How, when, and why to withdraw from your registered savings

We spend a lot of time talking about the importance of putting money *in* a registered savings account. But what happens when it's time to take it *out*?

The short answer? It depends.

In general, the point of a registered savings plan is to—you guessed it—save your money. But once you reach that goal, or if you need to access your money, there's not a lot of information available that talks about the how, when, and why of taking money out of a registered savings account. That's why we made this helpful overview.

First things first—some things to keep in mind.

Before withdrawing, have a plan for your money.

Do you need to make a big purchase? Dealing with an unexpected expense? Buying a home? There are different types of registered savings plans, such as RRSPs, TFSAs, RESPs, and each one is designed with a specific purpose or savings goal. Knowing why you're looking for money can help determine whether you should be looking to take money from a registered plan, and if so, what type of registered plan is the right one to withdraw from.

Talk to a financial expert.

You probably spoke with somebody to open your registered plan in the first place, so now that it's time to take money out, it's a good idea to talk to an expert again. They can help review your plans and financial goals and talk through whether or not it makes sense to take money from your plan.

Consider your investment mix.

It's important to understand the investments that you hold inside of your registered savings plan. Some types of investments, like Guaranteed

Investment Certificates (GIC), are locked into a set term, meaning that you can only make withdrawals once you've reached the end of your investment term. Taking money out before then can result in steep penalties—if you can even access it at all.

Why to withdraw.

There are a number of reasons to withdraw from a registered savings plan. Here are a couple of examples, broken down by plan type:

Registered Retirement Savings Plan (RRSPs): The obvious answer here would be when you're ready to retire. But you can also withdraw from your RRSP to purchase your first home or to further your education.

Tax Free Savings Account (TFSA): TFSAs are very flexible and can be used to support nearly any savings goal—whether its short, medium, or long term. TFSAs can be used to supplement retirement savings strategies, can be used as a nest-egg for emergencies, to save up for bigger purchases such as a big vacation, or toward a vehicle purchase. You can take money out of a TFSA at any time.

Registered Education Savings Plan (RESP): These plans are designed to help you save for a child's education. Typically, the only time you would withdraw from this type of plan is when your child is ready to get started with their post-secondary education.

What happens when you withdraw from a registered savings plan?

What happens when you withdraw is going to depend on what type of registered savings plan you're taking money out of.

In the case of an **RRSP**, outside of a couple of specific situations, such as buying your first home or furthering your own education, the money you take out will be treated like income—which means you'll need to pay taxes on it. It's also important to keep in mind that once you take money out of your RRSP, you will not get that contribution room back at a later date. Our RRSP Calculator can help you map out how much money you need to retire dependent on your age and savings.

When you take money out of a **TFSA**, you don’t have to worry about paying taxes on it—the same goes for any interest or returns you might have earned on the money inside the account. Once you take money out of your TFSA, you will get your original contribution room back, but not until the following calendar year. If you take money out but want to put it back in later, you might have to wait awhile.

Here’s an example: Let’s say you contribute $5,000 to a TFSA and make $500 in returns. You can withdraw that full $5,500 without paying any taxes on it. However, if you withdraw that full $5,500 on January 2, you won’t be able to put your original $5,000 back into your plan until January 1 the following year.

When it comes to taking money out of an **RESP**, it gets a little more complicated. Withdrawals are divided into two categories: Post-Secondary Education (PSE) payments and Education Assistance Payments (EAP). PSE payments are not taxable because it’s the money you invested in the RESP in the first place, which was not tax-exempt. EAP funds are comprised of grants, bonds, or accumulated income and are taxable—but the tax is paid by the student using the funds. But because students’ incomes are typically quite low, that means they often pay less income tax.

When shouldn’t you take money out of a registered savings plan?

Registered savings plans, in general, aren’t meant to be used for short-term gaps in cashflow—they’re meant to be longer-term savings solutions.

If you’re looking for a shorter-term solution, or to make your money more readily accessible, something like a high-interest savings account might be a better option. As always, it’s important to think about your short- and long-term financial goals because, ultimately, those will help you determine where the best place to put your money will be.

Not sure what those goals are or what options are available? That’s where a financial expert can help. Find your nearest one today!