Registered Retirement Income Funds

Selecting the right retirement income option for your Registered Retirement Savings Plan (RRSP) is one of the most important financial and estate planning decisions you'll make. This is especially true today, when statistics show that Canadians are living longer, healthier lives. If you're fortunate, your retirement will last 20 years, or longer. Therefore, it's important to make sound investment choices that not only protect your savings but ensure that the purchasing power of your money lasts throughout your retirement.

You must select an RRSP maturity option by the end of the year in which you turn 71. The Canada Revenue Agency (the CRA) allows you to choose one, or any combination of, the following RRSP maturity options: a cash payment, a life annuity and a Registered Retirement Income Fund (RRIF).

By far, RRIFs are the RRSP maturity option of choice for individuals who are looking to maintain flexibility and control over their retirement assets.

A RRIF is very much like an RRSP, only 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 Like an RRSP, all of the growth and income generated by the assets in a RRIF are tax-sheltered until they are withdrawn from the plan.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 the purpose is to build retirement assets by making contributions, the purpose of a RRIF is to provide retirement income by making regular withdrawals.

Minimum annual RRIF payment

A minimum amount must be withdrawn annually from your RRIF starting in the year after it is opened. Your minimum annual payment is based on your age (as of January 1 in the year of withdrawal) and is calculated as a percentage of your RRIF's value at the beginning of each year. If you have a spouse/partner, you may use their age to determine the minimum annual withdrawal. If your spouse/partner is younger than you, this will result in a minimum withdrawal amount that is lower than if the amount was calculated based on your age.

2015 Federal Budget reduced minimum annual payment

The 2015 Federal Budget reduced the percentage factor used to calculate the minimum annual withdrawal amount for individuals aged 71 to 94, making it more consistent with long-term historical real rates of return for a portfolio of investments and projected inflation. The new RRIF factors, which apply for 2015, and subsequent tax years, mean that your minimum annual withdrawals will be lower, enabling you to preserve more of your RRIF savings in order to provide income for a longer period of time. Please note, the RRIF factors used to calculate minimum annual RRIF payments are also used to calculate minimum annual payments for Life Income Funds (LIFs) and Locked-in Retirement Income Funds (LRIFs).

Table 1 in the Appendix shows the old and the new RRIF factors for ages 71 to 94. There was no change to the minimum withdrawal factors that apply to individuals aged 70 and under, which continue to be determined by the formula: 1/(90 – age).

Taxation of RRIF withdrawals

Any amount withdrawn from a RRIF is considered taxable income in the year withdrawn. Taxation rates vary by province and your personal income level; however, they are charged on an aggregate basis.

If more than the minimum annual amount is withdrawn from your RRIF, withholding taxes will apply and are deducted from your payment at the time of the withdrawal. The actual amount of tax withheld depends on the withdrawal amount and your province of residence. The withholding tax is considered a "pre-payment" against your annual income taxes owing. RRIF withdrawals must be included in your tax return as taxable income. If there are any taxes owing or receivable, the adjustment will be made when you file your income tax return. For amounts withdrawn above the minimum, the following chart details the withholding taxes that will apply.

Amount Withdrawn Above the Minimum	Withholding Tax – All Provinces Except Quebec	Withholding Tax – Quebec
Up to $5,000	10%	21%
$5,001 to $15,000	20%	26%
More than $15,000	30%	31%

Taxes payable on Spousal RRIF withdrawals

When transferring your Spousal RRSP to a Spousal RRIF, you should be aware of the potential impact of the attribution rules. If you withdraw funds from your Spousal RRIF, when you file your income tax return you will be taxed on the minimum annual withdrawal amount. If you withdraw more than the required minimum, the excess amount may be subject to attribution, meaning the excess may be taxable in the hands of the contributor (i.e., your spouse/partner) if they have made a recent contribution to any Spousal RRSP. Specifically, the amount of the Spousal RRIF withdrawal attributed to the contributor would be calculated as the least of:

- The particular amount withdrawn;
- Spousal RRSP contributions made to a Spousal RRSP in the year or the two preceding calendar years (i.e., if a Spousal RRIF withdrawal is made in 2016, this would include Spousal RRSP contributions made in 2016, 2015 and 2014); and
- The total amounts withdrawn in the year less the required annual RRIF minimum payment.

Beneficiary designations

Provincial succession laws allow you to designate a beneficiary for your registered plan(s) (including RRIFs), so that upon your death the named beneficiary receives the assets in the plan. From an estate planning perspective, the plan will not form part of your estate assets requiring probate. This may result in significant savings in some provinces where the fee is charged on the value of the estate. In addition, your choice of beneficiary (i.e., spouse/partner, financially dependent child/grandchild, charity) may reduce or eliminate the income taxes payable for your estate.

In Quebec, all beneficiary designations must be made through your Will.

Tips for maximizing your RRIF

RRIFs provide a great deal of flexibility when it comes to making withdrawals. Consider the following strategies to help maximize your retirement savings and income.

- **In-kind transfers** – If you don't require your minimum annual RRIF withdrawal to cover living expenses, consider an "in-kind" transfer of securities from your RRIF, instead of making a cash withdrawal. While you must report the amount of the "in-kind" withdrawal on your income tax return, if the security is immediately transferred to a Tax-Free Savings Account (TFSA), you can continue to shelter future investment earnings from taxation.
- **Ability to convert your RRSP to a RRIF at any time** – You can convert your RRSP savings into a RRIF at any time before you reach age 71 based on your personal circumstances. For example, some people choose to withdraw from their RRIF before they are eligible to receive CPP benefits. However, the longer you delay withdrawing from your RRIF, the greater the potential for growth, making more money available for later years.
- **$2,000 federal pension income tax credit** – When it comes time to file your personal tax return, your RRIF withdrawals can qualify for the $2,000 federal pension income tax credit (if you are age 65 or older). This means you are entitled to deduct from your taxes payable a tax credit on the first $2,000 of pension income received.

You can start taking advantage of this as soon as you turn 65 by transferring $14,000 from your RRSP to a RRIF and withdrawing $2,000 per year from ages 65 to 71 (inclusive). Depending on your marginal tax rate the pension tax credit will reduce or eliminate the incremental tax otherwise owing on the additional $2,000 of qualifying income annually, to the extent that you are not otherwise taking advantage of this credit with other income. Since the tax savings is provided as a tax credit (versus a tax deduction), it is important to note that the first $2,000 of qualifying pension income may be not tax-free. The pension tax credit reduces taxes payable on this income but only at the lowest marginal tax rates, such that someone who pays tax at the top rates would not be able to fully eliminate the incremental taxes applied to the $2,000 of qualifying income. Furthermore, the provincial tax credit provided in most provinces is below the $2,000 federal amount so there may also be some (slight) provincial tax applicable on a full $2,000 withdrawal.

- **Pension income-splitting** – If you are 65 years or older you can split up to 50 per cent of your RRIF income with your spouse/partner. Also, if your spouse/partner is 65 years or older and does not otherwise have income that qualifies for the pension credit, by income-splitting (allocating $2,000 of qualifying RRIF income to your spouse/partner) your spouse/partner can also qualify for the $2,000 pension income tax credit, as previously discussed.
- **Customize the frequency of your RRIF payments** – You can select to receive your RRIF income on a schedule that works for you (monthly, quarterly, semi-annually or annually). If your RRIF acts as your secondary source of income, you may prefer to choose less frequent withdrawals that coincide with expenses such as property taxes. Please note, you can change your regular withdrawals any time you wish – the only requirement is that you withdraw at least the minimum withdrawal amount each year.

Your BMO Nesbitt Burns Advisor is here to help

Much can change during your retirement years. By choosing to transfer your RRSP to a RRIF, you will maintain maximum flexibility and control over your retirement savings.

Because a significant portion of your RRIF will remain invested for many years, it's important that you protect your capital while ensuring that it maintains its purchasing power over the long-term. Your BMO Nesbitt Burns Investment Advisor is committed to helping you reach your retirement goals and will work with you to develop a comprehensive wealth plan that makes you comfortable.

Appendix

Table 1 RRIF Minimum Annual Withdrawal

Old and New RRIF % Factors		
Age (as of January 1st)	Old Factor % (for RRIFs opened in 1993 or later)	New Factor % (for 2015 and later)
71	7.38	5.28
72	7.48	5.40
73	7.59	5.53
74	7.71	5.67
75	7.85	5.82
76	7.99	5.98
77	8.15	6.17
78	8.33	6.36
79	8.53	6.58
80	8.75	6.82
81	8.99	7.08
82	9.27	7.38
83	9.58	7.71
84	9.93	8.08
85	10.33	8.51
86	10.79	8.99
87	11.33	9.55
88	11.96	10.21
89	12.71	10.99
90	13.62	11.92
91	14.73	13.06
92	16.12	14.49
93	17.92	16.34
94	20.00	18.79
95 and over	20.00	20.00

Source: Government of Canada – Economic Action Plan 2015

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