Investor Guide

RRIF Investing

Managing your money in retirement

Mackenzie
INVESTMENTS

What's inside

It's almost time to roll over your RRSP

You've spent your life building your nest egg, and now as you approach retirement, you want to ensure you are as financially comfortable as you can be in the next stage of your life.

As you move from accumulating assets to using them, you'll need to decide what to do with the money in your Registered Retirement Savings Plan (RRSP). In the year you turn 71, you must close down your RRSP and choose from three basic options. If you don't, the amount of your RRSP will be included in your income for the year – and this can mean a large tax bill.

Instead of closing down your RRSP, you can do as most people do, and roll your RRSP into a Registered Retirement Income Fund (RRIF). In doing so, you can take advantage of the tax-deferred growth and flexibility.

This guide provides an overview of RRIFs, the many advantages they provide, including tax benefits, a wide range of investment options and most important, the ability to ensure that you have enough income to enjoy a long, secure retirement.

Three basic options

Your option	Description	Advantages	Disadvantages
Convert to a RRIF	Convert RRSP to RRIF on a tax-free basis	Tax-deferred growth; flexibility and control over assets; no maximum withdrawal limit	Subject to minimum withdrawal requirements based on year-end plan value and age, and recalculated every year
Buy an annuity	An annuity gives you a guaranteed income stream for life, or for a fixed term	A good strategy when interest rates are high	Locked into interest rate at the time of purchase; lose flexibility and control over your assets
Cash it in	Withdraw entire amount from RRSP and hold it in a bank account	Complete control over how much you withdraw and when you use it	Fully taxable as income

The term "spouse" includes a married spouse or a common-law partner.

RRIFs

Before the federal government introduced RRIFs in 1978, Canadians had to either cash out their RRSP money all at once, or buy an annuity when it was time to close their RRSPs. Now, you can convert your RRSP to a RRIF on a tax-free basis, and let your investments build indefinitely.

Think of a RRIF as an RRSP in reverse. Instead of making contributions, you must make withdrawals. And instead of getting a tax deduction for your contributions, your withdrawals are taxed as income, like a salary.

But like an RRSP, your investments inside a RRIF get to grow tax-deferred. Any interest, capitals gains or dividends are not taxed until removed from the RRIF.

Key benefits of a RRIF

- Investments compound tax-free as long as they remain in the plan
- Choose your holdings from a wide range of options
- You decide how much you want to withdraw each year (above a set annual minimum after you reach 71), which gives you the ability to control how much tax you pay
- Use your age to calculate the withdrawal or if you don't need the minimum withdrawal amount, use your spouse's age if they are younger
- You can leave remaining RRIF assets to your heirs
- You can split your RRIF income with your spouse if you are at least 65 years of age and potentially reduce the taxes you must pay on the income

What are LIFs, LRIFs and PRIFs?

When RRSPs mature, they can be converted to RRIFs to generate income. When company pensions or locked-in RRSPs mature, they can be converted to Life Income Funds (LIFs), Locked-in Retirement Income Funds (LRIFs) or Prescribed Retirement Income Funds (PRIFs).

LIFs, LRIFs and PRIFs are like RRIFs for tax purposes except that they are subject to additional restrictions on how much can be withdrawn and when. Previously, some provinces required the balance in a LIF to be converted to an annuity by the end of the year in which the annuitant turned 80. In recent years, many provinces have updated their pension legislation to allow annuitants to maintain their LIF for life.

LIF	LRIF	PRIF
Available in all provinces except Prince Edward Island	Available in Manitoba and Newfoundland; no new LRIFs in Ontario after Dec. 31, 2008	Available in Saskatchewan and Manitoba

Frequently asked questions

When can I make my last RRSP contribution?

You can make your final RRSP contribution on December 31 in the year you turn 71.

How do I convert my RRSP to a RRIF?

Simply fill out an application form to open a RRIF account. Besides completing the basic information, you must indicate where your RRSP funds will be coming from. Your financial advisor can help you with the application process.

When can I set up a RRIF?

You may set up a RRIF at any time. If you decide to open a RRIF before age 71, you must start taking out an income the year after you open it. Remember though, the longer you let your money stay tax-deferred in your RRSP, the better your chances for growth.

If I don't convert my RRSP to a RRIF until age 71, can I take money from my RRSP if I need it?

Yes. If you need to take occasional lump sums of income from your RRSP, it may be preferable to just take it from the RRSP rather than convert it to a RRIF. Once you have converted to a RRIF, the government requires you to take at least the minimum income from the account each year, whether or not you need the funds. You may have both an RRSP and a RRIF in separate accounts prior to age 71. Note though that the lump sum withdrawal from your RRSP is taxable as income in the year of withdrawal.

Can I invest in more than one RRIF at one time?

Yes. You can have as many RRIFs as you like. You may transfer capital from one RRIF to another RRIF or a new RRIF at any time. Keep in mind, however, that you must make the minimum withdrawal from each RRIF account that you own. Also, having multiple RRIFs does not provide any tax advantages to you since you must pay tax on the combined income from all RRIFs.

When do I have to start withdrawing from my RRIF?

You must start to take income no later than your 72nd birthday. However, you may take income sooner. If you have other sources of income such as a company pension, Old Age Security or the Canada Pension Plan, and don't require the income, you would probably prefer to convert the RRSP to a RRIF as late as possible.

Frequently asked questions

How much income do I have to take out each year?

The government has established the minimum amounts you must withdraw from your RRIF each year, based on your age. For instance, if you are 72 years old, you must withdraw 7.48% of the fair market value of your RRIF on January 1 by the end of the year.

Age	**Non-Qualifying RRIF**	**Qualifying RRIFs***
71	7.38%	5.26%
72	7.48%	5.56%
73	7.59%	5.88%
74	7.71%	6.25%
75	7.85%	6.67%
76	7.99%	7.14%
77	8.15%	7.69%
78	8.33%	8.33%
79	8.53%	8.53%
80	8.75%	8.75%
81	8.99%	8.99%
82	9.27%	9.27%
83	9.58%	9.58%
84	9.93%	9.93%
85	10.33%	10.33%
86	10.79%	10.79%
87	11.33%	11.33%
88	11.96%	11.96%
89	12.71%	12.71%
90	13.62%	13.62%
91	14.73%	14.73%
92	16.12%	16.12%
93	17.92%	17.92%
94 and older	20.00%	20.00%

Your advisor can estimate your retirement income needs based on your budget and lifestyle. While there is a minimum income that you must take out once the RRIF is established, there is no maximum. If you have sufficient income from other sources such as a pension, you may choose to take only the minimum required. Also, if your spouse is younger than you are, you may base the income payment on your spouse's age and further reduce the minimum income requirement.

Should I take my payments monthly, quarterly, or annually?

If you require a set amount to meet your monthly expenses, then it's a good idea to withdraw monthly. However, if you don't need the money, taking your payment at the end of the year allows more time for tax-deferred growth.

Do I have to receive my RRIF income in cash?

No, you may take income "in kind" if you choose to do so. If you have an investment account or a Tax-Free Savings Account (TFSA) at the same institution as where your RRIF is held, your advisor can transfer a security out of your RRIF and into your investment account or TFSA as part of your annual required RRIF payment.

What investment options are available for my RRIF?

You may hold the same securities in your RRIF that you hold in your RRSP: mutual funds, equities, bonds, GICs, cash and a variety of other investments.

How is the income from my RRIF taxed?

The government taxes RRIF income as regular income just like a salary. You will get a T4RIF tax receipt showing you how much RRIF income to enter on your tax return.

What about the withholding tax?

If you withdraw more than your minimum required amount, your financial institution will withhold tax in

* A Qualifying RRIF is a RRIF that was opened before 1993 and has not accepted any funds after 1992; or after 1992 and has had only funds transferred from another Qualifying RRIF.

excess of that amount. The withholding tax is calculated on a cumulative basis, so if you make five separate requests for withdrawals of $5,000 or less, each withdrawal is subject to an escalating withholding tax to a maximum of 30% (31% for Quebec residents).

Amount Withdrawn	Provinces (excluding Quebec)	Quebec
Up to $5,000	10%	21%
$5,001 – $15,000	20%	26%
Over $15,000	30%	31%

What should I know about RRIF and the pension credit?

Your RRIF income is considered a pension and can qualify for the $2,000 pension credit on your tax return. In essence, the full pension credit amounts to tax savings of about $450.

Can I split my RRIF income with my spouse to reduce tax?

If you are 65 years or older, you can now split your RRIF income with your spouse. The federal government introduced new pension splitting rules in October 2007. Speak with your financial advisor to see if this tax strategy could help you save on tax.

What happens to my RRIF when I die?

If you designate your spouse as the beneficiary, you can have the RRIF transferred to your spouse's RRIF or RRSP (if under 71 years old) on a tax-free basis. Your RRIF can also pass tax-free to your financially dependent children or grandchildren but it must be used to buy a term annuity. If your dependant has a physical or mental infirmity, the full RRIF rollover is allowed.

Otherwise, your RRIF assets are considered your income in the year you die and are fully taxed. Your beneficiaries will receive the after-tax proceeds with any other assets in your estate. Speak to your financial advisor about strategies for preserving your RRIF for your heirs.

Manage your RRIF: Investing tips

Find the right balance

As you approach retirement, it's natural to become more conservative with your investments. You want to preserve your capital by moving more of your money into fixed income and guaranteed products. You will likely want to make sure a portion of your portfolio is earning enough short-term income to meet your needs.

But if you're like most 65-year-olds today, you will likely live another 20 years or more. The investments in your RRIF must generate sufficient growth to see you through retirement. Your financial advisor can help you determine the right balance for your situation, and the economic and investing environments.

Make that final (over) contribution

Before you convert your RRSP to a RRIF, make that one last contribution or even over-contribution. You can do this as long as you have earned income and RRSP contribution room. Remember though, if you're 71, you won't have the extra 60 days after year end like everyone else to make your last RRSP contribution.

Consider making an over-contribution, that is, a contribution beyond your contribution limit if you will continue to have earned income (rental income or employment income) in the coming years. You can deduct the RRSP contribution in future years to reduce your taxes. You'll face a 1% penalty tax on over-contributions beyond $2,000 but it will only be for one month. Speak to your financial advisor about how this might work for you.

Contribute to your spouse's RRSP

Once you convert your RRSP to a RRIF, you can no longer make any contributions. However, if you have earned income, or if you have sufficient RRSP deduction room, you can contribute to your spouse's RRSP and claim the deduction on your taxes. Your spouse must be 71 years or younger for this strategy.

Use your younger spouse's age for withdrawals

If you have a younger spouse, you can use his or her age to determine the minimum amount you need to withdraw from your RRIF each year. If you are 71, you would need to withdraw 7.38% of your RRIF assets but if your spouse is 65, and you base the withdrawal schedule on his/her age, you would only need to withdraw 4%. This comes in very handy when you don't require the extra RRIF income and don't want the extra tax bite.

Make sure you have assets to withdraw from/liquidate

Plan ahead for your minimum withdrawals so that you're not forced to sell assets hastily to generate the cash for withdrawal.

Take your payments and reinvest in a TFSA

Beginning in 2009, Canadian residents age 18 and over can save up to $5,000 (inflation-adjusted) a year in a Tax-Free Savings Account (TFSA). If you don't require the income from your RRIF payments, reinvest it in a TFSA where your funds can grow tax-free, can be withdrawn at any time on a tax-free basis, and can be used for any purpose.

Set up a systematic withdrawal plan (SWP) for your non-registered investments

A systematic withdrawal plan lets you redeem money regularly and systematically from your non-registered accounts. This can help supplement your RRIF income while keeping your investments well-diversified and offering tax benefits.

Open a Life Income Fund

If you have a locked-in RRSP (called a Locked-in Retirement Account in some provinces, or pension plan savings), you cannot convert that type of RRSP to a RRIF. Instead, open a similar Life Income Fund (LIF) or Locked-in Retirement Income Fund (LRIF). LIFs and LRIFs offer you the same investment flexibility as RRIFs. Ask your financial advisor to explain additional restrictions on these plans.

Your advisor

If you're like many Canadians, your RRIF is probably one of the cornerstones of your retirement funds.

Building and managing your RRIF calls for discipline. The reality is, many people don't have the time, interest or experience to closely manage every investment detail. Even if you are an experienced investor, a second opinion can highlight things you may overlook.

Here's what your financial advisor can help you with:

- Create a comprehensive plan tailored to your needs;
- Keep you focused on your investment plan and manage your cash flow;
- Actively monitor your investments to ensure that they continue to meet your needs;
- Keep you informed about tax rules and regulations related to RRIFs.

This guide should not be construed to be legal or tax advice as each person's situation is different. Please consult your own legal or tax advisor.

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