



## Creating Retirement Income With Registered Assets

Registered Retirement Savings Plans (RRSPs) represent the most effective way to save for retirement. Subject to the contribution rules and limits, you are allowed to defer income taxes each year on the amount of earned income that you contribute to your RRSP. Furthermore, you are able to tax-shelter the compounding investment returns in your RRSP. Over time, these advantages can help you to accumulate a substantial pool of registered retirement assets.

The main purpose of an RRSP is to eventually provide you with an independent retirement-income stream. Providing you have RRSP contribution room available (including any unused contribution room carried forward since 1991) you can contribute to your RRSP up until December 31<sup>st</sup> of the year you reach age 69. (If you are over age 69 but your spouse is not, you can direct any eligible contributions to a spousal RRSP up until December 31<sup>st</sup> of the year your spouse reaches age 69.) At this point, you must begin withdrawing fully taxable retirement income via an approved retirement income option if you wish to maintain the tax-sheltered status of your registered assets. If you don't select an RRSP maturity option, Canada Revenue Agency (CRA) requires that your RRSP be redeemed, with the entire amount becoming fully taxable. This additional income could push you into a higher tax bracket and also cause you to lose some income-related tax credits. You could also become exposed to the Old Age Security clawback.

### RRSP Maturity Options

1. Transfer your RRSP funds to one or more RRIFs
2. Transfer your RRSP funds to one or more annuities
3. A combination of the above

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Although you may transfer funds to RRIFs and/or annuities at any age, it is generally recommended that you delay doing so for as long as possible. If you are under age 69, you should continue to accumulate tax-sheltered savings in your RRSP, and delay transferring registered funds to RRIFs and annuities until you absolutely require the additional income. It is not advisable to generate unnecessary taxable income if the after-tax amounts will be re-invested in non-sheltered investment accounts. Always consider using up non-registered assets first and maintaining registered assets to build wealth for future needs.

At age 65, a common way to generate \$2,000 of pension income eligible for the pension tax credit is to transfer some RRSP funds to a RRIF or annuity. An alternative is to use non-registered assets to create this income through the purchase of a non-registered annuity. The interest portion of all non-registered annuity products qualifies for the pension tax credit. This includes a Guaranteed Income Annuity or GIA, which is basically a life-insurance-company term deposit similar to a GIC. GIAs return your original investment capital at maturity, and they also allow you to designate a beneficiary.

If you reach age 69, and you don't require all of the income from your registered assets, consideration should be given to using life insurance and related investments to create an estate-maximization strategy.

### Registered Retirement Income Fund - RRIF

A RRIF is a popular RRSP maturity option. RRIFs and RRSPs share many of the same features, except that they are basically designed to work in reverse. While RRSPs allow you to accumulate tax-sheltered savings for your retirement, RRIFs generate a taxable retirement-income stream from these savings. In other words, you make tax-deductible contributions to an RRSP, and take taxable income withdrawals from a RRIF.

RRIF income can be custom tailored to meet your needs. There is no limit on annual income withdrawals, as long as they are equal to or greater than the minimum stipulated by CRA. The RRIF investments you choose will influence your income flexibility.

For example, short-term fixed-income investments provide a high degree of flexibility; however, they could reduce overall investment returns. The RRIF pays income as long as capital lasts.

### RRIFs at a Glance

- RRIFs provide income flexibility and control for tax and investment-planning purposes.
- You may delay your first payment until the end of the year you reach age 70. This deferral could mean additional tax-sheltered growth.
- The Income Tax Act sets a minimum payout formula based on the size of the RRIF each year. However, there is no maximum limit.
- The minimum payout formula can be based on your age, or that of your spouse. If you wish to extend the income period, you can establish the RRIF based on the youngest age. (Your choice must be made before you receive your first income payout.)
- You can change the amount you withdraw at any time, subject to the terms of the investments you choose.
- A Self Directed RRIF provides maximum control over investments.
- As long as you are under age 69, you may transfer any remaining funds in a RRIF back to an RRSP should you decide that income from a RRIF is no longer needed. However, the annual minimum amount must be paid from the RRIF before the transfer can take place.
- Upon your death, all remaining RRIF value forms part of your estate and becomes fully taxable, unless it is eligible for special rollover provisions for spouses or dependent children.

### Tax Withheld at Source on RRIF Withdrawals

This is not an additional tax, but a tax down payment, or “withholding of tax at source”, similar to tax deductions made by an employer.

<i>RRIF Withdrawal in Excess of the Annual Minimum</i>	<i>Quebec</i>	<i>Other Provinces</i>
\$5,000 or less	21%	10%
\$5,001 to \$15,000	26%	20%
Over \$15,001	31%	30%

### Spousal RRSPs

In your retirement planning, you may have taken advantage of spousal RRSPs. Any amount which you were eligible to contribute to your own RRSP may have been directed to a spousal RRSP instead. You personally claimed a tax deduction for the amount you contributed, but the plan and plan assets are owned and controlled by your spouse.

You should be aware, however, that there is an “anti-avoidance” provision attached to spousal plans which is designed to prevent a high-income spouse from contributing to a spousal plan and having funds almost immediately withdrawn and taxed to the lower-earning spouse. Generally, this provision stipulates that amounts withdrawn from spousal RRSPs are to be taxable to the contributor if any spousal contributions have been made in the year of the withdrawal or in the two previous calendar years. Because of this provision, funds from spousal RRSPs and non-spousal RRSPs should not be co-mingled. This three-year withdrawal rule does not apply if your spouse withdraws funds while you are living apart due to marriage breakdown.

You should realize that if your spouse transfers funds from a spousal RRSP to a RRIF, the RRIF becomes a spousal plan for tax purposes. Amounts that are withdrawn in excess of the annual minimum are subject to the three-year withdrawal rule.

**CAUTION:** The annual minimum is zero in the year a RRIF is set up, therefore any amount withdrawn in that year may become taxable to the contributor under the three-year rule. *CRA's form T2205 is used to ultimately determine which spouse should be taxed on withdrawals from RRSPs and RRIFs.*

### RRIFs at Death

Generally, if a spouse is to be the beneficiary of RRIF assets then the spouse should be specifically named on all RRIF contracts. More specifically, a spouse should be designated as a “successor annuitant” rather than as a beneficiary of the RRIF\*. As a successor annuitant, the surviving spouse will receive the remaining RRIF payments as the new annuitant. This indicates that the spouse is to have immediate ownership of the funds on the death of the planholder. A “probated Will” should not be necessary because there is a legal document passing the asset outside the estate. In addition to reducing probate costs, this should help to speed the transfer of funds to the spouse. (Note, however, that not all financial institutions have uniform policies on beneficiary designations and other estate settlement issues.) Regardless of whether the spouse is named on the RRIF contract or is entitled to RRIF assets via the estate, the spouse generally has the option of rolling RRIF assets on a tax-sheltered basis.

Special rules apply if there are dependent children. In all other cases, the entire value will be fully taxable in the final tax return of the deceased.

If non-dependent children or others are named as beneficiaries on RRIF contracts, they receive the full value of the RRIF tax free but the estate pays the tax on the full value. (If the estate comes up short, CRA will claim the taxes from the RRIF beneficiaries.) If non-dependent children or others are left RRIF assets in the Will, the full value will be taxed as income in the final return of the deceased and then they will receive their share of the estate after taxes. It is important to note that leaving assets to one heir via beneficiary designation, and to another heir via the estate, could create a grossly inequitable situation because of the taxes.

*(You are advised to seek professional tax and legal advice regarding the coordination of your Will and your beneficiary designations since there are many factors to be taken into account, including tax and family law considerations.)*

\* Rules differ in the province of Quebec where beneficiary designations are not recognized and assets should be distributed through your Will. In the case of a RRIF, a spouse should be named as a “successor annuitant” in the Will. Similarly, Yukon residents cannot make RRIF designations.

### Registered Annuities

A registered annuity is another popular RRSP maturity option. An annuity provides a guaranteed income stream for life, or a fixed term. There are various types of annuities to suit your needs. The three most common types are: Single Life, Joint & Last Survivor and Term Certain. For those seeking to maximize retirement income, a Single Life annuity provides the highest level of income and is payable for as long as you live. Upon the death of the annuitant, the remaining value of a Single Life annuity is zero. A guaranteed term ensures that payments remaining under the guarantee period are paid to your spouse or beneficiary if death occurs before the end of the guaranteed term.

If you wish to preserve estate capital, an Insured Annuity provides both income for life and capital for your estate. An Insured Annuity matches two insurance products, a single immediate life annuity and a term insurance policy. The annuity guarantees lifelong income, and the insurance protects your capital while providing a probate-free and creditor-protected estate for your beneficiaries.

Annuity income is determined by life expectancy, age, gender, health, amount invested and interest rates at the time of purchase. Adding options such as indexing or guaranteed term reduces your annuity income payments. Registered annuity income is fully taxable in the year it is received.

### Annuities at a Glance

- Annuities are simple investments. Once purchased, there is no ongoing management. You receive a guaranteed income for life or for a specified term.
- Payments can be based on a single life, or on two lives (a Joint and Last Survivor).
- Medical advances and healthier lifestyles translate into longer life expectancies. In a low-interest-rate environment, annuities could protect you from outliving your capital.

- Individuals in poor health may qualify for “impaired status” and be eligible for a larger lifetime income.
- Guaranteeing the term or the number of payments can ensure that an estate is protected for beneficiaries should the annuitant die prematurely.
- Annuities should be considered if you wish to maximize your retirement income, if there is a history of long life expectancy in the family, or if you do not have dependants or heirs.

### RRIF or Annuity? Each has its Advantages and Limitations

**The hallmark of a RRIF is flexibility:** A RRIF offers maximum flexibility and control for investment, tax, estate and income-planning purposes.

**Drawback:** Low interest rates and other economic factors, general market conditions, bad investment choices, poor income planning, lump-sum withdrawals and other RRIF management decisions can have a major impact on income and capital.

**The hallmark of an annuity is guaranteed income for life:** An annuity offers protection from outliving capital.

**Drawback:** Once an annuity has been purchased, the income amount is locked in. Annuity income is determined by a pre-set formula, which may include provisions for indexing to the CPI or supply a fixed percentage (1-4%).

#### RRIFs

##### OLD FORMULA:

Value of RRIF at the beginning of the year

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90 – Your age at the beginning of the year  
(or younger spouse’s age if elected)

#### New Rules:

In January 1993, the government established new guidelines for minimum withdrawals. The new rules permit RRIF payments to extend over your lifetime (or your spouse’s lifetime). In addition to the “old formula”, there is also a table of “new factors” to be used when determining your RRIF minimum amount; here we show the old formula and the new factors as percentages. (When determining your RRIF minimum amount, always remember that the same treatment applies to your spouse’s age, if you elected to base your RRIF minimum on your spouse’s age.) With the new rules, if you are age 94 or over at the beginning of the year, the minimum payments will be 20% of the value of the RRIF at the beginning of the year.

- For RRIFs set up before the end of 1992, the old formula applies if you are age 78 or under at the beginning of the year; once you are age 79 or over at the beginning of the year, the new factors apply.
- For RRIFs set up after the end of 1992, the old formula applies if you are age 70 or under at the beginning of the year; once you are age 71 or over at the beginning of the year, the new factors apply.

Once you are age 79 or over at the beginning of the year, the new factors will apply, regardless of the date your RRIF plans were set up. Also, if a RRIF set up before the end of 1992 has new funds transferred into it, it will automatically be subject to the same treatment as RRIFs set up after the end of 1992.

### RRIF Minimum Withdrawal Formula

Age at Start of Year	RRIFs set up before the end of 1992*	RRIFs set up after the end of 1992**
65	4.00%	4.00%
66	4.17%	4.17%
67	4.35%	4.35%
68	4.55%	4.55%
69	4.76%	4.76%
70	5.00%	5.00%
<b>71</b>	<b>5.26%</b>	<b>7.38%</b>
72	5.56%	<b>7.48%</b>
73	5.88%	<b>7.59%</b>
74	6.25%	<b>7.71%</b>
75	6.67%	<b>7.85%</b>
76	7.14%	<b>7.99%</b>
77	7.69%	<b>8.15%</b>
78	8.33%	<b>8.33%</b>
<b>79</b>	<b>8.53%</b>	<b>8.53%</b>
80	<b>8.75%</b>	<b>8.75%</b>
81	<b>8.99%</b>	<b>8.99%</b>
82	<b>9.27%</b>	<b>9.27%</b>
83	<b>9.58%</b>	<b>9.58%</b>
84	<b>9.93%</b>	<b>9.93%</b>
85	<b>10.33%</b>	<b>10.33%</b>
86	<b>10.79%</b>	<b>10.79%</b>
87	<b>11.33%</b>	<b>11.33%</b>
88	<b>11.96%</b>	<b>11.96%</b>
89	<b>12.71%</b>	<b>12.71%</b>
90	<b>13.62%</b>	<b>13.62%</b>
91	<b>14.73%</b>	<b>14.73%</b>
92	<b>16.12%</b>	<b>16.12%</b>
93	<b>17.92%</b>	<b>17.92%</b>
94 or over	<b>20.00%</b>	<b>20.00%</b>

\*If you are age 78 or under at the beginning of the year, percentages are based on the old formula (e.g. at age 75, the minimum amount is calculated by dividing 1 by (90-75) = 1 divided by 15 = 0.06667 = 6.67%). **If you are age 79 or over** at the beginning of the year, the new factors are expressed as percentages of capital at the beginning of the year.

\*\*If you are age 70 or under at the beginning of the year, percentages are based on the old formula. **If you are age 71 or over** at the beginning of the year, the new factors are expressed as percentages of capital at the beginning of the year.

### **A Combination of RRIFs and Annuities May be the Best Solution**

Depending on your own particular circumstances, you may want to balance your retirement income plan with a combination of RRIFs and annuities. Don't forget that you can always transfer funds from a RRIF to an annuity at a later date.

At the very least, you should consider arranging enough guaranteed income for life to cover your minimum income needs (taking into account the effects of inflation). This can be provided through the purchase of an indexed annuity. Any surplus RRSP capital can be rolled into a RRIF and invested in conservative equities or growth-oriented mutual funds with a history of increasing dividends to help meet tomorrow's capital needs. Retirees with sizeable non-registered and registered funds should consider the purchase of a Prescribed Annuity from non-registered sources and a RRIF from registered sources. This combination would provide tax benefits and allow optimum investment flexibility and some degree of tax sheltering.

#### **A Prescribed Annuity for Non-Registered Assets**

Before creating more taxable income by tapping registered assets, you may wish to obtain income security and maximize your after-tax income from non-registered assets by purchasing a Prescribed Annuity. (The Tax Act treats the prescribed annuity payout as a fixed blend of interest and capital, with only the interest portion being taxable.)

### **How Do Interest Rates and Market Conditions Affect Your Choices?**

Depending on your investment choices and the current interest rate environment, your RRIF capital could start to shrink immediately. Between living longer, retiring earlier and lower interest rates, there is a risk that investors may outlive their capital.

If security and maximum income for life are major requirements, annuities should be considered. If you buy an annuity during a low-interest-rate period, you will be locked into a lower-income level than if you buy an annuity when rates are high. You may decide to wait for interest rates to increase before locking into an annuity; however, you should be aware that by waiting to purchase an annuity, the amount of RRIF capital available for purchase could be much less. Consequently, a future increase in interest rates may not improve the income level as planned.

If you have a sizeable RRSP and non-registered assets, you may wish to consider investing in a RRIF in order to pursue continued capital growth and maintain flexibility for planning purposes. Generally, you should take advantage of the tax-sheltered investment returns that your registered plans offer, and this means using non-registered assets first before withdrawing registered funds. With a RRIF, you are able to limit the taxable annual income you must receive to the RRIF minimum withdrawal amount.

#### **Rule of Thumb**

Regardless of current interest rates or other economic factors, if you do not have a company pension and RRSPs represent the bulk of your retirement income-producing assets, you should seriously consider purchasing an indexed annuity to cover your basic living expenses.

Your age, life expectancy, income needs, registered and non-registered financial resources and total wealth picture are obviously key factors when considering and selecting RRSP maturity options.

### **Locked-In Pension Benefits**

When an employee becomes entitled to eligible pension benefits, including the employer's contributions, his or her pension is said to be "vested". When pension vesting occurs, pension benefits become "locked-in". The government's provisions in this regard are basically meant to force you to maintain your pension benefits in such a way that they will eventually provide an income stream for your retirement years.

### Locked-In Retirement Accounts (LIRAs)

These are basically RRSPs that are subject to certain restrictions under provincial or federal pension legislation. Once a pension entitlement is vested, the current value of pension benefits may not be cashed in upon termination of employment, but may be transferred to a LIRA to accumulate until age 69. As with an RRSP, the plan matures when you reach age 69 and funds must be used to purchase a life annuity, or rolled to a LIF, LRIF or Prescribed RRIF (if legislation permits, see below).

### Life Income Funds (LIFs), Locked-In Retirement Income Funds (LRIFs) & Prescribed RRIFs\* (Saskatchewan-Regulated Plans)

These registered vehicles were created as an alternative to buying a life annuity with the matured funds from a LIRA. They are very similar to a RRIF in that they allow a person to retain investment control. As with a RRIF, there is a minimum annual payout, but there is also a maximum annual payout for LIFs and LRIFs (not Prescribed RRIFs). Generally, pension funds can be directly rolled from a pension plan to these maturity options providing any minimum-age requirement is met. Some provincial regulations stipulate that spousal waivers must be signed before any funds may be rolled into a LIF, LRIF, or Prescribed RRIF. There are major differences between LIFs and LRIFs. With a LIF, any remaining funds may have to be transferred to a life annuity at age 80. With an LRIF or Prescribed RRIF, you *never* have to transfer the funds to an annuity. The maximum annual-pay-out formulas are also different. For a LIF, the maximum payout is based on the November CANSIM Rate. For an LRIF, the maximum-payout formula is based on investment earnings.

## Sources of Retirement Income

Do you qualify for more than three of the following sources of income?

1. Old Age Security (OAS)
2. Canada Pension Plan (CPP)
3. Company Pension Plan
4. Income-producing non-registered assets
5. RRSP Assets

*If you qualify for more than three of these sources of income, you might consider investing in RRIFs, because you may be better able to afford the flexibility and control for tax and estate-planning purposes which they allow. If you do not qualify for more than three of these sources of income, you might want to use at least some RRSP funds to buy an annuity as a foundation for your retirement income plan. An annuity can provide guaranteed income to cover your minimum retirement-income requirements.*

### Provincially Regulated Pension Plans

### Rollover Option

### Maturity Option

British Columbia	Locked-in RRSP	Life Annuity or LIF
Alberta	LIRA	Life Annuity or LIF or LRIF
Saskatchewan	LIRA	Life Annuity or Prescribed RRIF
Manitoba*	LIRA	Life Annuity or LIF or LRIF or Prescribed RRIF
Ontario	LIRA	Life Annuity or LIF or LRIF
Quebec	LIRA	Life Annuity or LIF
New Brunswick	LIRA	Life Annuity or LIF
Nova Scotia	LIRA	Life Annuity or LIF
Newfoundland	LIRA	Life Annuity or LIF or LRIF

### Federally Regulated Pension Plans

Locked-in RRSP

Life Annuity or LIF

(e.g. pension for banks, crown corporations, civil servants, etc.)

\* Manitoba allows a once per lifetime transfer of up to fifty percent from a Manitoba regulated LIF or LRIF (not from a LIRA or a pension plan) to a qualifying Prescribed RRIF. Given the one-time transfer limitation (*not* one-time per LIF or LRIF), planning is required in cases of multiple LIFs and LRIFs and professional advice is recommended.

## Retirement Income Planning Considerations

When would a RRIF or an Annuity generally rank first as a Maturity Option?

See if any of these statements apply to you. Then note which maturity option would generally rank first for each preference or requirement: a RRIF or an annuity. Remember that a combination of options may be the best move, or a RRIF now and an annuity later. In any case, this is only meant to be a general guideline.

Consult your CIBC Wood Gundy Investment Advisor to determine which option or combination of options may best suit your own individual needs and objectives.

Check if Applicable	Preferred Maturity Option
<input type="checkbox"/> In addition to significant registered assets, I have sizeable non-registered investment assets.	RRIF
<input type="checkbox"/> I must have <i>guaranteed</i> income to meet my basic living needs.	Annuity
<input type="checkbox"/> I feel confident that I can manage my investment assets to ensure the RRIF lifetime income that I require.	RRIF
<input type="checkbox"/> I am worried about inflation and particularly concerned about outliving my capital.	Annuity
<input type="checkbox"/> Personal control over my assets is very important to me.	RRIF
<input type="checkbox"/> My main objective is to get the <i>maximum</i> income possible for the rest of my life.	Annuity
<input type="checkbox"/> Estate preservation is my primary objective.	RRIF
<input type="checkbox"/> I do <i>not</i> feel confident that I can manage my investment assets to ensure the lifetime income that I require.	Annuity
<input type="checkbox"/> Income flexibility would be advantageous to me for tax planning purposes.	RRIF
<input type="checkbox"/> I am in good health, and there is a history of long life expectancy in my family.	Annuity
<input type="checkbox"/> Investment growth for my <i>future</i> income needs is a primary objective.	RRIF
<input type="checkbox"/> I have no dependants or heirs.	Annuity
<input type="checkbox"/> Income flexibility is important because I anticipate irregular or increasing income requirements.	RRIF
<input type="checkbox"/> My RRSPs represent my main source of retirement income.	Annuity
<input type="checkbox"/> My retirement income from all sources will be in excess of my projected needs.	RRIF
<input type="checkbox"/> I have minimal retirement savings.	Annuity
<b>OTHER CONSIDERATIONS</b>	
<p>If an annuity is your preferred maturity option, you should also consider such features as a guarantee period, indexing, or backing up the annuity with insurance. If you are married, a Joint and Last Survivor Annuity should be considered. If a RRIF is your preferred maturity option, you should also give careful thought as to whether your RRIF investments will be primarily fixed income or growth-oriented, and whether your account should be Self Directed or managed. The income that you can derive from your RRIF will depend on the investment performance of your RRIF assets and the overall management of your plan.</p>	

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