Dealing with TFSAs

Dear Money Lady

I went into my bank a couple of months ago to ask what to do with my TFSA and they made me an appointment with a financial planner. After I went in to see him, I still didn't know what to do with my TFSA or whether I should even keep it. How can I get a simple answer without getting a sales pitch to buy another bank product? I'm still not sure what to do and still looking for a straight answer !!

Sincerely,

John XXXX (Straight-Shooter)

Dear Straight-Shooter!

Great question and one that most readers want answered, so let's get right to it!

A TFSA or Tax Free Savings Account was first introduced in 2009 for Canadians to create an investment savings account whereby all growth on their deposits are not taxed.

Really, every Canadian over 18 should have a Tax Free Savings Account as part of their plan to save for the future. If you were just starting out today and had not been contributing since 2009, you could invest $63,500 per person in 2019. The maximum contribution for 2019 is $6,000 per person, but the Canadian Government allows you to make up for previous years, so if you are not at the $63,500 limit yet, you can top-up your TFSA to this maximum.

Why is it so important to have a TFSA as part of your retirement plan?

Remember that money in retirement is the byproduct of a well-thought-out successful plan, and having a TFSA is definitely part of that solution.

When you first retire, there is usually a high degree of pent-up demand created by unforeseen expenditures that we had not anticipated.

Many Canadians underestimate their spending in retirement and when asked, most new retirees were not able to cut back on their spending as they had planned once in retirement.

The harsh reality is that they were not able to lower their standard of living drastically once they stopped working and found that in the first few years, there seemed to be a very high burn rate. This is called the Honeymoon Stage. How can you blame them!!

New retirees are healthy, active and all those pictures they have been cutting out of the travel section of the paper for the last couple of years look like great places to finally visit. Voila! We have our TFSAs.

Having funds saved in two TFSAs for a retiring couple, allows early retirees to get used to their new non-working years with access to money tax-free. Using the Honeymoon Fund for the first 2-3 years helps you adjust to a new budgeted lifestyle while other savings such as RSPs continue to grow.

TFSAs are also good as an emergency saving account for those savers who want their investment to grow tax-free and still have access to their funds at any time.

Money can be withdrawn without restrictions, however be careful when replacing those funds at a later date. Deposits back into your TFSA will be restricted to your annual contribution and any over payments may be subject to penalties.

John, I would recommend you keep your TFSA and use it. When it comes to your bank, ask for what you want; it is the best way to ensure you will get it.

Ultimately, you must have control, if you don't have a banker concerned about getting you debt-free and wealthy, then get another one.

Remember, you will be the only one to blame if you don't have enough at retirement.

Good Luck and Best Wishes,

Money Lady

Christine Ibbotson is author of ?How to Retire Debt Free and Wealthy.? Follow her on Facebook & Instagram If you have a money question, please email: askmoneylady@gmail.com

