Nearing Retirement? Get to Know RRIFs

In your working years, you make an effort to build wealth so you can meet your goals, such as buying a car, owning a home, putting children through school, etc. You also try to save enough money for retirement, and may use tax-effective registered accounts like a Registered Retirement Savings Plan (RRSP) or Tax-Free Savings Account (TFSA) to help you get there.

Creating wealth is known as the "accumulation phase" and much of your life is spent in this important financial stage. But what about when it's time to draw from your savings to help fund retirement? People usually don't pay as much attention to the "decumulation phase," but it's critical because you want to ensure you have enough money throughout your retirement – not just to survive, but also to enjoy the lifestyle you want.

What's a RRIF and how does it work?

Fortunately, Canadians have access to a vehicle that allows them to systematically generate cash flow for retirement. Introduced by the federal government in 1978, the Registered Retirement Income Fund (RRIF) is a staple among retirees who want and need a steady source of income beyond a workplace pension/RRSP or government sources like Canada Pension Plan and Old Age Security benefits.

As with an RRSP, a RRIF lets you invest in a wide range of securities, such as stocks, bonds, mutual funds, exchange-traded funds, GICs and more. In fact, when it comes time to convert your RRSP into a RRIF (no later than December 31 of the year you turn 71), you may move your RRSP investments into a RRIF for added convenience and continuity.

Also like an RRSP, any income and growth (e.g., interest, dividends, capital gains) earned in a RRIF is tax deferred until you withdraw it from the plan, at which time it becomes taxable. This tax efficiency is a significant benefit because it keeps more of your money working for you and growing, instead of being eroded by income taxes. If you opened a spousal RRSP to take advantage of income splitting for tax purposes, this plan will be converted to a spousal RRIF. Any withdrawals and taxes will be attributed to your spouse or common-law partner.

Unlike an RRSP, you cannot make any contributions to a RRIF – only withdrawals. While there is no maximum amount you may withdraw in a given year, there's a minimum annual amount that's calculated as a percentage of your RRIF assets, depending on your age and according to a specific formula. Although the minimum amount is annual, you can choose whatever payment frequency (e.g., monthly, quarterly) that works best for your income requirements. If you hold more than one RRIF account, you must withdraw the minimum amount from each account.

But what if you don't need this minimum annual amount and want to keep more money growing in a tax-deferred manner? Consider contributing the excess funds into a TFSA (in which case any growth will actually be tax free).

Alternatively, if your spouse or common-law partner is younger than you are, you can base your minimum withdrawal amount on their age. Since their time horizon is presumably longer than yours, this lets you extend the time period of your withdrawals, making each annual minimum payment lower. An advisor can help you devise the right retirement income strategy for your unique circumstances. If any money remains in your RRIF when you die, your named beneficiaries or your estate will receive the funds.

To learn more about how we can help you build a suitable plan based on your financial needs – including retirement income – please contact us today.

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