RSP Maturity Options

Professional Wealth Management Since 1901

RBC Dominion Securities

RBC Dominion Securities Inc.
Financial Planning Publications

At RBC Dominion Securities Inc., we have been helping clients achieve their financial goals since 1901. Today, we are a leading provider of wealth management services, trusted by more than 500,000 clients globally.

Our services are provided through your personal Investment Advisor, who can help you address your various wealth management needs and goals. The Wealth Management Approach includes the following:

- Accumulating wealth and growing your assets
- Protecting your wealth by managing risk and using insurance or other solutions
- Converting your wealth to an income stream
- Transferring wealth to your heirs and creating a legacy

In addition to professional investment advice, RBC Dominion Securities Inc. offers a range of services that address your various tax, estate and financial planning needs. One of these services is an extensive library of educational guides and bulletins covering a wide variety of planning topics.

Please ask your Investment Advisor for more information about any of our services.

Please note that insurance products and, in certain instances, financial planning services are offered through RBC DS Financial Services Inc. Please refer to the back cover of this publication for additional information.

Table of contents

1 › The options for maturing your RSP

The 2007 federal budget introduced legislation to extend the deadline by which a retirement savings plan (RSP) must be wound up. Prior to 2007, an RSP had to be wound up by the end of the calendar year in which you reached age 69. As a result of the changes enacted based on the 2007 federal budget, you now have until age 71 to wind up your RSP. If you turned 69, 70 or 71 in 2007, special transitional rules exist to deal with your circumstances. For example, if you converted to a RIF because you turned 69 in 2006, you may convert back to an RSP in 2007. Alternatively, you may keep your RIF, and you have the option to suppress the minimum payment in 2007 and 2008. For more details on the transitional rules resulting from the 2007 federal budget, please contact your advisor.

You must utilize any of the following three RSP maturity options by the end of the year that you turn 71:

- Close out your RSP by deregistering your plan and receive the value of the plan in cash or in securities, less tax
- Purchase an annuity
- Transfer your RSP to a retirement income fund (RIF)

Before considering your options, it is important that we look at the possible timing of winding up your RSP.

WHEN SHOULD YOU CHOOSE AN RSP MATURITY OPTION?

If you are fortunate enough to have an adequate income from investments, pensions or other employment when you retire, then your best strategy may be to continue your RSP until you must wind it up at age 71.

Even when you may require a small lump sum of cash from time to time (e.g. to fix the roof or go on a vacation), it may still be more advantageous to make a lump-sum RSP deregistration than to convert the RSP to a RIF. The reason is that, after the year in which a RIF is established, an annual minimum amount must be paid from the RIF whether you need the funds or not.

You can also decide to transfer only part of your RSP funds before the end of the calendar year in which you turn 71 and invest these funds in a maturity option.

An example of this may be a person wishing to receive a regular income stream from their RSP. The process of receiving income from an RSP requires deregistering a lump-sum amount from the RSP each time. This can be very cumbersome if regular income is required. A much easier way is to convert the RSP to a RIF, where you can simply specify the amount and frequency of the payments.

Another example may be a person who is age 65 or older and is not receiving an employer pension. In this case, they may convert a portion of their RSP to a RIF to take advantage of the $2,000 pension income tax credit or to take advantage of income splitting with a lower income spouse. Note that, if you convert all or part of an RSP to a RIF before age 71, you are not committed to the RIF forever. That is, if you are age 71 or under, you can switch from the RIF back to the RSP.

It is possible—and sometimes advisable—to own both an RSP and an RSP maturity option simultaneously, up to age 71.

This publication will examine each of the three RSP maturity options in greater detail.

CHOOSING YOUR RSP MATURITY OPTIONS

Finally, once you have an understanding of the RSP maturity options available, it is important that you establish some of your basic priorities before selecting the option that's best for you.

2 › Closing out your RSP (deregistration)

The most obvious maturity option is simply to "cash in" or "deregister" your RSP. You can choose this option at any time before the end of the calendar year in which you turn 71.

Alternatively, the Canada Revenue Agency (CRA) will also deem you to have deregistered your RSP for any portion of your RSP that has not been converted to an annuity or RIF (as described in later sections) by the end of the year in which you turned age 71.

When your plan is deregistered, the full value of the RSP is included in your taxable income for that year. Given the fact that Canada has a progressive tax system, you will probably be taxed at the highest marginal tax rate on at least a portion of the amount deregistered.

The CRA (and Revenu Québec for Quebec residents) requires that a withholding tax be applied on your RSP funds at the time of deregistration, as shown in **Figure 1**. These rates are based on your cumulative withdrawals in the calendar year.

This withholding tax is not an additional tax on your RSP funds. Rather, it represents funds that are withheld by your RSP trustee, similar to the way income tax is withheld on a paycheque.

When you file your tax return, the withholding tax is used as a credit toward any taxes due.

Closing out all or a portion of your RSP, in most cases, is not a viable option because of the following:

- It is a one-time decision that cannot be reversed
- By deregistering your RSP, you forgo the opportunity to shelter your investments in a tax-deferred environment
- The tax consequences can be very expensive

FIGURE 1

Withholding tax at the time of deregistration

Amount	Can. residents except Quebec	Quebec residents
$5,000 or less	10%	21%
$5,001 to $15,000	20%	26%
Over $15,000	30%	31%

3 › Annuities

The annuity option involves several different choices with the most common annuities generally being life annuities and joint and survivor annuities. Other features and types of annuities can also be purchased depending on your situation and your requirements. For example, if you want your annuity payments to be indexed to inflation, you have the option to purchase this feature. In addition, if you have a serious health problem, the insurance company may be willing to pay you a higher monthly annuity payment due to your shortened life expectancy. Additional information on life annuities and joint and survivor annuities is outlined below and on the following page.

LIFE ANNUITIES

A life annuity pays you equal amounts periodically for as long as you live. In simple terms, you transfer funds from your RSP to an insurance company, and in exchange, they agree to provide you with regular payments for as long as you live. Typically, these payments are made on a monthly basis; although, they could be made quarterly or annually.

You may choose to have a guaranteed period for your annuity, and these periods are usually five, 10 or 15 years long. However, you can choose any number of years to a maximum of 90 less your current age.

If you die before the guaranteed period has expired, the amount of the periodic payments you are receiving will continue to be paid to your beneficiary until the end of the guaranteed term. Alternatively, it can be paid out to the beneficiary in one discounted lump-sum payment. Typically, your beneficiary can choose the payment option that is most advantageous to them.

It is important not to be confused by the guarantee on life annuities. These guarantees do not mean all of your RSP funds will be paid out over the five, 10 or 15 years. The annuity payments will be made for the guaranteed period or your lifetime, whichever is longer. You cannot outlive a life annuity.

RSP MATURITY OPTION TIP

Annuity options are more appropriate when there is a scarcity of capital and a lifetime need for income. Generally speaking, the decision to annuitize is a permanent decision and cannot be reversed. Therefore, it must be carefully considered. On the other hand, you no longer have to make investment decisions on an ongoing basis, and you cannot outlive your retirement fund.

The monthly income from an annuity is related to three major factors: your age, your sex and the current rate of interest at the time of purchase.

JOINT AND SURVIVOR ANNUITIES

A joint and survivor annuity will pay you and your spouse an amount for as long as either of you are living. On your death, income will continue to be paid to your spouse until they pass away.

You may also choose to have a guarantee period for your joint and survivor life annuity. If you choose this, and if both you and your spouse die before the end of the guarantee period, your beneficiaries will have the choice of accepting a discounted lump-sum payment for the commuted value or receiving the periodic payments for the balance of the guarantee period. However, if the joint and survivor annuity is purchased as an RSP settlement option, the only option for the beneficiary is the discounted lump-sum payment.

The income from a joint and survivor life annuity can remain constant for both lifetimes. However, you can choose to have the annuity payments reduced by a specified amount on the death of one of the annuitants. This will in effect increase the initial payments (before the first death) to a higher level than they would be if the annuity payments were not reduced. This might coincide well with the reduced living costs of the surviving spouse.

INCOME AND TAX CONSIDERATIONS REGARDING ANNUITIES

The amount of income you receive from an annuity will depend on a number of factors including age, sex, health, the current interest rate and the length of any guarantee period. Generally, the older the annuitant, the higher the income received. Higher payments are also made to male annuitants as a result of their shorter life expectancy. Since the prevailing interest rates at the time the annuity is acquired will impact the amount of income you receive, you may want to defer or accelerate your annuity purchase decision in a period of rising or falling interest rates.

Payments from annuities purchased with RSP funds are generally not subject to withholding tax at the time they are received (unless specifically requested by the annuitant). However, all payments received in a calendar year must be reported as income and are fully taxable.

Following the death of the annuitant with a life annuity that was purchased with RSP funds, all payments received during the year, up to the time of death, must be included as income for the deceased in the year of death. If the spouse or financially dependent child or grandchild of the annuitant is named as beneficiary of the life annuity, and the guarantee period has not expired, subsequent payments will be made to the spouse or financially dependent child or grandchild. These payments will be taxed as income of the recipient. If anyone other than the surviving spouse or financially dependent child or grandchild is named beneficiary of a life annuity where the guarantee period has not expired at the time of the annuitant's death, any lump-sum amount paid to the beneficiary must be included as income for the deceased in the year of death.

RSP MATURITY OPTION TIP

An annuity may provide a hedge against longevity. You cannot outlive the income provided by a life annuity.

4 › Retirement income funds (RIFs)

In the case of a joint and survivor annuity, the primary annuitant (the person whose RSP funds were used to purchase the annuity) must report all payments received during the year up to the date of death, and the surviving spouse will be liable for tax on any subsequent payments. If the guarantee period (assuming one exists) has not expired upon the death of the surviving spouse, then any lump-sum payments to the beneficiary will be taxed in the surviving spouse's final tax return, unless the beneficiary is a financially dependent child or grandchild. In this case, the lump-sum payment will be included as income of the financially dependent child or grandchild.

DISADVANTAGES ASSOCIATED WITH ANNUITIES

The disadvantages generally associated with annuities are as follows:

- Once an annuity has been purchased, the decision cannot be reversed.
- The purchase of an annuity can result in reduced liquidity since a single large lump-sum amount is exchanged for smaller monthly payments.
- Annuities may leave little or no estate to the beneficiaries.
- Income from annuities may be unattractive in a low interest rate environment.

A RIF is basically an extension of an RSP except that it is intended to provide an ongoing flow of income. Choosing this option will allow you the same flexibility provided by the RSP, such as a wide range of investment choices and access to funds. Unlike an RSP, a RIF requires the receipt of at least a minimum annual payment. The RIF option provides the maximum flexibility of the available maturity options, giving you control over the management of your assets, flexibility of annual income and potential tax minimization.

Note that when converting to a RIF, the investments held in your RSP can be transferred directly into the RIF account. Your RSP investments are not required to mature or to be liquidated prior to transfer to the RIF.

RIF PAYMENTS

Upon conversion to a RIF, you will be required to receive at least a minimum payment from the plan each year based on your age and the RIF value at the end of the previous year. It is important to note that you are not required to begin receiving the minimum payment amount until the calendar year following the year of conversion to the RIF. Part of the transitional rules in the 2007 federal budget allow annuitants 70 and 71 years of age in 2007 to not withdraw their minimum RIF payments.

There is no withholding tax on minimum RIF withdrawals. The withholding tax rate on RIF withdrawals above the minimum payment amount are identical to the withholding tax rates for RSP withdrawals, indicated in **Figure 1** on page 3.

If the RIF holder has a younger spouse, the younger spouse's age can be used in the minimum payment calculation, which will result in lower annual minimum payments. The minimum payment percentages are discussed on the following page.

Example:
Mr. Jones turned 71 in 2007 and will convert his $100,000 RSP to a RIF by the end of the year. Mrs. Jones' age at the end of 2007 will be 65. Neither Mr. nor Mrs. Jones requires additional income at this time, and therefore, they would like to minimize the amount withdrawn from the RIF.

In 2008, Mr. Jones is required to receive $7,380 (7.38%) of his December 31, 2007 balance of $100,000. However, if upon the conversion to a RIF Mr. Jones elects to use his wife's age to calculate minimum payments, he will reduce the minimum payment received. By electing to use his wife's age of 65, the minimum payment percentage will be 4.00% or $4,000. Using Mrs. Jones' age allows for both the tax-deferral of $3,380 of income and further tax-deferred growth on this amount.

RIFS ESTABLISHED PRIOR TO JANUARY 1, 1993

RIFs established before January 1, 1993, are subject to a different minimum annual payment percentage than RIFs established after this date. The legislation in effect prior to 1993 required that the RIF be fully paid to the individual by the end of the year in which they turned age 90. Effective January 1, 1993, new minimum payment rules were introduced allowing the RIF to continue for the individual's lifetime. For RIFs established prior to 1993, a transitional provision allows for the old payment rules to be applied up until the RIF holder's 78th year and for the new payment percentages to be applied after that point (see **Figure 2** on page 7).

Note that combining a RIF account set up under the old minimum payment formula with an account set up under the new rules will result in the combined RIF being subject to the new payment percentages.

MINIMUM RIF PAYMENT FORMULA

If an individual decides to transfer money from an RSP to a RIF, the minimum payment for the year (after the RIF is established and only for those age 70 or less at the end of the prior year) would be calculated based on the following formula:

$$\left\{\begin{array}{l}\textbf{RIF market value}\\\textbf{on December 31}\\\textbf{of prior year}\end{array}\right\} \times \left\{\frac{1}{\begin{array}{c}\text{90 – age on December 31}\\\text{of prior year}\end{array}}\right.$$

After age 70, the minimum RIF payment for post-1992 RIFs is not based on the formula. The appropriate rates are indicated in **Figure 2** on page 7. Note that there is a large increase in the minimum RIF payment from age 70 (5.00%) to age 71 (7.38%) for post-1992 RIFs.

RSP MATURITY OPTION TIP

- If you require income from your RSP on a temporary basis, consider converting to a RIF to minimize withholding tax (except for withdrawals in the year of conversion). You can always switch back to an RSP at a later date if you are under age 71.
- Your advisor can provide you with projections of your RSP's future value, as well as projections of RIF payments available under varied payment options.

TYPES OF RIFS

There are two basic types of RIFs:

Self-directed RIF—With a self-directed RIF, you select the individual investments, subject to certain eligibility criteria determined by the CRA. If you previously had a self-directed RSP, you will find the eligibility criteria for RIFs to be the same. However, you should keep in mind that you will have to ensure that your self-directed RIF is structured in a way that satisfies the minimum payment requirements. Otherwise, you may have to sell assets to generate cash to satisfy the minimum payments.

RIFs with a financial institution—In this case, you have a RIF with a financial institution such as a life insurance company, trust company, bank, mutual fund company or credit union. The institution controls the investments for you. They will also structure the plan to satisfy the required payment.

INCOME AND TAX CONSIDERATIONS FOR RIFS

As stated previously, a RIF is required to make an annual minimum payment. This payment may be received on a monthly, quarterly, semi-annual or annual basis, depending on your income requirement. If you do not require income, you can elect to receive the annual minimum payment at the end of the year to maximize the tax-deferral benefit of a RIF.

On the other hand, you can also elect to receive, on a periodic or lump-sum basis, an amount of income in excess of the minimum payment. However, as previously mentioned, withholding taxes will apply to any amount that exceeds the annual minimum payment at the rate shown in **Figure 1** on page 3.

FIGURE 2

RIF minimum payment percentages for current year

Age on December 31 of prior year	Pre-1993 RIF %	Post-1992 RIF %
71	5.26	7.38
72	5.56	7.48
73	5.88	7.59
74	6.25	7.71
75	6.67	7.85
76	7.14	7.99
77	7.69	8.15
78	8.33	8.33
79	8.53	8.53
80	8.75	8.75
81	8.99	8.99
82	9.27	9.27
83	9.58	9.58
84	9.93	9.93
85	10.33	10.33
86	10.79	10.79
87	11.33	11.33
88	11.96	11.96
89	12.71	12.71
90	13.62	13.62
91	14.73	14.73
92	16.12	16.12
93	17.92	17.92
94+	20.00	20.00

RSP MATURITY OPTION TIP

Consider naming your spouse as the "successor annuitant" of your RIF. This designation allows RIF payments to continue to go to the surviving spouse without interruption and minimizes administration to the estate.

Following the death of the annuitant of a RIF, when a spouse is the beneficiary, the value of the remaining RIF may be transferred to the spouse's RSP (if the spouse is age 69 or under) or RIF, resulting in no further tax consequences to the annuitant's estate. The spouse or the spouse's estate will be responsible for any subsequent tax liability arising from the transferred RIF.

If a financially dependent child or grandchild is the named beneficiary, the proceeds from the RIF will be transferred to the child or grandchild and taxed in the hands of the child or grandchild. In certain circumstances, the transfer can occur on a tax-deferred basis. When the child or grandchild is under 18 and not physically or mentally infirm, the proceeds can be used to acquire an annuity with a term not exceeding 18 minus the age of the child or grandchild at the time the annuity is acquired. The annual annuity payments are then taxed in the hands of the child or grandchild. In the case where the dependent child or grandchild is mentally or physically infirm (there is no age limit), the RIF proceeds may be transferred to that child's or grandchild's RSP, RIF or to an annuity on a tax-deferred basis.

The flexible nature of RIFs in terms of permitted investments, income streams and of the continuing tax-deferral opportunities to the surviving spouse or financially dependent child or grandchild makes this vehicle a popular choice for those with maturing RSPs.

5 › Maturity options for locked-in RSPs

Locked-in RSPs have three different maturity options compared to regular RSPs:

- Life income funds (LIFs)
- Locked-in retirement income funds (LRIFs)
- Prescribed retirement income funds (PRIFs)

LOCKED-IN RSPS

A locked-in RSP is created upon the transfer of the commuted (lump-sum) value of a registered pension plan (RPP) to an RSP. The funds from a locked-in RSP, also known as a locked-in retirement account (LIRA) in some provinces, can only be transferred to a life annuity or to a life income fund (LIF). Another maturity option known as a locked-in retirement income fund (LRIF) is available in Manitoba, Ontario (only available until Dec. 31, 2008) and Newfoundland and Labrador. A Saskatchewan LIRA and a portion of a Manitoba LIF or LRIF can also be converted to a prescribed retirement income fund (PRIF).

LIFE INCOME FUNDS (LIFS)

A LIF is very similar to a RIF in that it is also an extension of an RSP. However, in this case, the registered funds are derived from a locked-in RSP (or LIRA).

The LIF represents an alternative maturity option to the life annuity, which until recently was the only option available to access these locked-in funds. For most provinces, the requirement to convert a LIF to an annuity at the age of 80 has been eliminated. However, for a Newfoundland and Labrador LIF, all funds remaining in the LIF must be transferred to a life annuity by the end of the year in which the planholder turns 80. For a New Brunswick LIF, assets must be exhausted by age 90.

The maturity options for individuals with locked-in RSPs or LIRAs are as follows:

- Purchase a life annuity prior to or in the year they reach age 71.
- Transfer the funds to a LIF prior to or in the year they reach age 71.
- Transfer the funds to an LRIF prior to or in the year they reach age 71 (in Manitoba, Ontario up to Dec. 31, 2008 and Newfoundland and Labrador).
- Transfer the funds to a PRIF prior to or in the year they reach age 71 (in Saskatchewan). In Manitoba, funds may be transferred to a PRIF from a LIF or a LRIF subject to a maximum amount.

As in the case of the RIF, an individual must receive at least the annual minimum payment from a LIF starting in the year after the year in which the LIF is established. The minimum LIF payment calculation is identical to the RIF calculation for plans established after December 31, 1992.

The LIF differs from a RIF in two significant areas:

- Withdrawals from a LIF are restricted to a maximum payment based on the individual's age at the end of the prior year, contrary to withdrawals from a RIF, which have no maximum.
- In Newfoundland and Labrador, the LIF requires conversion to a life annuity by the end of the year in which the individual turns age 80, and New Brunswick LIF assets must be exhausted by age 90, contrary to the RIF, which can continue throughout the individual's lifetime.

LOCKED-IN RETIREMENT INCOME FUNDS (LRIFS)

Available in Manitoba, Ontario until Dec. 31, 2008 and Newfoundland and Labrador, an LRIF is similar to a LIF in that both allow the individual access to their locked-in funds within defined minimum and maximum levels.

Note that Alberta used to offer LRIF plans, but due to changes in legislation, these are no longer available. Ontario LRIF will no longer be available for purchase after Dec. 31, 2008.

Note that the RIF, LIF and LRIF minimum calculations are identical for plans established after 1992.

6 › Combining RSP maturity options

There are two main differences between a LIF and an LRIF:

- The annual LRIF maximum calculation generally equals the growth in the LRIF in the previous year (the LIF maximum calculation is based on government tables).
- The LRIF can continue throughout the individual's lifetime (i.e. there is no requirement to convert the remaining funds to a life annuity at age 80 as required in a LIF in some provinces).

An individual using the LRIF can convert to a life annuity at any time.

Note that an individual cannot convert from the life annuity to either of the other two maturity options.

PRESCRIBED RETIREMENT INCOME FUNDS (PRIFS)

Available in Saskatchewan and Manitoba, locked-in accounts under Saskatchewan and Manitoba pension legislations now have an income option called a PRIF. Only annuitants that are at least age 55 (or the early retirement age established by the plan where the money originated for a Saskatchewan plan) are eligible for the PRIF.

The main advantage of the PRIF compared to the LIF and LRIF is that the PRIF has no maximum withdrawal limits. However, minimum withdrawals are still required, which are identical to the LIF and LRIF. There is also no requirement to purchase an annuity at age 80 with a PRIF.

Since you will ultimately be faced with the decision of whether or not you should purchase an annuity or a LIF (or even an LRIF or PRIF in the eligible provinces), it is important to maintain your flexibility as circumstances are always changing. You will want to ensure that you can take advantage of opportunities as they arise.

For more information on LIRAs, LIFs, LRIFs and PRIFs, please speak with your advisor.

It is quite possible—and often preferable—to "mix and match" different options to tailor a personal retirement program for your individual circumstances.

For example, part of your RSP funds can be put into an annuity and part into a RIF—the exact proportion would depend upon your specific needs. Remember, you can always move from a RIF to an annuity later, but not the reverse.

You might decide at age 71 that you will put $50,000 of your RSP into an annuity and the balance into a RIF. At ages 74 and 77, you might then move another $50,000 from the RIF to the annuity. At age 80 you could move the balance remaining in your RIF to an annuity.

Another example may be to use an annuity or RIF to provide regular monthly income while using another RIF to provide quarterly payments to assist with tax instalment payments.

Note that these examples are not recommendations for a particular strategy, but are used to illustrate some of the many possibilities.

7 › Criteria to consider when selecting your RSP maturity options

In simple terms, the decision you have to make when selecting your RSP maturity options is whether you want income today or in the future, or if your objective is to maximize your estate for your heirs.

To select the RSP maturity options that are best for you, you should consider a variety of personal and financial criteria and match these criteria with the maturity options available. Consider the following factors:

- Your personal income needs
- Your family's income needs
- Your estate objectives
- The current rate of return and inflation
- Your desire for flexibility
- Flexibility versus guarantees of each option
- Your wish to minimize income taxes

Let's look carefully at each of these criteria.

YOUR PERSONAL INCOME NEEDS

The first issue you should consider is whether your sources of retirement income (e.g. company pension, Canada Pension Plan (CPP)/Quebec Pension Plan (QPP), Old Age Security (OAS), investment income, etc.) will be sufficient to maintain your lifestyle in retirement. If you will require little or no additional income from your RSPs, at least in the near future, then the RIF option will provide you with the maximum amount of income deferral.

YOUR FAMILY'S INCOME NEEDS

You must also consider how long you want your income to continue, for yourself and for your spouse.

While your parents or grandparents may have had a limited lifespan, medical advances and statistics predict that many of those people who are 55 to 65 years of age today can expect to live well past age 90.

›› RSP MATURITY OPTION TIP

Determining the relative importance of each of the seven criteria will assist you in choosing the RSP maturity option that is right for you.

While we can predict our medical and social service environment within the next few years, the environment in 20 years may well require funding beyond our current expectations.

A study commissioned by the Life Insurance Marketing and Research Association points to a number of interesting projections.

For example, a Canadian is as likely to survive to age 75 today, as a person in 1900 was likely to survive to age 55. Health surveys indicate that individuals in their sixties are in increasingly better health than similar groups of individuals only a few decades ago.

Figure 3 illustrates recent data published by the Canadian Institute of Actuaries.

The purchase of an annuity can provide for an ongoing source of income for as long as you live. Details of the types of annuities available are discussed earlier in this publication.

FIGURE 3

Present age	Probability of surviving beyond age 90	
	Males	Females
60	12 in 100	28 in 100
65	13 in 100	29 in 100
70	15 in 100	31 in 100
75	19 in 100	35 in 100
80	26 in 100	42 in 100

YOUR ESTATE OBJECTIVES

How important is it to you to leave an estate for your heirs? If this is important, you should consider the relative importance of your RSP to your overall estate plan.

If you wish to preserve your RSP assets for your estate, then a RIF is your best option.

A RIF allows you to continue to accumulate your matured RSP assets on a tax-deferred basis while you enjoy the benefits of a retirement income.

At your death, the assets remaining in your RIF may form part of your estate.

CURRENT RATE OF RETURN AND INFLATION

By purchasing an annuity, you are locking in a fixed interest rate for life. This has worked well for people who purchased annuities in the eighties, when interest rates were high. However, given today's low interest rate environment, you may want to consider the various investment alternatives offered by a RIF to achieve a higher rate of return. This is especially important when considering the effect of inflation on your purchasing power.

A level income arrangement may seem ideal for some, but an average inflationary trend could easily erode that income.

For example, **Figure 4** shows that, at 4% inflation, $1,000 per month today would mean only $676 per month in purchasing power in 10 years and $456 in 20 years—a time when your medical costs could start to increase.

FIGURE 4

Purchasing power of $1,000 in the future at different rates of inflation

Years	2%	4%	6%
1	$980	$962	$943
10	$820	$676	$558
20	$673	$456	$312

YOUR DESIRE FOR FLEXIBILITY

Let's look at the flexibility factor of the RSP maturity options discussed so far. You cannot cash in a life annuity once it has been purchased. It is essentially a one-time decision. In that sense, annuities are relatively inflexible.

RIFs, on the other hand, provide you with the ability to vary the annual payments you receive, as long as the minimum payment requirements are met. RIFs also allow you to convert to a life annuity at any time in the future. This option is advantageous if interest rates increase in the future and you no longer desire to manage your own RIF assets.

You may also choose from a wide range of investments for your RIF. In addition, a RIF is the only RSP maturity option that can be transferred between trustees after payments have commenced. For this reason, you maintain control of your matured RSP assets with a RIF. The overriding consideration is to maintain flexibility in case your circumstances change.

FLEXIBILITY VERSUS GUARANTEES OF EACH OPTION

What do you want to use your RSP funds for? Is it for extras, such as trips or home improvements? Will it be your primary source of income, or do you intend to leave a large estate to your children?

Your answer to these questions will dictate the degree of flexibility that you'll need in your income plan. Is the more structured guaranteed income of an annuity best for you, or will a more flexible arrangement, such as a RIF, meet your needs?

YOUR WISH TO MINIMIZE INCOME TAXES

All the income you receive from an RSP maturity option is taxable in the year received. However, you are allowed a pension income tax credit (a federal and provincial credit on the first $2,000 of pension income) if you were at least age 65 at the end of the year and you are receiving income from a RIF or annuity. Thus, choosing a RIF or annuity may help to minimize your personal income tax if you are at least age 65.

In addition, starting in 2007, up to 50% of income that qualifies for the pension tax credit may be split with a low income spouse to take advantage of their lower marginal tax rates.

A single individual or widow/widower with little taxable income and a large RIF holding may be concerned about paying tax on a substantial portion of their RIF at the highest marginal tax rate at death. They may try to avoid this by accelerating the depletion of the RIF through higher annual RIF payments to take advantage of lower marginal tax rates. However, this strategy results in a prepayment of tax, so this needs to be considered.

The RIF provides an additional tax shelter in that the amount paid out of a RIF can be changed from year to year. This means you can further adjust your RIF income to complement your other sources of income, giving you the potential to minimize tax and the clawbacks of amounts such as the OAS.

8 › Conclusion

Your answers to the questions on pages 10 and 11 will give you an idea of which option best suits your needs. You and your advisor can select the maturity option that is right for you by determining the relative importance that you place on the selection criteria previously discussed. It is important to emphasize that choosing the right RSP maturity option involves considering a variety of factors.

For more information on your RSP maturity options, contact your advisor. They will be pleased to answer any questions you may have and to work closely with you to achieve your financial goals.

For more information, speak with an Investment Advisor
from RBC Dominion Securities Inc.

Visit our website: **www.rbcds.com**

RBC Dominion Securities