

## Registered Retirement Income Funds

### What is a RRIF?

A Registered Retirement Income Fund is established with funds that are rolled over on a tax-deferred basis from an RRSP, however there are other alternatives/vehicles sometimes used. In addition to the RRIF the annuitant has the option of using the RRSP to purchase an annuity or taking the entire amount as a cash lump sum.

### Converting Your RRSP

Converting your RRSP simply means converting your accumulated investments into a retirement income account. An important factor to keep in mind is that RRSP's must be converted into RRIF's before December 31 of the year in which the annuitant turns age 69. If you miss the legislated deadline, all accumulated funds in your RRSP will be included in your taxable income in the year after the year you reach age 69.

- **Cash Lump Sum**

If an RRSP is cashed, the entire amount becomes taxable. This option gives you the least amount of flexibility.

- **Converting to a RRIF**

A RRIF may be self-directed just like an RRSP, thereby allowing you to hold one or more of the qualified investments within a single plan. For example, you could hold bonds, shares, GIC's, and treasury bills all in the same RRIF account. A self-directed RRIF is best suited for someone who has sufficient interest in directing his or her retirement investments.

Like an RRSP, the returns on investments held within a RRIF continue to accumulate interest on a tax-deferred basis. However, RRIF's are subject to minimum withdrawal rules and must be included in the annuitant's income for the year, thus being subject to income tax. Although RRIF's are similar to pensions and annuities in the sense that they all provide a regular retirement income, RRIF's have more flexibility. A RRIF also has the additional benefit of preserving capital for the annuitant's estate.

- **Purchasing an Annuity**

A life annuity pays an income for life. The payments are constant, or indexed, and the interest rate for the term of the annuity remains fixed. You can, however add a guarantee period that will ensure your spouse or family receives a portion of the capital at your death.

### Eligible Investments

The qualified investments that CCRA has approved for RRIFs are the same as for RRSPs. If non-qualified property is held within a RRIF, such as gold, silver, other precious metals (including certificates), real estate, personal property (such as art, antiques, and gems), put options, and foreign currency, the taxpayer may be assessed a special monthly tax of 1% of the fair market value of the investment at the time it was acquired.

## Minimum Withdrawals from a RRIF

A minimum annual payment must be paid out from each RRIF each year and included in income for tax purposes. The amount is calculated as a percentage of RRIF assets at the beginning of the year based on the age of the taxpayer on January 1<sup>st</sup> or the age of the spouse. (See below)

**Minimum Payment Schedule**

<b>Age</b>	<b>General</b>	<b>Qualifying RRIFs*</b>
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%
<b>78</b>	<b>8.33%</b>	<b>8.33%</b>
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 or older	20.00%	20.00%

\* A qualifying RRIF is generally a Registered Retirement Income Fund entered into before 1993.

\*\* For ages below 71, the formula is  $1/(90-\text{age})$ .

## Spouse-based Calculation

When setting up a RRIF, you can base the annual minimum payment on the age of your spouse. Basing the calculations on the younger spouse's age results in lower minimum payments each year. This strategy maximizes the amount that can grow tax deferred in the RRIF. The decision to use a spouse's age must be made before the first RRIF withdrawal.

## Spousal RRIFs

If a taxpayer has contributed to a spousal RRSP, and the annuitant spouse transfers her RRSP to a RRIF, that investment is now considered a spousal RRIF. During the calendar year in which you made your last contribution plus the two following years, if the spousal annuitant withdraws only the minimum annual amount, the payments will be considered the annuitant spouse's income and will not be attributed back to you. However, if your spouse withdraws more than the minimum annual amount, the excess withdrawn will be attributed back to you to be taxed in your hands to the extent that your spousal contributions in the transition period are greater than the excess withdrawn. After the ATTRIBUTION period ends, any withdrawals will be income to your spouse.

## Withholding Tax

If more than the minimum is withdrawn from a RRIF, the excess will be subject to withholding tax. The annuitant will be provided with a T4RIF that documents the withholding tax. When the annuitant prepares his tax return, the tax withheld is reported as tax already paid. The withholding tax is calculated as follows:

<b>Amount by which withdrawal exceeds minimum payment</b>	<b>Withholding tax in all provinces except Quebec</b>	<b>Withholding tax in Quebec</b>
Up to \$5,000	10%	21%
\$5,001 to \$15,000	20%	30%
More than \$15,000	30%	35%

## Foreign Content

Currently you may hold up to 30% of the book value of your RRSP/RRIF in qualified foreign securities. If you exceed your foreign content limit, you will be subject to a penalty tax of 1% per month, which is applied to any amount over the limit.

## RRIF proceeds on death

The entire value of your RRIF will be paid to your named beneficiary or estate. For example, if your spouse is the beneficiary, he or she may continue receiving payments from the RRIF, or roll the funds tax free to a new RRIF, RRSP or annuity in which case no tax is paid until the spouse starts to receive the funds. Also, your beneficiaries may include your financially dependent child or grandchild. A dependent child who is a minor or disabled has additional tax deferral options. If your RRIF is paid to anyone other than your spouse or dependent child/grandchild, then the entire value of your RRIF will be included in your income tax return in the year of death.

## Conclusion

Converting your RRSP at retirement provides a number of choices to consider. Your ScotiaMcLeod Advisor can assist you with this decision by helping to clarify which options are best for you considering your personal circumstances.