Using a TFSA to save for retirement

Five years after a debilitating accident, Kay has no savings. What should she do when her annuity payments run out?

Q. I am 43 years old and live in Calgary. I currently have no money saved or invested. Five years ago I was involved in a major accident and suffered a brain injury. I was awarded some money from the insurance company just this past year and I was required to take the money as an annuity. So, from now until age 67, I will receive what I call a monthly allowance from my annuity company. I realize now that if I could have taken this money and gotten an investment manager I probably would have made more money in the long run.

Here are the details of my finances today:
Monthly income
$1,750 (at 55 it increases to $2,050), all tax-free
$560 CPP disability benefits
Total: $2,310

Monthly expenses
$385 rent (my rent is supplemented, and would be $670 without this help)
$125 insurance (car and house)
$40 phone
$40 internet
$22 gym membership
$300 food
$50 gas
$100 miscellaneous
Total: $1,062

This means after expenses are covered, I have $1,248 cash per month to invest. Also, if I can earn the $5,500 per year that is allowed while receiving CPP disability benefits, then I will have another $458 per month to invest. I realize I might need some emergency cash in case something happens to my vehicle—and who knows what else can happen in life? I would also like to take a vacation each year, but that doesn't have to be more than $2,000 in total.

I used the extra cash I had to pay for my vehicle, and so it is all paid off.

Here are my questions:
This annuity money will run out when I reach age 67. What can I do to ensure I won't become cash-strapped? Should I consider saving in TFSAs? RRSPs? Or both?

I am also in the process of applying for the Disability Tax Credit (DTC) so, hopefully, I can utilize the Registered Disability Savings Plan (RDSP) and grants. Any help on this would be appreciated.
–Kay

A. Kay, sorry to hear of your accident and injury. Here are a few things that will help you with your planning and saving.

First, you are right about needing emergency savings. It's so important to prepare for events or expenses that might cost more money than you expected. Because you own a car, I suggest you set aside a fixed amount each month for car repairs, licence renewals and maintenance. Consider stashing $150 to $200 a month in an account that you could easily access when these expenses arise.

You may also want to set aside a regular amount towards planned travel and other life goals. Work out what the total annual cost of these goals would be, then divide by 12 months and deposit that amount into the account as well. Doing this will cover the cost of these goals in full when it's time to enjoy them—keeping you out of debt.

Due to your low current income, I suggest a TFSA is the best place to put your savings. An RRSP is best used if you are earning a higher income in your working years and expect a lower income in retirement. You can check the Government of Canada website for a step-by-step guide to your estimated CPP retirement benefit. The Canada Pension Plan retirement benefit will be payable to you when your CPP disability ends at age 65. You will get a good idea of approximately how much money you will receive in CPP payments as well as Old Age Security (OAS) payments after age 65. Knowing this amount will help you better plan for what you should be saving now to meet your retirement goals.

The registered disability savings plan (RDSP) would be a great retirement strategy for you now. You are able to contribute to the RDSP up until the end of the year that you turn 59. Plus, you may be eligible for savings grants and savings bonds based on your income. You may contribute any amount to your RDSP each year, up to the lifetime contribution limit of $200,000. (You'll find the RDSP calculator here to help you with your planning.)

Income earned from the RDSP grows on a tax-deferred basis until funds are withdrawn, after which they are taxed as income. Annual withdrawals, known as Lifetime Disability Assistant Payments (LDAPs), begin by the end of the year in which you turn age 60. These annual payments will continue throughout your life. Also realize that with the written permission of the RDSP holder (in this case, you Kay), anyone can contribute to your RDSP.

And finally, be sure to work with a financial professional who is very experienced in RDSPs. Your local brain injury association may be able to refer you. A combination of RDSP and TFSA* contributions, along with emergency savings, will go a long way to ensure you enjoy a comfortable retirement.

Janet Gray is a fee-for-service Certified Financial Planner with Money Coaches Canada in Ottawa.