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All About RRIF Accounts

BY KURT ROSENTRETER  SEPTEMBER 23, 2024

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What is a RRIF?

A RRIF or registered retirement income fund is an investment account held at a bank, brokerage or other financial institution. The account consists of money deposits that you made into an RRSP investment account or locked in RRSP investment account over decades of working for a living and saving annually with RRSP contributions, either on your own or through an employer-based RRSP investment account or a pension plan.

Then, sometime usually in your 60s and no later than age 72, we all have to open a RRIF investment account and convert your RRSP investment account into this new RRIF investment account. All cash, GICs, securities and other investments are physically transferred to the new, empty RRIF investment account. The move of the cash and securities is done behind the scenes by the financial institution once you have signed the correct paperwork.

When do I Open a RRIF Account?

No later than age 72. Your financial institution that holds your RRSP investment account will contact you in your 71st year at the latest. You need to sign paperwork to open a new RRIF investment account and to transfer the securities into the RRIF no later than the last day of age 71.

You can open a RRIF account much earlier in age (we do many at age 65 in our practice) if there are income tax advantages to do so – see more on this below in the newsletter in strategies or talk to our team.

You can count on our team contacting you about the age 71 final RRIF opening deadline usually in the second half of your year 71.

Paperwork needs to be done by end of year 71. Your first withdrawal doesn't have to start until age 72.

How the Withdrawals of Money from the RRIF work?

Any withdrawals of money of securities from the RRIF investment account are taxable in the year of withdrawal.

Annually, once you open a RRIF investment account and move your RRSP investment assets into it, you must then withdraw a set percentage of the value of the investment account each year. The formula for the withdrawal amount can be found by googling "RRIF minimum withdrawal amount". Generally, at the start of the year when you turn age 72, the withdrawal percentage is around 5.4% the portfolio value of your RRIF investment account on January 1st. It is a once a year assessment each January 1st to determine what your minimum withdrawal amount will be for that year. The withdrawal percentage can be based on your date of birth or the date of birth of a younger spouse if you have one.

You will receive an annual tax slip (T4RIF) each spring for the amount of RRIF withdrawal you made in the previous year. This income tax slip is put on your personal tax return and declared as income.

How Large Can RRIF Withdrawals Be each Year?

The federal government states what the minimum withdrawal amount is each year using

their formula. If you withdraw only the minimum amount, there is no withheld income tax on this taxable income. That means you will need to pay all the income tax at once when you file your personal tax return each year.

If you choose to withdraw more than the minimum withdrawal amount in any year from your RRIF investment account, the amount greater than the minimum will be subject to 10% to 30% withholding tax². This income tax will count as a tax installment for the income tax year and be remitted to the Canada Revenue Agency (CRA) on your behalf. The amount will also show up on the T4RIF tax slips for the year so you get credit for the income tax paid on your tax return.

If you happen to have a locked in RRSP, the amount you can withdraw in any year will be capped at a maximum amount. This is different from a plain RRSP account. Regular, basic RRSPs have no upper limits for withdrawals each year.

What is a LIRA and how is it is different?

If you ever had a job where there was a pension plan of some type, and you quit or were fired, you likely transferred the pension plan investment account assets away from the employer group pension plan and into a Locked-In RRSP or Locked-In Retirement Account (LIRA) at a bank or brokerage when you departed. This is normal. When you retire and want to start spending the money from the LIRA investment account, you may convert it to a Life Income Fund or LIF, the equivalent of a RRIF. The withdrawal rules are similar, but there are upper limits to withdrawals for a LIRA and a LIF each year.

Can I Withdraw Money from an RRSP or LIRA?

Yes. You can make withdrawals from these registered investment accounts before you convert to a RRIF or LIF. You would do this if you need the money to spend before age 65. All withdrawals of money will face a 10% to 30%³ withholding tax and you will receive the net amount. You would consider withdrawing money from your RRSP if you experienced hardship at a younger age, retired early and need the money or had a year where you were in a low income tax bracket generally.

What are my Choices for Withdrawal Frequency in a Year from my RRIF or LIF?

You can withdraw money from a RRIF or LIF as a one time withdrawal anytime in the year. You can also set up an automatic payment monthly or quarterly for an automatic deposit to your bank account for a portion of the minimum RRIF payment.

Do I Withdraw Cash from my RRIF Investment Account or are there other Options for Withdrawing?

We can transfer the RRIF withdrawal payment to your bank account as cash.

We can mail you a cheque for the RRIF withdrawal payment.

If you don't need the money for spending, we can make the RRIF withdrawal and put the money directly into another investment account you have with us (like a Tax Free account (TFSA) or a taxable account).

We can also de-register an investment security (investment product) instead of cash – called an “in-kind” withdrawal and move the security “as is” to another investment account you have with us. This is a popular option if you don't need the money to live off and like a specific investment product in the RRIF and wish to keep it.

Lastly, and not well discussed in Canada today, we can use your RRSP or RRIF investment proceeds and buy you an annuity. An annuity is an insurance product that is effectively a pension plan (like a teacher pension, sort of) that will pay you guaranteed income for life. If you don't already have some guaranteed pension income in retirement, don't rule this option out as a solution after age 65!

How Does My Investment Strategy Change as a RRIFer?

Because we have to make RRIF payments out of the RRIF investment account annually, we need to hold securities that are liquid, maturing or easy to sell so we have the money or securities to make the RRIF withdrawal payments each year. So once you start RRIFing, we need more flexibility than during your working years. That often means we prefer to no longer use GICs which are locked in term deposit products nor do we wish to carry significant stock market exposure in a RRIF as it can result in a lot of short term volatility at the very time we need to make a mandatory payment.

But other than having money annually for payments, your RRIF investment strategy doesn't have to change from your RRSP days. We will of course adapt your overall investment strategy each year in relation to your age, cash flow needs, comfort with risk and volatility and other factors.

What is Our Long Term RRIF gameplan in our practice working with you?

There are several key aspects to consider with a RRIF investment account after age 65 and especially after age 71:

1. If this is a key source of money to fund your retirement spending, don't let the accounts go to zero in old age. Control withdrawals annually and manage spending against the earnings you generate inside the RRIF investment account yearly vs. the government rules for minimum mandatory withdrawals.
2. Don't die with a huge RRIF investment account balance as the remaining balance is fully taxable on death – ouch, that can be a lot of income tax. See our strategies below for how to manage this income tax hit.

What Happens To My RRIF When I Die?

If you are single, a widow or widower, your RRIF investment account balance on death is fully taken into income all at once and taxed on your final tax return.

If you have a common law partner (depends on jurisdiction) or you are married, you can specify that you want your partner to inherit your RRIF investment account and through a rollover mechanism your RRIF is transferred to your partner and all income tax due now is deferred until the second death (your partners death, if they die second).

This tax deferral is the most common strategy between two spouses that designate each other as the beneficiary of their RRSPs and RRIFs.

What is This Beneficiary?

RRIFs, RRSPs, TFSAs and life insurance policies all allow you to designate an estate beneficiary at the account level. This means on your death, these people or institutions inherit your account values or insurance policy proceeds directly, bypassing your estate

and will. But guess what? The income tax bill for the RRIF investment account on death still goes to your estate! So plan carefully whom you designate as your beneficiaries because it can create turmoil in your broader estate.

If I Have a Stroke or am in a Car Accident, Who Can Manage my RRIF?

Every adult Canadian should have a legal Power of Attorney (POA) for Property prepared for their emergency needs if they become incapacitated. The POA allows another person to manage your affairs if you are unable to manage your own affairs for a period of time or for the rest of your life.

What is the Master Plan for my RRIF Investment account over 40 Years of my life in Retirement?

If you start RRIFing in your 60s or at the latest by your early 70s, the government mandated withdrawals should have you at a zero balance remaining by age 100, by design. The RRIF stage of your life is about depleting your RRIF investment account through larger and larger annual cash withdrawals until it is gone.

Common RRIF Financial Strategies

In no particular order, here are some of the most common RRIF strategies with retirees in our practice:

- Don't need the money for spending? Take the full RRIF withdrawal amount each December and move the money or securities to an investment account. Then in January move the money again to fund the TFSA contribution room in the new year.
 - In our practice, there is investment paperwork to complete to set up this lump sum automatic withdrawal from the RRIF in December.
- Need the RRIF withdrawal money for spending all year long? Set up an automatic systematic withdrawal plan from your RRIF investment account with direct deposit to your bank account monthly, rain or shine.
 - In our practice, there is investment paperwork to complete this monthly transfer automation from your RRIF.
- You may consider starting RRIF withdrawals at age 65 if you or your spouse are in a lower income tax bracket. What is a lower income tax bracket? Generally, less than

\$40,000/year taxable income at age 65 each. This threshold can vary based on individual circumstances and changes in tax regulations.

- RRIF and withdraw money from the RRIF investment account starting at age 72 if you or your spouse is in a higher income tax bracket for the rest of your life. Generally, a higher income tax bracket is greater than \$75,000 taxable income each year excluding the RRIF income from withdrawals. This threshold can vary based on individual circumstances and changes in tax regulations. If you or your spouse are in a higher income tax bracket, it's important to consider the long-term tax implications of these withdrawals.
- Let us withhold income tax on all RRIF payments automatically knowing you will need to pay income tax on the taxable RRIF withdrawal income each year. The minimum RRIF withdrawal payments have no income tax withholdings required but we can override that and remit some income tax for you anyway if it helps your overall tax payments for the year.
- If you are in your 50s or early 60s and fully retired with no taxable income, while perhaps your spouse continues to have a career and taxable income, let us know! Whether it is a RRIF or RRSP taxable income withdrawal, we will help you manage these withdrawals strategically to potentially minimize your income tax liability. This is a must do annually!
- We regularly do a partial RRIF investment account conversion each year (e.g. ½ of your RRSP is converted to a RRIF investment account now, the other one half of the investment account in a future year). This can serve to help with your taxable income splitting with a spouse at age 65 or older (a good goal to have) or help you to claim the pension tax credit worth \$2,000/year (a must to maximize after age 65).

Conclusion on RRIFs

RRIF investment accounts and conversions from RRSPs are easy to do but there complex considerations to make along the way. With 30 years of experience dealing with RRIFs and as a tax Chartered Accountant, lean on me and the team for all your questions about RRIFing and retirement income in general.

Questions?

Email or call the team with any questions you may have.

Advise us annually if you or a spouse or a parent with a RRIF investment account is in a low income tax bracket as there may be benefits to doing early or larger RRIF income withdrawals to claim taxable income now.

Know that if you are age 71 this year, we will definitely contact you about setting up your RRIF investment account this year. It is mandatory at age 71 if you have not already set up a RRIF.

I hope you have found this summary to be a great resource for your RRIF stage of life!

Sincerely,



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1. "Prescribed Factors." Government of Canada, 2024. ↩
2. Tax rates for all provinces except Quebec. ↩
3. Tax rates for all provinces except Quebec. ↩



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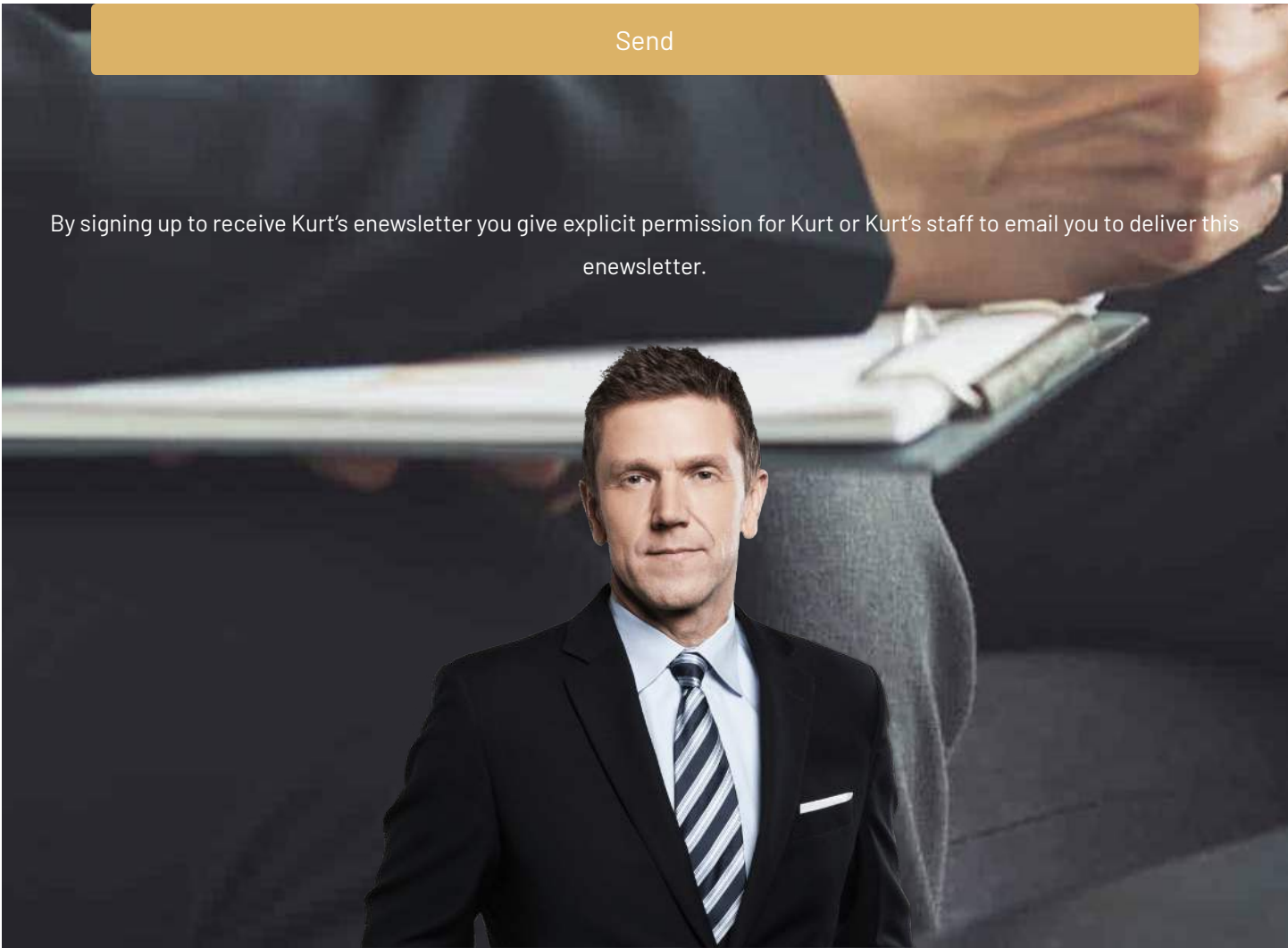
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