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FINANCIAL ADVISORY SUPPORT

RRSP Strategies at age 71

The 2007 federal budget extended the maturity or conversion age of Registered Retirement Savings Plans (RRSPs) from the end of the calendar year the annuitant turns 69 to the end of the calendar year the annuitant turns 71. And even though you must convert your RRSP to a Registered Retirement Income Fund (RRIF) in the year you turn 71, this does not necessarily mean that you will no longer be able to benefit from RRSP deductions. For a discussion of RRSP maturity alternatives, please ask for a copy of our publication entitled "RRSP Maturity Options."

Increase in age limit conversion

Up until early 2007, RRSPs, Locked-In Retirement Plans (LIRAs), Registered Pension Plans (RPPs) and Deferred Profit Sharing Plans (DPSPs) had to mature or be converted by the end of the calendar year in which the annuitant of the plan turned 69 years of age. The 2007 federal budget extended the maturity or conversion age to the end of the calendar year in which the annuitant turns 71 years of age.

The 'forgotten RRSP contribution' when you're still earning income at age 71

In the year you turn age 71, there is a December 31 deadline to turn your RRSP into a RRIF or choose another RRSP maturity option. Once this deadline passes, you will not be able to make any further contributions to your individual RRSP.

If you earned income in 2009 and you also turned age 71 in 2009, you will not be able to contribute to your RRSP in 2010. You will be denied a possible tax refund (based on your RRSP deduction) and a possible contribution of up to $22,000 to your tax-deferred retirement plan. Of course the amount of your potential deduction depends on your regular RRSP contribution room.

You may wish to make a final RRSP contribution at the end of the current year. This is called the "forgotten RRSP contribution." You can make your RRSP contribution just before December 31 in the year in which you turn age 71, based on your earned income from 2009. If you have already made the maximum contribution for 2009, the CRA will consider the December contribution to be an extra contribution that is subject to the over-contribution penalty of 1% of the extra amount per month.

For example, if you still have room in your RRSP for an allowed $2,000 over-contribution and you make the maximum 2010 RRSP contribution of $22,000 (assuming you do not have a pension adjustment amount), you will be assessed a small penalty of $200 ([$22,000 – $2,000] x 1%).

In January 2010, the extra RRSP contribution will no longer be considered an over-contribution because, on January 1, 2010, new contribution room will be realized based on your 2009 earned income. This means that the penalty will only apply for one month, and for 2010, you will get an additional tax deduction for the RRSP contribution that otherwise would have been forgotten.

To summarize these issues, if you turn 71 in 2009, you must choose an RRSP maturity option by December 31, 2009. As long as you have earned income in 2009, you can make the forgotten RRSP contribution in December 2009, pay a small penalty tax and claim the RRSP deduction on your 2010 income tax return.

You’re 71 or older but have a younger spouse

You must choose an RRSP maturity option (such as a RRIF or annuity) or deregister your RRSPs by the end of the year in which you turn 71 years of age. Even though you can no longer hold an RRSP in your own name after this time, you can make an RRSP contribution to a spousal RRSP in subsequent years as long as you have a younger spouse who is turning 71 years old or less in the year of the contribution.

Even though you are over 71 years of age, you can still make a contribution to a spousal RRSP if you have RRSP contribution room, either through carryforward room or earned income from the year you turned 71 years of age. You can also claim the tax deduction for the contribution when you file your tax return.

Using up your existing RRSP room

If you have accumulated unused RRSP room and have not contributed to your RRSP because you are in a low tax bracket, consider using up your RRSP room by making a contribution in the year you turn 71 years old. This may help you save tax if you expect your income to be higher when you begin receiving RRIF income.

You do not have to deduct the amount you contribute this year. You may want to deduct this contribution in a future year when your income is higher as a result of receiving RRIF payments. You can use RRSP deductions to offset any kind of income including RRIF and pension income.

Using up your $2,000 over-contribution when you’re 71

If you over-contributed to your RRSP by $2,000 in a past year, you are allowed this over-contribution and it will not trigger the 1% over-contribution penalty. You can deduct this over-contribution from your income now by using up your RRSP contribution room.

For example, if your RRSP contribution room is $15,000 in the year you turn 71 and you over-contributed to your RRSP by $2,000 in a prior year, then you could contribute $13,000 to your RRSP and deduct $15,000. This will ensure you deduct the $2,000, which eliminates the possibility of double taxation.

If you do not deduct the $2,000 from your income, then that amount will be subject to double taxation: once going into the RRSP (as you did not deduct it, you are paying tax on this amount) and a second time when you withdraw it from your RRSP or RRIF.

If you have any questions or require clarification on any of the issues discussed in this document, please feel free to discuss these with your advisor.