Your RRSP Maturity Options

You've saved and invested wisely over the years in a Registered Retirement Savings Plan (RRSP). Now that you're retiring, you'll need to use your RRSP savings to supplement your pension and government benefits to create the retirement lifestyle you've been planning. The question now becomes, what RRSP maturity option is best for you?

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 20 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 throughout your retirement.

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

Cash payment

A lump-sum cash withdrawal from your RRSP will be fully taxed in the year you receive it. Unless the value of your plan is small, if you withdraw the funds all at once, you'll 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 provides a series of periodic payments which you are guaranteed to receive for the remainder of your life. The amount of your annuity payment(s) 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. Annuity payments are taxed each year when received.

A life annuity offers the security of knowing that for as long as you live, you'll 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 makes payments for a guaranteed period of time. It's important to note that in general, the longer the guaranteed period, the lower the payments.

With a life annuity, the timing of the purchase is critical. Because you lock in the annuity rate for the remainder 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 converting your RRSP to a Registered Retirement Income Fund (RRIF). Later on, if rates go up, you can transfer the funds, or part of 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 (RRIF)

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 the plan are tax sheltered until they are withdrawn from the plan. Unlike an RRSP, where you build retirement assets by making contributions, the purpose of a RRIF is to supplement your retirement income by making regular withdrawals. The CRA requires that you take 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.

RRIF withdrawals can be made at any time, or you can choose to receive payments on a monthly, quarterly, semi-annually or annual basis. You can elect to receive a cash payment or choose to 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 investments selected, you can often increase your return by one or two per cent with only a marginal increase in risk. That extra growth 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 withdraw 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 ($207,217 - $159,214) in additional income over the 25 years and, at age 90, your RRIF will be worth an extra $30,422 ($76,051 – $45,629).

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.

Investment return on RRIF	Total RRIF income withdrawn over 25 years	Value of RRIF at age 90
5%	$159,214	$45,629
6%	$181,324	$58,985
7%	$207,217	$76,051

Choose your options carefully

The retirement option(s) you ultimately choose for your RRSP will depend on a number of criteria. Your decision should be based on some of the following considerations:

- Personal and family income needs
- Estate objectives
- Income flexibility versus income guarantee
- Desire to minimize income tax
- Need to protect against inflation

Selecting the right RRSP maturity option is one of the most important financial and estate planning decisions you will make. Because each of the maturity options is different, they serve different needs and should be reviewed in the context of your entire retirement situation.

At BMO Financial Group we have the expertise to help you sort through an often confusing array of options. Your BMO financial professional will be pleased to answer any of your questions and work with you to develop a retirement maturity strategy that is just right for you.

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For more information, speak with your BMO financial professional.

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