Buckets Full of Goodness

By Charlene Birdsall, CPA, CMA, CIM, CFP, National Bank Financial – Wealth Management

"Many drops make a bucket, many buckets make a pond, many ponds make a lake, and many lakes make an ocean."

– Percy Ross.

What do you keep in your buckets? Stones, gravel, soil, broken concrete, or maybe even bird seed like my husband? Some may even have buckets of beer or champagne chilling on ice. Buckets are used for many different things and come in many shapes and sizes. Some people even keep bucket lists for things they want to do and places they want to go.

But in this article, we will discuss financial buckets. When I was a child, my financial bucket was in the shape of a pig, pink with a black round rubber stopper on the bottom. I would put pennies, dimes, and the occasional quarter in it to save money (my piggy bank bucket). Now as adults we have other financial buckets, such as savings accounts at the bank or your investment accounts, Tax Free Savings Accounts (TFSA), Registered Retirement Savings Plan (RRSP), Registered Retirement Income Funds (RRIF), Registered Education Savings Plans, Locked In Funds (LIF), and your company pensions.

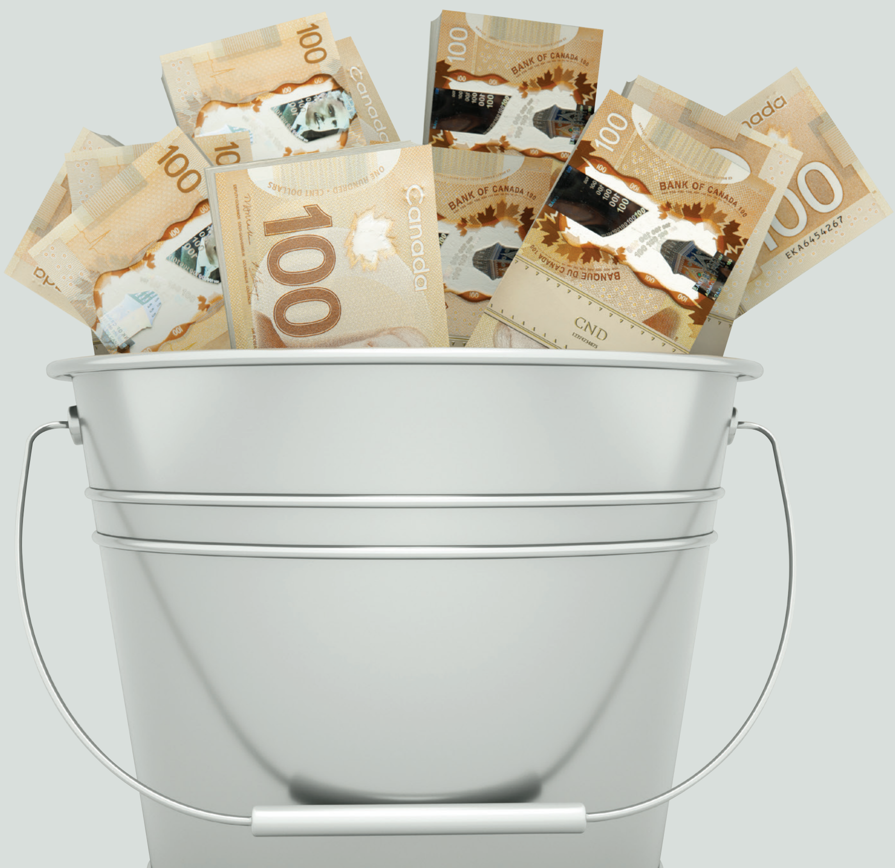
I know many people find these financial terms such as the TFSA, RRSP, RRIF, or even your company pension confusing, but they really are just buckets that hold cash and investments, each with their own individual rules. Some financial buckets you fill, and some financial buckets are meant to be emptied.

Let's discuss a few of these bucket rules.

Tax Free Savings Account – TFSA (Fill your bucket)

Myth: You can have only one Tax Free Account.

Fact: You can have multiple Tax Free Accounts. Multiple accounts are harder to manage as you have a maximum contribution limit. Once you go over the limit allowed, the Canadian Revenue Agency (CRA) will fine you one per cent per month for every month you are over your limit. Therefore it is best to have one.



Myth: You can only earn interest in the Tax Free Savings account like a savings account at the bank

Fact: You can hold cash, stocks, bonds, mutual funds, and guaranteed investment certificates (GIC). This is the account you really want to grow your money as all growth, dividends, and interest earned are tax free.

Myth: As of 2021, you can contribute up to $75,500 into your TFSA.

Fact: You can only contribute once you turn 18, and as long as you are a Canadian resident. Therefore, if you moved outside of the country for a year or two, you do not qualify to make a TFSA contributions for those years. But if you were born after 1990, and have lived in Canada all these years, your maximum TFSA contribution limit is $75,500.

Registered Retirement Savings Plan – RRSP (Fill your bucket)

Myth: Putting money into the RRSP now only creates a tax problem when I withdraw the funds.

Fact: The theory is you are in a higher tax bracket while earning income at your job, and the contribution to the RRSP will be deducted at the higher tax bracket thus saving tax dollars now. When you retire, you tax bracket should be dramatically lower, therefore you are being taxed upon withdrawal of the income from the RRIF, but at a much lower tax bracket than when the money was contributed.

Myth: I am 71 and must roll my RRSP over to a RRIF account, therefore, cannot make any RRSP contributions for deductions against my taxes this year.

Fact: You can contribute to your RRSP until December 31 the year you turn 71. You can also over contribute up to $2,000 (if you have not used this amount) without being penalized. If your spouse is under the age of 71, you can continue to make spousal RRSP contributions for tax savings, as long as you still have RRSP contribution room.

Registered Education Savings Plan Accounts – RESP (Fill and then Empty your bucket)

Myth: I can only put in a maximum of $2,500 per year per child for their education.

Fact: You can put up to $5,000 per year, but you only receive the 20 per cent government grant on the first $2,500 per year.

Myth: I am taxed when we withdraw the money for my child's education.

Fact: The beauty of the RESP is that it is the beneficiary of the plan (your child) that is taxed on the withdrawals. As your child would have little to no income, there would be no income tax paid. If your child does not continue with secondary education, they have until age 35 until the RESP must be closed. After that, the government grant must be paid back from the RESP, but the growth and contributions can be contributed to the parents' RRSP without taxation penalties.

Registered Retirement Income Fund - RRIF (Empty your bucket)

Myth: I can only turn my RRSP into a RRIF account when I turn 71.

Fact: You can turn your RRSP into a RRIF at any age, and have the convenience of having regular schedules withdrawals from a RRIF instead of having to make periodic lump-sum RRSP withdrawals (expect fees and withholding taxes applied to RRSP withdrawals). Also, after age 65, any RRIF payments are considered eligible pension income while RRSP withdrawals are not. This means the RRIF payments qualify for pension income splitting where up to 50 percent of the RRIF income is split with a spouse for tax purposes.

Pension Plans (Empty your bucket)

Myth: All pension plans are safe.

Fact: Most pension plans have some portion that is invested in the stock market. The growth can be volatile. There have been times during 2008 when clients wanted to do a lump sum withdrawal, but were limited to the amount they could withdraw as the pension had declined so much. Also, upon death, only part of the pension is paid to the spouse. After the spouse's death, all payments stop leaving nothing for the estate. The pension plan company is the winner at the end, *not your estate*.

Have your buckets reached their ocean potential? Wishing you swimmingly success in your decision. ◗

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