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RSP Strategies at age 71

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The 2007 federal budget extended the maturity or conversion age of retirement savings plans (RSPs) from the end of the year the annuitant turns 69 to the end of the year the annuitant turns 71. And even though you must convert your RSP to a registered income fund (RIF) in the year you turn 71, it is not necessarily the end of being able to benefit from RSP deductions. This article contains a collection of strategies that you may want to consider if you turned or are turning 71 this year. For a discussion of RSP maturity alternatives, please ask for a copy of our publication entitled "RSP Maturity Options."

Increase in age limit conversion

Up until early 2007, RSPs, 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 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 year in which the annuitant turns 71 years of age.

The new age limit came into effect in 2007, and transitional measures were introduced for individuals who turned 70 or 71 years of age in 2007 or 71 in 2008.

If you have already purchased an annuity contract under an RPP or DPSP, the terms of the annuity contract can be amended without adverse tax consequences (subject to renegotiation of annuity contracts). This transitional measure applies for 2007 and subsequent taxation years. This means that you will be able to defer commencement of the annuity to no later than the end of the year in which you turn 71 years of age.

No mandatory RIF minimum under transitional measures if you turned 71 in 2008

The requirement that the minimum amount be withdrawn from a RIF each year after the RIF is established will be waived for 2008 in the case of RIF annuitants who turned 71 years of age in 2008 and who converted to a RIF in 2006 when they turned 69.

You have to elect to defer this payment in writing. This means that you have the flexibility to stop taking minimum amounts from your RIF if you don't need the income now, and as a result, save the tax on the minimum payment and potentially avoiding any OAS clawback. This can be accomplished by maintaining the RIF without converting it back to an RSP.

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

In the year that you turn age 71, there is a December 31 deadline to turn your RSP into a RIF or choose another RSP maturity option. Once this deadline passes, it is not possible to make any further contributions to your individual RSP.

If you earned income in 2008 and you also turned age 71 in 2008, you will be prevented from contributing to your RSP in 2009. By not being able to contribute to your RSP in 2009, you will be denied a possible tax refund (based on the RSP deduction) and the possible contribution of up to $21,000 to your tax-deferred retirement plan. Of course the amount of the deduction depends on your regular RSP contribution room.

Making a final contribution at the end of the current year (called the "forgotten RSP contribution") may be the solution. It involves making your RSP contribution just prior to the end of the year in which you turn age 71. This means making an RSP contribution in December 2008 based on earned income from 2008. If the maximum contribution has already been made for 2008, 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.

Assuming that you still have room in your RSP for an allowed $2,000 over-contribution and you can make the maximum 2009 RSP contribution of $21,000 (it is assumed you do not have a pension adjustment amount), the penalty you will be assessed will be small, only $190 ([$21,000 – $2,000] x 1%).

Once January 2009 rolls around, the extra RSP contribution will no longer be considered an over-contribution because, on January 1, 2009, new contribution room will be realized (the room based on the 2008 earned income discussed above). This means that the penalty will apply for one month only, and for the year 2009, you will get an additional tax deduction for the RSP contribution that otherwise would have been forgotten.

To summarize these issues, if you turn 71 in 2008, you are going to have to choose an RSP maturity option by December 31, 2008. As long as you have earned income in 2008, you can make the forgotten RSP contribution in December 2008, pay only a small penalty tax and claim the RSP deduction on your year 2009 income tax return.

You’re 71 or older but have a younger spouse

You are required to choose an RSP maturity option (such as a RIF or annuity) or to deregister your RSPs by the end of the year in which you turn 71 years of age. But, this requirement does not prevent you from making an RSP contribution to a spousal RSP 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 can no longer hold an RSP in your own name.

As long as you have RSP contribution room, either through carryforward room or earned income from the year you turned 71 years of age, you can still make a contribution to a spousal RSP. As well, even though you are over 71 years of age, you are still able to claim the tax deduction for the contribution.

Using up your existing RSP room

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

You do not have to deduct the amount contributed this year; you may want to use the contribution in a future year when your income is higher as a result of receiving RIF payments. RSP deductions may be used to offset any kind of income including RIF and pension income.

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

You may have over-contributed to your RSP by $2,000 one year in the past, which is permitted and does not trigger the 1% over-contribution penalty. This over-contribution can be deducted from your income now by using up your RSP contribution room.

For example, if your RSP contribution room is $15,000 in the year you turn 71 and you have over-contributed by $2,000 to your RSP in a prior year, then you should contribute $13,000 to your RSP 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 RSP (since it is not deducted, it is subject to tax) and a second time when you withdraw it from your RSP or RIF.

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.