BMO NESBITT BURNS

The RRIF Book

BMO Nesbitt Burns®

Contents

Retirement isn't what it used to be

Chances are you're as active and involved in pursuing your passions and contributing to your community as ever. You may be retired, or thinking about it. But you're not retiring from life.

At BMO Nesbitt Burns, we understand what the New Retirement is all about and offer specialized advice and tools for people who are planning to live their lives on their own terms.

If you have saved and invested wisely over the years in a Registered Retirement Savings Plan (RRSP), you will need to convert – or enhance – your savings to supplement your pension and government benefits and create the lifestyle you've been planning. So now the question becomes, what are your best options?

Selecting the right retirement income option is one of the most important financial and estate planning decisions you'll make. Especially today, when statistics show that Canadians are living longer, healthier lives. If you're fortunate, your retirement will last 30 years or longer. So it's important to make choices that not only protect your savings but ensure that the purchasing power of your money lasts for decades.

The RRIF Book will help answer some of your questions and help you sort through an often confusing array of options. Your BMO Nesbitt Burns Investment Advisor will be pleased to answer any other questions you might have, and will work with you to develop your personal retirement income strategy. Let us help you turn your RRSP into the lifestyle you dream about.

Retirement income sources

Once fully retired, your retirement income will come from three main sources – government pensions, company pension plans, and personal savings.

It used to be that Canadians relied mainly on government pensions to provide the income they needed during retirement. Some were lucky enough to be a member of an employer pension plan to supplement income. Today it has become evident that for many, government and company pensions won't be enough, here's why.

Government pensions

The two main government sponsored programs designed to supplement your retirement income are Old Age Security (OAS) and the Canada Pension Plan/Quebec Pension Plan (CPP/QPP). Assuming you qualify for the maximum payments at age 65, these programs combined provide an annual income of approximately $16,643 per person for 2008.

Old Age Security

OAS payments begin at age 65. For 2008, the maximum benefit is approximately $6,028. Once your net taxable income exceeds $64,718 Canada Revenue Agency begins to claw back these benefits. Taxpayers with incomes over $104,903 will not receive any OAS payments.

Canada Pension Plan/Quebec Pension Plan

CPP/QPP is paid to those who made payments into the plan out of their employment income.

This plan was designed to replace only 25% of the average industrial wage. For 2008, the maximum payment is $10,615. Before you include the full amount of CPP/QPP as an additional source of retirement income, check the provisions of your company pension plan. Some defined benefit pension plans are integrated with CPP/QPP so that once you start getting your government benefits, the company pension decreases accordingly.

Company pension plans

Approximately one-third of working Canadians belong to a company pension plan. Even fewer work for a company that offers a defined benefit pension plan which calculates your pension benefit based on years of plan membership.

Canadians in a defined contribution plan will not be guaranteed a specific annual pension. Instead, they will be required to manage their pension contributions wisely because their pension payments will be based on the value in the plan at retirement.

The reality

Because people are living longer and are more active, it is increasingly apparent that much of your retirement income must come from personal savings and specifically tax deferred plans such as RRSPs and RRIFs.

Turning your RRSP into income

Your RRSP will eventually "mature" and the funds must be withdrawn from the plan by the end of the year you celebrate your 71st birthday. This means you must decide which of the RRSP maturity options is best for you and transfer your RRSP before the maturity date. However, you may transfer all or part of your RRSP assets to one or more of the maturity options at any time before the age 71 deadline. When it comes time to convert your RRSP into a source of retirement income, you have several options to consider.

The Canada Revenue Agency (CRA) allows you to choose from among three options when your RRSP matures:

- Take a lump-sum cash payment;
- Transfer to an annuity;
- Transfer to a Registered Retirement Income Fund (RRIF).

You may choose one or any combination of these allowable maturity options.

If you are considering transferring your RRSP earlier than age 71, you should carefully examine whether or not you can live on your other investment income for a few more years. Because the compounding of tax-sheltered RRSP income provides such a significant tax and investment advantage, you should delay converting your RRSP into one of the maturity options for as long as possible. In fact, if you're under 71 and have converted into a RRIF but don't need the income, consider converting back to an RRSP.

The cash maturity option

You may make lump sum withdrawals at any time. Cashing in your RRSP in one lump sum is not generally recommended because you must pay income tax on the amount you withdraw in the year you receive it. If you withdraw the funds all at once you could find yourself being taxed at a higher rate than if you had transferred your RRSP into one of the other maturity options and received smaller payments over several years.

The life annuity option

You may convert your RRSP on a tax-free basis to a life annuity. A life annuity guarantees you a fixed amount of money each year for the rest of your life. The annuity payments are taxed each year as you receive them. The amount of your annuity payment will be determined by the value of your RRSP, your age, current interest rates, how long a period you want your payments guaranteed, and whether or not you also want the payments to continue for as long as your spouse or common-law partner lives (hereinafter referred to as "spouse").

In its most basic form, a life annuity offers you the security of knowing that for as long as you live, you will receive a fixed amount of income. However, many people are uncomfortable with the thought that all of their RRSP savings would be gone if they live for only a short period of time after retirement. The solution may be to buy an annuity that will make payments for a guaranteed period of time. For example, buying a 10-year guaranteed annuity would insure that either you or your beneficiaries would receive payments for at least 10 years. Obviously, the longer you want the annuity payments guaranteed, the smaller your annual payments will be.

Over the years, annuities have become increasingly flexible. Today you can purchase annuities which offer such enhancements as the guaranteed option; joint and survivor coverage which protects both you and your spouse for as long as you both live; and inflation protection. There is even a “poor health” option called an impaired annuity which will provide you with higher payments if you have a doctor certify that you have a medical problem that will significantly shorten your life expectancy. For all but the impaired annuity option, the addition of any enhancement reduces the amount of your annuity payments, so you need to carefully consider the various options.

The RRIF solution

A Registered Retirement Income Fund (RRIF) is very much like an RRSP only it works in reverse. Like an RRSP, all of the growth and income generated by the assets in a RRIF are tax-sheltered until they are withdrawn from the plan. Unlike an RRSP, where your purpose is to build retirement assets by making contributions, the purpose of a RRIF is to supplement your retirement income by making regular withdrawals. In fact, the CRA requires that you take at least a minimum amount out of your RRIF each year.

There is no maximum limit, so you may withdraw any amount of money in excess of the minimum that you wish. This flexibility is beneficial in years when additional income is needed to fund a large purchase or vacation. Careful planning is important when deciding how much to withdraw from a RRIF. If your withdrawals exceed your investment returns, you run risk of outliving your money.

Advantages of a RRIF

Not only do you have the flexibility to withdraw any amount of money out of your RRIF at any time, but a RRIF enables you to maintain control over your investments. A lot of things can change in 20 or 30 years, so if you want to leave all of your options open, you should consider a RRIF. The assets in a RRIF continue to grow on a tax-deferred basis until they are withdrawn and, as the economy changes, you are able to choose investments which protect your capital and maximize your income.

There are no restrictions on how much money you can withdraw from your RRIF in any given year, as long as you withdraw at least the minimum annual amount. Whatever you take out of your RRIF will be considered taxable income in the year you withdraw it.

The RRIF minimum annual payment

Your minimum annual payment is based on your age (as of January 1) and is calculated as a percentage of your RRIF’s value at the beginning of each year. If you have a spouse, you may use his or her age to determine the minimum annual payment. While you may make a withdrawal in the year you open your RRIF, you are not required to do so. Your first required RRIF payment will be calculated on January 1st of the year after you open the plan. You then have until the end of the year to make your minimum annual withdrawal.

In recognition of the fact that Canadians are living longer, in the early 1990’s amendments were made to the RRIF rules to ensure that your RRIF funds do not expire before your death. Before the amendments, RRIF payments stopped at age 90, now they may continue until your death.

Here is the minimum percentage you must withdraw if you are 71 or older.

Minimum annual RRIF payments

Age on* January 1	Percentage of assets	Age on* January 1	Percentage of assets
71	7.38%	85	10.33%
72	7.48%	86	10.79%
73	7.59%	87	11.33%
74	7.71%	88	11.96%
75	7.85%	89	12.71%
76	7.99%	90	13.62%
77	8.15%	91	14.73%
78	8.33%	92	16.12%
79	8.53%	93	17.92%
80	8.75%	94	20.00%
81	8.99%	95	20.00%
82	9.27%	96	20.00%

* Your age or your spouse's age.

For example, if you were 72 years old on January 1, and had $100,000 in your RRIF, you would be required to withdraw $7,480 ($100,000 x 7.48% = $7,480) from your RRIF this year.

RRIFs that were opened prior to 1993 use slightly lower percentages to calculate the minimum annual payment for ages 71 to 77.

Withholding tax

If you withdraw only the minimum from your RRIF, there is no withholding tax applied to the payment. If you take more than the minimum amount out of your RRIF, the Trustee of your plan is required to withhold tax and remit it to CRA on your behalf. When you prepare your annual income tax return, the tax withheld is reported as tax already paid.

The withholding tax is calculated as follows:

If the amount of the withdrawal exceeds the minimum annual payment by:	Withholding tax in all provinces except Quebec	Withholding tax in Quebec*
Up to $5,000	10%	21%
$5,001 to $15,000	20%	26%
More than $15,000	30%	31%

* In Quebec the withholding tax is higher because it includes provincial as well as federal tax.

Tip

If you don't need the income, consider requesting an in-kind withdrawal from your RRIF. You will still be required to pay income taxes on the fair market value of the securities transferred out of your plan. The benefit of this strategy is that you avoid having to liquidate the securities.

Minimum annual withdrawal if under 71

If you want to start your RRIF earlier than age 71, your minimum annual payment can be calculated using the following formula:

$$\frac{\text{RRIF value at the beginning of the year}}{\text{90 minus your age*}} = \text{Minimum annual payment}$$

*Or you may elect to use your spouse's age.

For example, if you were 65 years old on January 1 and had $100,000 in your RRIF, the minimum amount you would be required to withdraw would be $4,000.

$$\frac{\$100{,}000}{(90\text{-}65) = 25} = \$4{,}000$$

Tip

If your spouse is younger than you are, using your spouse's age will result in lower minimum payments each year. If you do not need all of your RRIF income immediately, the lower payments leave more money invested in your RRIF providing for potentially greater growth and inflation protection.

Payment frequency

Working with BMO Nesbitt Burns, you can receive payments monthly, quarterly, semi-annually or annually. Lump sum withdrawals can be made any time and, if needed, your RRIF payments can be adjusted to meet your changing income needs. You may choose to have a cheque mailed to you or have a deposit made directly into your bank account.

Comparing annuities and RRIFs

With annuities, the timing of the purchase is of critical importance. Because you lock in the annuity rate for the rest of your life, converting to an annuity is best done when you are older. If you must make a decision and are undecided about what to do, you should consider a RRIF. Later on, you can simply transfer the funds in your RRIF – on a tax-free basis – into an annuity. The older you are, the higher your annuity payments will be.

You do not have to worry about your timing when you transfer to a RRIF. Just as you have done all these years with your RRSP, you maintain control of your assets and continue to make the investment decisions. Regardless of what happens in the future, you retain the flexibility to take advantage of new investment opportunities as they arise.

With a life annuity, you give up control over your investments in return for guaranteed payments for the rest of your life. Another major difference between RRIFs and annuities is what happens when you die. With a RRIF, the entire amount remaining is paid to a beneficiary or to your estate when you die. With an annuity, if you outlive the guaranteed period, there would be no money paid to your beneficiaries.

Each of the maturity options is quite different. They serve different needs and should be reviewed in the context of your entire retirement situation. For example, you should consider:

RRIFs versus annuities:

	Annuities	RRIFs
I want to guarantee our cash flow.	✓	
It is important for me to have ongoing flexibility with regard to how much income I receive from my plan.		✓
It is important to leave an inheritance for my beneficiaries.		✓
Longevity runs in my family – I'm afraid I will outlive my money.	✓	
I want my portfolio to benefit from potential stock market gains.		✓
I prefer to maintain control over my retirement assets and how they are invested.		✓
I don't want to worry about market performance.	✓	

Tip

If you are 65 or older, the regular payments you receive from RRIFs and annuities are considered qualified pension income for income tax purposes and therefore are eligible for the $2,000 pension income tax credit. Even if you are 65 or older, an RRSP withdrawal will not qualify for the pension credit so consider transferring a portion of your RRSP into a RRIF or annuity to take advantage of this credit.

Managing your investments

Since this is your retirement capital, it's essential to avoid poor investment performance. You no longer have the income stream to make up for any lost capital and you may need to draw on funds before an underperforming investment has had a chance to recover. On the other hand, you also need to avoid being too conservative. Your investments need to earn a real rate of return, above and beyond taxes and inflation, in order to preserve your buying power for the next two, three or four decades.

After retirement, most individuals find that the only way to expand their capital is through investment performance. The rate of return earned by your RRIF can significantly affect the amount of your retirement income. By examining all of your alternatives, you can very often increase your return by one or two percentage points with only a marginal increase in risk.

CRA approved investments for RRIFs are exactly the same as for RRSPs. Qualified investments include:

- Guaranteed Investment Certificates (GICs) issued by a Canadian bank or trust company;
- Treasury Bills;
- Qualified mutual funds and income trusts;
- Bonds and debentures of Canadian governments and Crown corporations, and certain foreign governments;
- Shares and debt issued by corporations listed on prescribed stock exchanges;
- Rights and warrants that, if exercised, would acquire securities that are qualified investments;
- Certain Canadian mortgages;
- Certain call and put options;

Non-qualified investments include:

- Real estate;
- Personal property, such as art, antiques and gems

The 2% difference

The rate of return earned by your RRIF can significantly affect the amount of your retirement income. Here's an example of the difference an extra one or two per cent will make to your retirement income. We have assumed that you transfer $100,000 into your RRIF at age 65 and that you take out only the minimum annual payments until age 90. If you earn a seven per cent return instead of five per cent, you will receive more than $48,000 in additional income over the 25 years and yet, at age 90, your RRIF will still be worth an extra $30,422 ($76,051 – $45,629).

Investment return	Remaining value of RRIF at age 90	Total RRIF Income received
5%	$45,629	$159,214
6%	$58,985	$181,324
7%	$76,051	$207,217
8%	$97,802	$237,583

Your RRIF's total rate of return will vary since it is determined by the returns earned on each of the individual investments held in your RRIF. In order to maximize the effectiveness of your retirement plan, you should determine what your retirement income needs will be and then, with the help of your BMO Nesbitt Burns Investment Advisor, design an investment and income plan to meet those needs.

Holding foreign securities

As with your RRSP, you may hold qualified foreign securities in your RRIF. Consider this: Canada comprises less than 3% of the world's equity markets. In other words, more than 97% of global equity market opportunities are outside of our borders. As such, it is important to consider the benefits of including foreign investments in a well-diversified portfolio.

When looking to increase foreign content, we tend to focus primarily on U.S. investments. However, increasing direct holdings of U.S. investments may result in a U.S. estate tax liability at death. For Canadians, the U.S. estate tax is calculated only on U.S. investments but includes investments in registered plans such as RRIFs. For more information on U.S. Estate tax ask your Investment Advisor for our publication called Tax and Estate Consequences of Owning U.S. Securities.

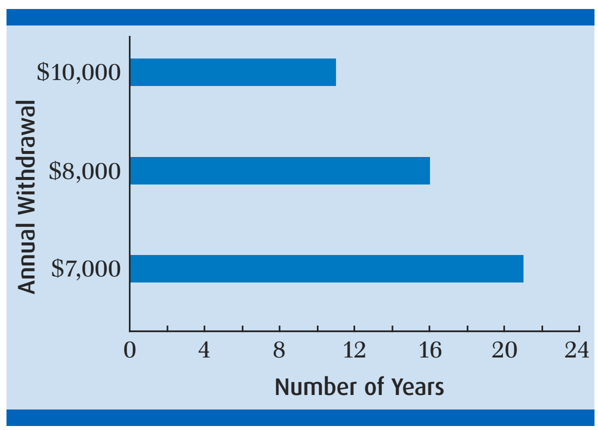
How Long Will A $150,000 RRIF Last?

At the heart of retirement planning is a detailed analysis of anticipated retirement incomes and expenses. Of course, it's the expenses that are harder to calculate. Once you've come up with a general idea of how much additional cash flow or income you might need from year to year to meet your needs, the next question inevitably will be – how long will my assets last? The answer – that depends.

It depends on factors such as the rate of return on your investments, your personal income tax rate and how much you need on an after tax basis to fund your lifestyle throughout the various stages of retirement.

This chart shows the effect of various annual withdrawal amounts from a $150,000 RRIF. Let's assume the plan earns a 6% rate of return and the individual is in a 46% tax bracket. You can see that the RRIF will be fully depleted in under 12 years if the after-tax withdrawal is $10,000 per year. Reduce the annual after tax withdrawal to $7,000 and the plan will last an additional 8 years.

Of course, there are many other factors to consider when developing a retirement plan – everyone's situation is unique. Your Investment Advisor can help you develop your own retirement plan that takes into consideration all of your potential future sources of income, expected expenses and all of your investments that will be used to fund your retirement years.



Converting a Spousal RRSP

Pension income splitting can reduce a couple's overall tax bill by taking advantage of one partner's lower marginal tax rate where retirement incomes of spouses are disproportionate.

Changes to the federal tax rules allow Canadian residents who receive eligible pension income to allocate up to 50% of this income to their spouse.

The use of Spousal RRSPs as an income splitting tool may still be recommended, despite the opportunities created by pension income splitting, since Spousal RRSPs will allow for additional income splitting prior to age 65 beyond the 50% limitation provided by the new rules.

If you have made contributions to a Spousal RRSP, you've taken advantage of an effective income splitting opportunity. A Spousal RRSP is the same as a regular RRSP except that a Spousal RRSP is registered in your spouse's name while you, as the contributing spouse, take a full tax deduction for all the contributions you make to the spousal plan.

In most cases, the plan holder will pay the tax on withdrawals as long as three years have passed since the last spousal contribution. However, if you make Spousal RRSP contributions closer to when your spouse transfers the funds to a RRIF, CRA has transition rules. During the transition period (the calendar year in which you made your last contribution plus the two following calendar years), if your spouse withdraws only the minimum annual payment, the payments will be considered your spouse's income and will not be attributed back to you. If your spouse withdraws more than the minimum annual payment, the excess amount over the minimum will be attributed back to you for income tax purposes (but only to the extent that spousal contributions made in the transition period exceed the amount withdrawn in excess of the minimum). After the transition period, or if no spousal contributions were made during the transition period, withdrawals of any amount will be considered your spouse's income.

Leaving a legacy

RRIFs provide you with a significant estate planning advantage – the ability to name a beneficiary who will receive the funds remaining in your plan at the time of death. In Quebec, beneficiary designations should be made in your Will.

The full value of your RRIF will be paid to your chosen beneficiary or, if you have not named a beneficiary, it will be paid to your estate. No withholding tax is applied to the payment. Instead, the full amount of the RRIF proceeds are included in your income tax return in the year of death regardless of who the beneficiary is. In effect, the beneficiaries of your estate will bear the tax cost of the RRIF. However, by naming a beneficiary for the RRIF, the plan does not form part of the estate assets that require probate. This may result in significant savings in some provinces where the fee is charged on the value of the estate.

Naming a beneficiary

A beneficiary designation is made in writing either directly on the RRIF application form, on a beneficiary change form, in a letter, or in your Will and can be changed only by the plan holder. In Quebec, beneficiary designations are made in your Will. You should review your beneficiary designation whenever there is a change in your personal circumstances such as marriage or divorce, death or birth. For example, if you are married, you have likely named your spouse as the beneficiary of your plan. Should you divorce, the beneficiary designation on your account will not automatically change.

Another important change occurs when you convert your RRSP into a RRIF. The RRIF is considered a separate plan so you should ensure you have named a beneficiary for the RRIF either in the plan documentation or in your Will. Your RRSP beneficiary will not automatically be named the RRIF beneficiary.

Working with BMO Nesbitt Burns, you may name multiple and contingent beneficiaries on your RRIF. If you name a contingent beneficiary, that person will be entitled to receive a portion of your RRIF if your primary beneficiary has died.

Spouse or common-law partner

If you name a spouse or common-law partner (hereinafter referred to as "spouse"), the proceeds may be transferred to your spouse on a tax-deferred basis. If the proceeds are rolled into your spouse's own RRSP, RRIF or used to purchase an annuity, no tax will be payable until the funds are subsequently paid out to your spouse. You have an additional option to name your spouse as a successor annuitant of your RRIF. In that case, the successor annuitant (your spouse) will continue receiving payments from your existing RRIF and a new account will not have to be opened.

Financially dependent children

If you name a financially dependent child as a beneficiary, the proceeds may be taxed in their hands rather than your estate. A minor child or grandchild may purchase an annuity which would make payments until the child reaches age 18. This allows the child to spread the payments and related taxes over a period of years. However, a financially dependent child or grandchild of any age who has a mental or physical disability may roll the proceeds into their own RRSP, RRIF or purchase an annuity.

Charity

If you name a charity as the beneficiary of your RRIF, the payment will be considered a charitable donation and your estate will be entitled to a donation credit for the value of the plan. Previously, in order to be entitled to the charitable donation credit, the charity had to be named in your Will.

One of the biggest mistakes people make is failing to name a beneficiary for their registered plans. Speak to your Investment Advisor to review the beneficiary designations on your BMO Nesbitt Burns registered plans.

BMO Nesbitt Burns Self-Directed RRIFs

A BMO Nesbitt Burns Self-Directed RRIF allows you to hold one or more of the qualified investments within a single plan. For example, you could hold bonds, shares, mutual funds, and GICs – all in one Self-Directed RRIF.

Most existing RRIFs can be transferred to BMO Nesbitt Burns quite easily. Your Investment Advisor can show you how.

Professional advice and Service – BMO Nesbitt Burns' Investment Advisors are highly trained investment professionals. Your Investment Advisor will work with you to design a RRIF portfolio that will meet your financial objectives, suit your personal circumstances and recognize your risk tolerance level. In addition, your RRIF will be regularly reviewed to ensure that it is structured correctly for the current economic environment.

Superior service – BMO Nesbitt Burns enjoys a reputation for superior client service and support. Backing your Investment Advisor are the considerable resources of BMO Nesbitt Burns, the technical expertise of the RRSP/RRIF product management team and the services of our specialized RRSP/RRIF administration department.

Highest quality research – Your Investment Advisor has access to timely economic information and expert opinions on specific industries and companies. BMO Nesbitt Burns has one of the finest Economic and Research Departments in the investment industry. In fact, our research team has been ranked number one in Canada for the past 27 years.*

Flexibility and control – You may choose from a wide range of eligible investments. As market conditions fluctuate, new investments become available, or your personal circumstances change, you can easily alter your RRIF portfolio to respond to these changes. If, at any time, you feel that it would be appropriate to move from a RRIF to a life annuity, you can take advantage of a full range of insurance and annuity products through BMO Nesbitt Burns Financial Services Inc.

Consolidated reporting – Combining all of your RRIFs into a single Self-Directed plan makes your retirement planning much easier. You will receive one monthly statement summarizing your RRIF assets. This statement itemizes all of your investments, the interest or dividends earned during the period, the current market value of your portfolio, and the amount of money paid out to you during the month. In addition, you automatically receive confirmation of every investment transaction. At the end of the year, you will receive a T4RIF for filing with your income taxes indicating how much money was paid to you from your RRIF during the year.

BMO Nesbitt Burns Pathfinder® –
BMO Nesbitt Burns Pathfinder is a sophisticated retirement planning software program used in conjunction with your Investment Advisor's expertise. By integrating the many elements that affect retirement income, your BMO Nesbitt Burns Investment Advisor can help you to review your options, make informed decisions, and help you take control of your finances, so that you can enjoy a comfortable retirement lifestyle.

BMO Nesbitt Burns Gateway® –
BMO Nesbitt Burns Gateway provides you with convenient Internet access to your BMO Nesbitt Burns RRIF in a completely secure and private environment, 24 hours a day, 7 days a week. Through BMO Nesbitt Burns Gateway, you can view your RRIF holdings in detail, check past transactions, establish virtual portfolios, access prices on stocks, options and mutual funds and communicate with your Investment Advisor.

The security of a BMO Nesbitt Burns RRIF

BMO Nesbitt Burns operates its business in strict adherence to the regulations, policies and bylaws dictated by the governing bodies of our industry. These regulations are in existence, first and foremost, for the protection of individual client assets. Fully paid for securities which are held by BMO Nesbitt Burns on a client's behalf are held separate from the firm's own securities. Customers' accounts are protected by the Canadian Investors Protection Fund and the Canada Deposit Insurance Corporation within specified limits. Brochures describing the nature and limits of coverage are available upon request.

The new retirement

It used to be that 65 was synonymous with retirement, and the end of RRSP contributions. Yet for many Canadians, this is no longer the case. Working beyond age 65, even beyond age 70, is becoming more and more common.

But since you cannot have an RRSP after age 71, what can be done with your accumulating RRSP room?

Spousal RRSPs

If you have unused RRSP contribution room or are continuing to earn income and your spouse is under 71, you should consider contributing to a spousal RRSP. This strategy builds retirement assets for your spouse and allows you to take the tax deduction for your contribution. Your spousal contributions do not affect your spouse's ability to make contributions to his or her own RRSP.

Contribution at age 71

If you cannot make spousal contributions because you do not have a younger spouse, there is a one-time opportunity to make an additional RRSP contribution at age 71. If you are still working at age 71, you will generate RRSP contribution room for the following year. Unfortunately, you will be unable to take advantage of it unless you make an "early" RRSP contribution.

Here's how it works. Let's say you turn 71 this year and, based on this year's salary, you will be eligible to make a $10,000 RRSP contribution next year. Because you cannot have an RRSP next year, you make an "early" RRSP contribution before December 31st of this year. An over contribution in excess of $2,000 will attract a penalty tax of one per cent for the month of December. In our example, the penalty tax is $80 (one per cent of $8,000) assuming you have not already made a $2,000 over contribution.

Come January 1, you will no longer be in a penalty position, as new contribution room has become available. You will be able to claim a $10,000 tax deduction on next year's tax return and will have sheltered an additional $10,000 inside your RRSP. The tax deduction – along with the continued tax-deferred growth in a RRIF, or the increased annuity payment if the RRSP is used to purchase an annuity – makes it well worth this one-month tax penalty.

If you have transferred all or part of your RRSP assets to a RRIF but no longer need the annual RRIF income, some of the benefits of making tax deductible RRSP contributions will be offset by the fact that you will have to include your RRIF payments in your taxable income. If you find yourself in this situation, and you are under 71, you might want to consider transferring your RRIF back into an RRSP.

Maturity options for locked-in RRSPs or locked-in retirement accounts (LIRAs)

A Locked-in RRSP or Locked-In Retirement Account is the result of a transfer of locked-in funds from a Registered Pension Plan (RPP) or another locked-in retirement savings or income plan. You are not allowed to take cash out of a locked-in plan or buy a RRIF. However, there are other maturity options available if your RRSP is "locked-in":

- Transfer to a life annuity;
- Transfer to a Life Income Fund (LIF);
- In Manitoba and Newfoundland, transfer to a Locked-In Retirement Income Fund (LRIF);
- In Saskatchewan and Manitoba, transfer to a prescribed RRIF.

While a discussion of LIRAs, LIFs and LRIFs is beyond the scope of this RRIF Book, your BMO Nesbitt Burns Investment Advisor can answer any questions you may have. If you would like the information in written form, you may also request a copy of the BMO Nesbitt Burns publications on the Subject of LIRAs, LIFs and LRIFs.

Take steps today for a more secure, satisfying life

While you are required to take a minimum annual amount out of whichever maturity option you choose, a significant portion of your retirement funds will remain invested for many years. It is important that you not only protect your capital, but ensure that it maintains its purchasing power as the decades pass. For this reason, RRIFs are the RRSP maturity option of choice for a growing number of Canadians.

At BMO Nesbitt Burns, we realize the importance of` having a comprehensive retirement plan. We'll listen to what you want, work with you to develop a plan that makes you comfortable, and commit to a long-term professional relationship which will provide you with the highest quality advice and service. Whether you are just beginning to plan or your retirement is imminent, now is the right time to call your BMO Nesbitt Burns Investment Advisor or the BMO Nesbitt Burns office nearest you. We can help make your retirement plans a reality.

About BMO Nesbitt Burns

Since its origins in 1912, BMO Nesbitt Burns has been committed to helping clients meet their investment objectives and goals with the highest of standards.

Today, the Private Client Division of BMO Nesbitt Burns focuses on meeting the needs of individual investors through a customized approach to wealth management. Our Investment Advisors provide clients with personal advice and services, drawing upon some of the best knowledge and expertise in the industry including BMO Nesbitt Burns' top-ranked research.*

As a member of BMO Financial Group, BMO Nesbitt Burns also provides clients with access to one of the broadest selections of wealth management solutions and services available today, both in Canada and the United States. If you would like more information, please contact your BMO Nesbitt Burns Investment Advisor or the BMO Nesbitt Burns office nearest you.

Visit us online
www.bmonesbittburns.com

* Brendan Wood International Survey. Institutional Equity Research, Sales and Trading Performance in Canada, 2007 Report.

www.bmonesbittburns.com

RP22100 07/08-120

BMO Nesbitt Burns®