

Managing Your Retirement Funds - RRIFs

A comfortable retirement, free of financial worries, is something we all aspire to. The reality, however, is that many Canadians overestimate what they will be worth at retirement and discover, too late, that they have insufficient resources. This scenario can be avoided through proper planning.

This does not simply mean planning when you are in your thirties and forties, making regular RRSP contributions and investing them carefully, but also making plans to meet your needs once you are actually retired. In order to make these plans, it is important that you understand your alternatives for retirement income.

One of the best options available to retired investors is a Registered Retirement Income Fund (RRIF). A RRIF is essentially a continuation of a Registered Retirement Savings Plan (RRSP), except that the purpose of a RRIF, as opposed to an RRSP, is to provide a source of income during retirement. The accumulated funds in your RRSP are simply rolled over into a RRIF at age 69, providing the same tax sheltering as before. Because RRSPs must be collapsed by December 31st of the year in which you turn 69, RRIFs are an excellent choice for protection of your hard-earned retirement savings.

RRIFs offer some important advantages to other retirement income options such as annuities. The most important advantage is the flexibility to design your own pension. RRIFs are more flexible than annuities because the amount and the frequency of payments can be varied. You can elect to have payments made from the plan on a monthly, quarterly or annual basis and you can change the frequency of your payments whenever you like. Lump-sum withdrawals are also possible. In addition, subject to a minimum payment amount, you can vary the amount of your payments as desired. However, you should know that the amount that you decide to withdraw will have a dramatic effect on the payment schedule of your RRIF. Because RRIF payments are based on percentages as opposed to a flat amount, deducting more in the early years of your RRIF means you will reduce the amount you can withdraw from in later years.

The most important factor in setting up a RRIF and deciding on the amount of payments is to make choices based on your objectives. If you simply want a RRIF to provide a sheltered vehicle for your investments and if monthly income is not a priority, then it really doesn't matter how much you withdraw. However, if you are concerned with providing yourself with a regular income indexed for inflation and an estate upon your death, then you can structure your payments accordingly. If at any time your objectives change, then you can alter the payment structure to meet your redefined needs. This is the most obvious benefit of a flexible RRIF plan.

Another advantage of a self-directed RRIF is the ability to control your own capital. Again, based on your objectives, you can structure your portfolio to match your needs. Unlike an RRSP, which is designed for capital growth, a RRIF is designed for security and income. In most cases, the funds in a RRIF should be invested in secure investments which provide income. It's important to stagger your maturities to provide quicker access to funds should you require a lump-sum payment. The option to invest in equities to combat inflation is also a benefit of self-directed RRIFs. The important aspects of your portfolio should be security, with consideration given to liquidity based on your payment needs.

Upon your death, your RRIF will roll over tax-free to either your spouse's RRIF or RRSP, assuming they have been named as your beneficiary. If your objective is to provide an estate, then smaller withdrawals in the early years of the RRIF will provide a larger sum towards the end.

At ScotiaMcLeod, we provide expert advice on RRIF investing. Our RRIF calculator allows us to show you what your portfolio might look like taking into account variables such as your age when you start your RRIF, the rate of return you earn on your investments and any special payment amounts. For more information on investing in RRIFs, contact your ScotiaMcLeod advisor.