitlement for other old-age benefits. And it's also attractive if you think you might want to withdraw some of the money before retirement, or if your RRSP contributions are maxed out and you still have money to invest.

RRSPs are most appealing when you expect your retirement tax rate to be equal to or less than the rate today, when you're in a high tax bracket, or when you want to make sure you cannot easily dip into your savings before retirement.