TD Wealth

Registered Retirement Income Funds

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Most Canadians are familiar with registered retirement savings plans (RSPs). Many spend decades accumulating wealth in these tax deferred plans to help fund their desired lifestyle in retirement. As you move into the retirement phase of your life it may now be time to draw on your savings.

Although you may draw income from a RSP at any time, tax rules require you to de-register the plan by December 31 in the calendar year you turn 71. There are three options available when the maximum age is reached:

1. Withdraw and pay tax on the entire balance;
2. Use the balance to purchase an annuity; or
3. Transfer the RSP balance to a registered retirement income fund (RIF).

A RIF is often considered to be the most advantageous of the three options, as the account maintains the same tax-deferred status as did the RSP, and you maintain control of the funds which would be lost if an annuity was purchased. The primary difference between a RSP and a RIF is that contributions cannot be made to a RIF, and unlike a RSP which is designed to save, a RIF is designed to provide an income.

As a RIF is designed to provide income, minimum income payments are required from the plan in the calendar year following the year of the conversion and all subsequent years. This amount is calculated by multiplying the fair market value of the RIF at the start of the year by a prescribed factor. All withdrawals from a RIF are taxed in the year they are received at the same rate as regular income. There is no maximum payment restriction from a RIF.

Minimum Withdrawals for RIFs opened after 1993:

Age	Prescribed Factor (%)
71	7.38
72	7.48
73	7.59
74	7.71
75	7.85
76	7.99
77	8.15
78	8.33
79	8.53
80	8.75
81	8.99
82	9.27
83	9.58
84	9.93
85	10.33
86	10.79
87	11.33
88	11.96
89	12.71
90	13.62
91	14.73
92	16.12
93	17.92
94 and older	20.00

Although age 71 is the latest you may start to draw income from a RIF, you may decide to convert your RSP to a RIF prior to age 71 depending on your circumstances. The minimum payment requirement prior to age 71 is determined by the formula 1/(90- age).

There is no withholding tax on minimum RIF withdrawals for Canadian residents. However, if an amount in excess of the minimum is withdrawn the following withholding tax rates apply

Withdrawn Amount	% Tax Withheld
From $0 to $5,000	10% (21% in Quebec)
From $5,000 to $15,000	20% (26% in Quebec)
Greater than $15,000	30% (31% in Quebec)

Registered Retirement Income Fund Strategies and Considerations

Request your withdrawal for year end

RIF payments may be received monthly, quarterly or annually. If you do not need the RIF income, consider taking your payment at the end of the year to maximize the tax deferral advantage of the investments in the RIF.

Base the minimum withdrawal on a younger spouse or common-law partner’s age

When the RIF is opened you may elect to base the minimum withdrawal on the age of your younger spouse or common-law partner (hereinafter referred to as “Partner”) if you want to minimize the required amount to be withdrawn from your RIF. This way the required withdrawal will be a lesser amount and the remaining funds in the plan will continue to grow on a tax-deferred basis.

In-kind withdrawals

Consider making an in-kind withdrawal from your RIF rather than selling an asset inside the RIF and withdrawing the cash proceeds. As the asset itself is transferred or withdrawn you are not required to sell the asset and you may minimize transaction costs.

At the time of withdrawal from the RIF the fair market value of the asset will become the adjusted cost base. Going forward, all income from the asset (such as dividends) will become taxable, and on any subsequent sale of the asset if it has appreciated in value there will be a taxable capital gain.

Review your investment strategy

The transition of a portfolio from the accumulation phase to a portfolio which is required to support income payments may require an adjustment to your holdings. Review your portfolio with your advisor to ensure your investment holdings continue to meet your needs.

Designate a beneficiary on your RIF

When you die, your assets will pass to your beneficiaries through your estate as directed by your Will (or by provincial succession legislation if you do not have a valid Will). Naming your Partner as the beneficiary of your RIF [Note: not applicable in Quebec] aides in a smooth, tax efficient transition of assets, as funds can be rolled over to the surviving Partner on a tax-free basis and may avoid probate.

If the designated beneficiary of your RIF is your Partner, then the RIF funds received by the surviving Partner qualifies as a “refund of premium”, which is eligible for a special tax treatment. The value of the RIF can be taxed in the hands of the surviving Partner.

Alternatively, and more advantageously from a tax perspective, the surviving Partner can transfer the refund of premium to a RSP or RIF in his or her own name thereby continuing the tax deferral. In addition there is also preferential tax treatment where a financially dependent child or grandchild is the designated RIF beneficiary.

Consider naming a charity as the RIF beneficiary

If someone other than your surviving Partner or qualifying dependent child or grandchild is the beneficiary of your RIF, then your RIF must be collapsed and the balance paid to the designated beneficiary or your estate. The value of the RIF will be included in your income on your terminal tax return. However, there is a tax advantage if you name a registered charity the beneficiary of your RIF assets upon your death - you are entitled to a charitable donation tax credit equivalent to the amount donated, which will effectively offset the tax owing on the plan at the time of your death.

If you are over 65:

(1) Take advantage of the pension income tax credit

The pension income tax credit is a non-refundable federal tax credit on qualifying pension income up to $2,000. Eligible pension income is the total of the following amounts:

- Regardless of the recipient’s age, pension income from a registered pension plan (RPP), whether defined benefit or defined contribution.
- Provided that the recipient is at least 65 years old, or if received as a result of the death of a Partner, income from:
  - A RIF (including a LIF or LRIF).
  - A RSP annuity (i.e. an RSP that has been converted to an annuity).

Even if you do not require the income, you may consider converting a portion of your RSP to a RIF at 65 to take advantage of the pension income tax credit. However, you must carefully consider if this strategy is appropriate for your particular tax situation.

(2) Consider converting your RSP to a RIF to take advantage of pension income splitting

Pension income splitting was introduced in 2007. Canadians who receive income which qualifies for the pension income credit are permitted to allocate up to one-half of that income to their Partner. At any age, pension income from a defined benefit or defined contribution pension plan may be split with a Partner; while for those who are 65 years or older, incomes from an annuity and registered retirement income fund (RIF) are also eligible to be split. If you are married or in a common-law relationship, review your income requirements and your tax situation as you may be able to effectively reduce your taxes by taking advantage of pension income splitting with your Partner.

Review the timing and sources of income in retirement

Effective retirement planning requires reviewing your retirement income sources and determining when those sources of income will commence as well as their duration. Your retirement will likely be funded by multiple income sources including:

- Private pensions,
- Government programs such as the Canada Pension Plan and Old Age Security, and
- Personal saving accounts including non-registered accounts, registered accounts (such as RSPs and RIFs, LIFs and LRIFs) as well as Tax Free Savings Accounts (TFSAs).

Many individuals who are not currently in high tax brackets but possess large RSP or RIF portfolios are concerned about having a significant portion of their RSP/RIF taxed at the highest tax rate on death. A common strategy that may be utilized is to increase their current RSP/RIF withdrawal so that the income can be taxed at a lower rate.

Transfer excess RIF income to a TFSA

Starting in 2009, Canadian residents who are 18 years of age or older with a valid Social Insurance Number are permitted to contribute to a TFSA. For each calendar year starting in 2009 to 2012, an individual may contribute up to $5,000 to a TFSA. For 2013, the TFSA contribution limit is $5,500. The contribution limit is indexed to inflation and is subject to change by the federal government. The factors that distinguish the TFSA are that contributions are not tax-deductible and that income and gains accumulate tax-free within the TFSA. Furthermore, any amounts withdrawn from the TFSA will be received tax-free.

If you receive more RIF income than you require to meet your lifestyle needs, you can contribute the excess to the TFSA and benefit from the continued tax- free growth of your investments. The funds accumulated in the TFSA can be withdrawn tax-free at a later date to enhance your retirement lifestyle or perhaps leave a tax-free legacy to your heirs.

As with most financial planning questions, the answer to which registered retirement income fund strategy is best depends on your specific situation. You should consult with your advisor to help you determine what is right for you.

Revised 20/12//2012