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THE TAX-FREE SAVINGS ACCOUNT (TFSA)

By FÉRIQUE Investment Services

Do you know about the TFSA? Is it already part of your investment strategy? Are you fairly familiar with it but not quite convinced? Are you interested but haven't had time to explore this solution?

Regardless of your level of knowledge of the TFSA, you probably know that it's a way to save on a tax-free basis. The TFSA is definitely an attractive tool that you should consider when it comes time to put aside savings in order to finance projects at various stages of your life. And it's also an excellent way to round out a retirement savings strategy and to improve the return on your assets. But you need a certain understanding of the TFSA to derive maximum benefit from it.

The TFSA - an addition to your financial strategy

The Tax-Free Savings Account, referred to as the TFSA, was created in 2009, enabling any Canadian resident who has reached the age of majority and has a social insurance number to save on a tax-free basis.

Investors who opt for a TFSA can increase their assets and make withdrawals without being taxed, which will cause their savings to grow faster. This is a distinct advantage over other investment vehicles.

The TFSA is also a flexible tool: you can make contributions or withdrawals at any time, regardless of the purpose or the timing of your project; and various types of investment are eligible, including mutual funds. So it's the ideal tool to help you save.¹

TFSA: A complement to an RRSP

The TFSA is an excellent savings solution that will help you make your projects a reality, but it's also a tool that complements a Registered Retirement Savings Account (RRSP).

This complementary aspect takes different forms. It is based mainly on the TFSA's flexible approach to withdrawals, whose impact is reduced because of their tax-free status. In addition, you can redeposit the amounts you withdraw and maintain all your contribution room. And withdrawals do not affect your government benefits or tax credits in any way.¹

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TFSA CONTRIBUTION LIMITS

	ANNUAL LIMIT (\$)	CUMULATIVE CONTRIBUTION ROOM (\$)
2009 to 2012	5,000	20,000
2013	5,500	25,500
2014	5,500	31,000
2015	10,000	41,000
2016	5,500	46,500
2017	5,500	52,000

THIS TABLE SHOWS THAT A PERSON WHO HAS NEVER CONTRIBUTED TO A TFSA CAN INVEST UP TO \$52,000 IN 2017.

The TFSA is also a fiscally advantageous vehicle that enables you to continue saving for retirement if you have reached your RRSP contribution limit. Moreover, it's possible to contribute to a TFSA throughout your lifetime, in contrast to an RRSP, which you must convert into a Registered Retirement Income Fund (RRIF) by December 31 of the year when you turn 71.

In short, it's wise to include the TFSA in your financial planning for retirement. But it's important to understand the distinctive features of the TFSA and the RRSP to establish the right strategy. Consult the comparative table on page 4 to discover the main characteristics of each solution.

A TFSA in your life

Adding a TFSA to your financial strategy is undeniably beneficial, regardless of your income, objectives or stage of life. It will help you reach your short-term goals, such as saving for a trip; your medium-term goals, such as saving for a down payment on a house; and your long-term goals, such as financing your retirement. Discover how a TFSA can help you achieve your objectives.

OBJECTIVES AND ADVANTAGES OF A TFSA

OBJECTIVES	ADVANTAGES OF A TFSA
Accumulate an emergency fund	Save on a tax-free basis. Withdraw funds without being taxed.
Finance a short-term project and start your retirement planning	Increase your assets and make withdrawals without being taxed, to reach your goal more quickly.
Finance a major project while planning for your retirement	Withdraw and recontribute funds without reducing your contribution room and without paying any tax.
Contribute actively to the financing of your retirement	Continue saving to increase your retirement income, for example if you have maximized your RRSP contributions. Increase your assets on a tax-free basis.
Retire	Obtain income without reducing the amount of your pension. Continue saving.

EXAMPLE

ANNUAL CONTRIBUTION LIMIT AND WITHDRAWALS

Since opening her TFSA in 2009, Jenny has contributed the maximum TFSA dollar limit in each year. By the end of 2016, she has accumulated a total of \$46,500 in her TFSA account. In 2016 Jenny makes a \$5,500 contribution, the TFSA dollar limit for 2017.

Later that year, she withdraws \$3,000 for a trip. Unfortunately, her plans change and she cannot go. Since Jenny already contributed the maximum to her TFSA earlier in the year, she has no TFSA contribution room left.

If Jenny wishes to re-contribute part or all of the \$3,000 she withdrew, she will have to wait until the beginning of 2018 to do so. The \$3,000 will be added to her TFSA contribution room at the beginning of 2018.

If she re-contributes any of the withdrawn amount before 2018, she will have an excess amount in her TFSA and will be charged a tax equal to 1% of the highest excess TFSA amount for each month that the excess remains in her account.²

A FÉRIQUE Portfolio for your TFSA

The FÉRIQUE Portfolios consist mainly of mutual funds. They are turnkey investment solutions that offer you peace of mind. They are adapted to your risk-tolerance profile; they cover various asset classes and are geographically diversified; they are rebalanced on a regular basis to manage market volatility; their multimanager structure enables Gestion FÉRIQUE to manage the strategic allocation of your Portfolio, while the underlying managers carry out tactical management of the investments in their funds; and, lastly, thanks to FÉRIQUE's business model, **their management fees are among the lowest in the industry for equivalent solutions.**³ These advantages make the FÉRIQUE portfolios an excellent choice if you want to invest in a TFSA and ensure your capital grows.

Continued on page 3

GESTION FÉRIQUE AND SERVICES D'INVESTISSEMENT FÉRIQUE

are not-for-profit organizations that **work solely in your interest: they reinvest their profits to benefit their clients.**

Combining a competitive approach based on performance, management fees that are among the lowest in the industry and quality advisory services at no additional cost, our offering is one of the most advantageous.

Fund pre-authorized contribution

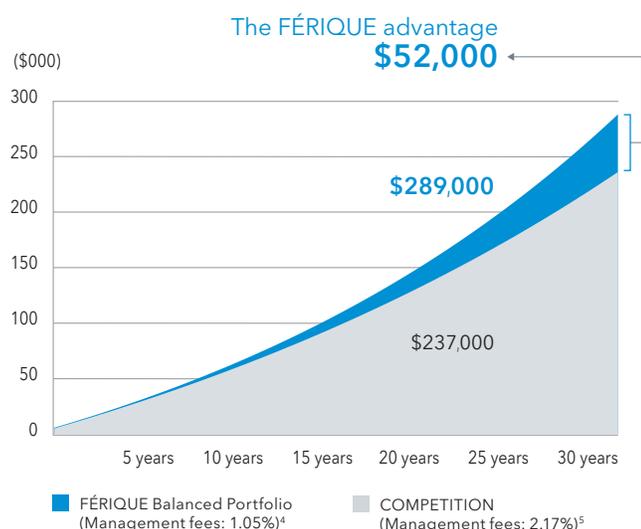
Automatic withdrawals from your bank account is a wise way to facilitate savings and to reach your goals, regardless of the amount or the frequency.

The figure below shows how a monthly contribution of \$400 for 30 years, added to an initial \$5,000 investment, could increase your assets substantially, in particular if you invest in a FÉRIQUE Balanced Portfolio through a TFSA. With a hypothetical 5% annual rate of return, your savings could increase from \$149,000 to \$289,000. Investing on a regular basis can therefore yield substantial results.

The following example shows the difference in the return if the investor delays opening the TFSA by about 15 years. Even if the monthly contribution is doubled to accumulate the same amount of capital, the investment will not reach the same peak. Investors who open their TFSAs with FÉRIQUE 15 years earlier could amass an extra \$83,000 (\$289,000 – \$206,000). In other words, the sooner you contribute to your TFSA, the more your investment will grow, even with a lower contribution. /

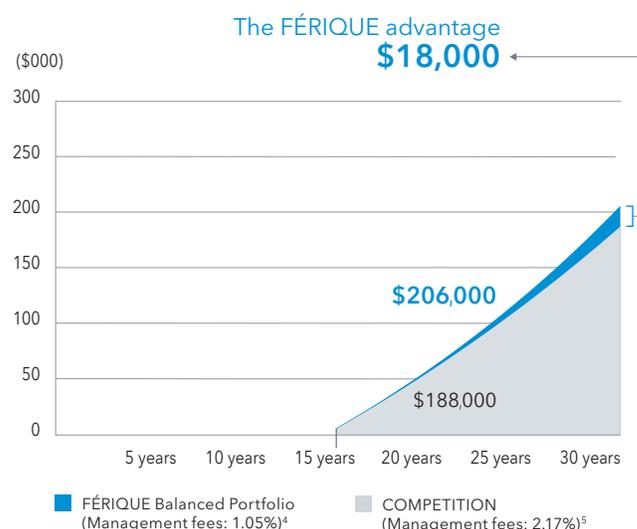
FIGURE 1: INVESTMENT IN A TFSA OVER 30 YEARS

Initial investment: **\$5,000**
 Subsequent amount: **\$400 a month for a total of \$144,000**
 Hypothetical annual return: **5.0%**
 Horizon: **30 years**



INVESTMENT IN A TFSA OVER 15 YEARS

Initial investment: **\$5,000**
 Subsequent amount: **\$800 a month for a total of \$144,000**
 Hypothetical annual return: **5.0%**
 Horizon: **15 years**



WOULD YOU LIKE TO ENJOY THE BENEFITS OF A TFSA OR A RETIREMENT SAVINGS SOLUTION?

Contact the Advisors and Mutual Fund Representatives at FÉRIQUE Investment Services. They would be pleased to help you.



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FÉRIQUE Investment Services

514-788-6485 | 1-800-291-0337
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¹ Certain conditions apply. For more information, visit the Canada Revenue Agency Website: <https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/tax-free-savings-account.html>.

² Source: Canada Revenue Agency, <https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/tax-free-savings-account/making-replacing-withdrawals-a-tfsa.html>.

³ The MERs of the FÉRIQUE Funds are among the lowest in the industry when compared to their base universe in Canada according to Fundata Canada Inc.

⁴ The management expense ratio (MER) of the FÉRIQUE Balanced Portfolio is 1.05% as at July 4, 2017.

⁵ The median MER for this category is 2.17% as at June 30, 2017, according to Fundata Canada Inc.

⁶ It is necessary to complete Form RC240, and the beneficiary spouse must be designated in the will.

CHARACTERISTICS OF THE TFSA AND THE RRSP

	TFSA	RRSP
SAVINGS GOAL	Accumulate tax-free savings to carry out projects throughout your lifetime.	Accumulate tax-deferred savings for retirement while lowering your taxable income at the time of contribution.
CONTRIBUTION DEADLINE	None You can contribute to a TFSA so long as you have not exceeded the contribution limit.	Before the sixtieth day of the following year
MINIMUM AGE	18 years old	No minimum age but you must be over 18 years old to deposit more than \$2,000.
MAXIMUM AGE	None	You must convert your RRSP into a Registered Retirement Income Fund (RRIF) no later than December 31 of the year you turn 71.
INCOME REQUIRED	None	Employment, business or excess net rental income is required to accumulate contribution room.
ANNUAL CONTRIBUTION LIMIT	\$5,500 in 2017 The annual TFSA contribution limit does not depend on income. It is the same for all Canadians.	18% of income earned in the preceding year to a maximum of \$26,010 in 2017. The maximum contribution established by the Canada Revenue Agency, as well as income, determine the annual contribution limit.
CONTRIBUTION ROOM	Contribution room has been cumulative since the TFSA was created in 2009 and stands at \$52,000 in 2017.	Contribution room is cumulative and corresponds to deductions not used in previous years, starting from 1991.
DEDUCTIONS	Contributions are not deductible from taxable income.	Contributions are deductible from taxable income.
WITHDRAWALS	Not taxable You can withdraw money from your TFSA at any time without being taxed. In addition, the amount withdrawn is added to your limit for the following year.	Taxable You must pay tax if you withdraw money from your RRSP. The amount withdrawn is not added to the limit for the following year.
INVESTMENT INCOME	Not taxable	Tax-deferred
IMPACT OF WITHDRAWALS ON GOVERNMENT BENEFITS OR TAX CREDITS	None Withdrawals are not considered taxable income.	Involves a decrease or a loss. Withdrawals are considered taxable income.
OVER-CONTRIBUTION	Subject to a penalty tax of 1% a month on the excess amount until it is withdrawn from the TFSA.	Subject to a penalty tax of 1% a month on the excess amount until it is withdrawn from the RRSP. A lifetime over-contribution totalling \$2,000 is allowed without penalty.
CONTRIBUTION TO A SPOUSAL ACCOUNT	There is no such thing as a spousal TFSA. Even so, the income allocation rules of the Canada Revenue Agency do not apply when you give money to your spouse for a contribution to his or her own TFSA.	Possible and involves a deduction for the contributor. The amounts paid into a spousal RRSP cannot exceed the contributor's personal contribution limit.
TAXATION AT DEATH	No taxation at death. The surviving spouse can add the amounts accumulated by the deceased to his or her own TFSA by tax rollover ⁶ without affecting his or her contribution room. From the time of death and until the rollover, the returns are taxable for the estate.	Taxable at death unless the RRSP is transferred to the spouse or to minor children on certain conditions.

FREQUENTLY ASKED QUESTIONS

This section will familiarize you with the terms and conditions of the TFSA.

Q What is the advantage of contributing to a TFSA to finance a project?

A. TFSA is an excellent way of generating tax-free returns. Your assets will grow faster, enabling you to reach your goal more quickly. You can also withdraw and recontribute funds at any time without having to pay tax, provided you do not exceed the annual contribution room.

Q Can a TFSA take the place of my other savings accounts?

A. TFSA cannot replace your other savings accounts, mainly because of the limited contribution room. Rather, the TFSA is a complementary solution to help you reach your objectives.

Q Can I open a TFSA in the name of a company (corporation or other)?

A. No. Only an individual can open a TFSA and only for personal purposes.

Q What is the lifetime contribution limit?

A. Each year you must respect the established contribution room, which consists of the TFSA contribution limit, unused contribution room and any amount withdrawn the previous year. In 2017, all Canadians are entitled to hold a maximum of \$52,000 in their TFSAs.

Q What happens to unused contribution room?

A. Contribution room is cumulative. Unused contributions are added to the contributions allowed in the following year.

Q How can I get information on my contribution room?

A. Simply use the "My Service Canada Account" tool on the website of the Canada Revenue Agency (CRA).

Q Is the number of annual withdrawals capped?

A. No. You can withdraw money at any time from your TFSA, regardless of the frequency.

Q Can I recontribute amounts withdrawn from my TFSA at any time during the year?

A. Amounts withdrawn can be redeposited in the account during the year. That being said, the annual authorized contribution room must be respected and each reimbursement counts. If the contribution room for the current year is reached, you must wait until January 1 of the following year to put money back into your TFSA or else you will be subject to a penalty tax.

Q Can capital losses in a TFSA be used to offset taxable capital gains?

A. No. Moreover, if you transfer into your TFSA assets whose value has decreased, you may have your capital losses refused.

Q Is it possible to transfer assets from a TFSA to a spouse or a de facto spouse in the event of the breakdown of a relationship?

A. You can transfer all or a portion of the assets in a TFSA to a spouse or a de facto spouse in the event of divorce or breakdown of the relationship, on certain conditions.

The other option is to withdraw the funds from the TFSA before giving them to the spouse. In this way, the transferor retains his or her contribution room and can use it the following year. Even so, the transfer will affect the contribution room of the spouse who receives it.

Q What happens to a person's unused contribution room in the event of death?

A. An individual's unused contribution room is lost at the time of death and is therefore not transferable.

Q What are the consequences if a TFSA is closed?

A. Closing a TFSA is a mere formality. By emptying the account, you recover all your contribution room. You can redeposit the maximum amount the following year.

However, the account's value when the withdrawal occurs will influence the available contribution space, both upwards or downwards.

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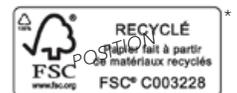
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