BMO NESBITT BURNS

RRIFs
Your RRSP Maturity Options

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 to 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 sound investment choices that not only protect your savings but ensure that the purchasing power of your money lasts for decades.

You must decide which RRSP maturity option you want and have the money in your RRSP transferred into it by the end of the year in which you turn 71. Canada Revenue Agency (CRA) allows you to choose one, or any combination, of the following RRSP maturity options.

Cash Payment

A lump-sum cash withdrawal will be fully taxed in the year you receive it. Unless the value of your RRSP is quite small, if you withdraw the funds all at once you will probably 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.

Life Annuity

A life annuity is a product that provides a series of periodic payments which you are guaranteed to receive for the rest of your life. Annuity payments are taxed each year as you receive them. The amount of your annuity payments will be determined by the value of your RRSP, your age, current interest rates, how long a period you want your payments guaranteed in the event of death, and whether you want all or a portion of the payments to continue for as long as your spouse lives.

A life annuity offers you the security of knowing that for as long as you live, you will receive a fixed income. However, many people are uncomfortable with the thought that all of their RRSP savings would be gone if they lived for only a short period of time after retirement. The solution is to buy an annuity that will make payments for a guaranteed period of time; however in general, the longer the guaranteed period, the lower the payments.

With life annuities, the timing of the purchase is critical. Because you lock in the annuity rate for the rest of your life, converting your RRSP into an annuity is best done when long-term interest rates are high. If you are undecided about whether or not to buy an annuity because you feel that interest rates will eventually move higher, you should consider buying a Registered Retirement Income Fund (RRIF). Later on, if rates go up, you can transfer the funds from your RRIF into an annuity. Another benefit of waiting to buy a life annuity is that the older you are, the higher your annuity payments will be.

Registered Retirement Income Fund

A 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. CRA requires that you take at least a minimum amount out of your RRIF each year. There is no maximum withdrawal limit, so you may withdraw any amount of money in excess of the minimum.

With a RRIF you continue to control how your funds are invested. Eligible investments for RRIFs are the same as for RRSPs.

At BMO Nesbitt Burns, you may choose to make withdrawals monthly, quarterly, semi-annually or once a year. You can choose to receive a cash payment or withdraw securities from your account. If you only withdraw the required minimum amount, there will be no withholding tax deducted from your payment.

Investment flexibility is important because after retirement, many individuals find the only way to expand their capital is through investment performance. The rate of return your RRIF earns can significantly affect your retirement lifestyle. Depending on the investment, you can often increase your return by one or two per cent with only a marginal increase in risk. That extra per cent can make a real difference to the value of your RRIF. The increased income, bolstered by the advantages of compounding, is further enhanced by the fact that the tax is deferred on all the growth and income earned inside your RRIF.

For example, let's assume that at age 65, you transfer $100,000 into your RRIF and that you take out only the minimum annual payments until age 90. If you earn a 7 per cent return instead of 5 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).

Remaining Investment Return	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

And one final comment from an estate planning perspective. All of the funds in your RRIF at the time of your death will be distributed to your estate or beneficiaries according to your instructions.

Conclusion

Selecting the right RRSP maturity option is one of the most important financial and estate planning decisions you will have to make. Because each of the maturity options is quite different, they serve different needs and should be reviewed in the context of your entire retirement situation. At BMO Nesbitt Burns we have the experience to help you sort through an often confusing array of options. Your BMO Nesbitt Burns Investment Advisor will be pleased to answer any of your questions and work with you to develop a retirement strategy that is just right for you.

Wealth Group
January 2008

RP20280 01/08

BMO Nesbitt Burns®