

ABCs of RRIFs

Below is another education piece that I hope you find informative, especially those of you approaching retirement and looking at doing some income planning.

By December 31st of the year you turn 71, your RRSP must be converted into a RRIF or another income generating vehicle (ie. Annuity).

For purposes of this education piece, we will discuss the most popular conversion option, which is to convert your Registered Retirement **Savings** Plan (RRSP) to a Registered Retirement **Income** Fund (RRIF). As the name suggests, by doing the conversion, you must begin to draw an income from the RRIF.

1. **RRIF Minimums** – Each year you **must take a minimum amount from your RRIF**. This minimum amount is based off of your combined RRIF values as of December 31st of the previous year. **Ironically, in the first year your RRIF minimum is \$0**. The RRIF payments actually start in the following year (age 72). I have attached a current RRIF Minimum payout table which shows **for 2018 the minimum amount at age 72 is 5.4%**.
2. **Withholding Tax on RRIF Payments** – If you request only the minimum payment, **0% withholding tax is applied by your financial institution unless you specify otherwise. Any amounts over the minimum will range from 10% - 30% in tax withheld at time of deregistration from your RRIF**. This amount is sent directly to CRA to be applied toward your taxes owing at the end of the year.
3. **RRIF Payments Can Be Based on Younger Spouse's Age** – If one spouse is younger, consider basing your RRIF payments on the younger spouses age, this would reduce the required payment amount. See example below.
4. **RRIF payments Can be made “in kind” to a Non-Registered Account** – If you do not need the funds or due to the market fluctuation you would prefer not to liquidate your investments, you could have your RRIF payment **directed to a Non-Registered account and then possibly to a TFSA**. Keep in mind, **tax is still owed** on the entire RRIF payment.
5. **Naming a Beneficiary on your RRIF** – Upon death of first spouse, the RRIF assets can roll over tax free to your spouse; however, on the death of second spouse, **the RRIF becomes fully taxable**. Although the tax bill cannot be avoided, by naming a beneficiary on your RRIF account, your RRIF assets will **bypass your Will and therefore bypass probate and go directly to your named beneficiary**. This can be seen as a benefit, but **there are also drawbacks to this strategy**. Consult a tax or planning professional for more details on this.

6. **Continuing to Contribute after you have converted your RRSP to RRIF –** If you are still working at age 71, you can continue to make RRSP contributions **if your spouse is not yet 71 by making a spousal contribution**. Also, if you have excess RRSP contribution room, you could consider maxing out your RRSP before 71 and then **slowly deducting the contributions over the remaining working years, bringing your income down and potentially helping with OAS clawback**.

7. **Converting to a RRIF Before 71 –** Finally, you can convert your RRSP to a RRIF prior to age 71 and begin drawing an income. As mentioned above, the first year minimum would be \$0, but in **subsequent years, you would be subject to a minimum based on the attached table (ie. Age 65 – 4%)**. This should be reviewed on an individual basis to see if it might make sense to your situation.

Example of Basing RRIF Payment on Younger Spouse:

Based on the attached RRIF Table, for a client aged 72 with a RRIF worth \$500,000 on December 31st of the previous calendar year, the RRIF minimum would be \$27,000 ($\$500,000 \times 5.40\%$). If they have a spouse who is 68 years old and they elect to base it on spouses age, the minimum would be \$22,750 ($\$500,000 \times 4.55\%$). A difference of \$4,250.

As always, if you have any questions please don't hesitate to contact me by email at jennifer.r.armstong@rbc.com or by phone at (250)549-4084.