BRENDAN BZDEL

Investment Focus

RRSP to RRIF: Plan Your Retirement Income Strategy

The end of the year is quickly approaching. For individuals who have turned, or will turn, 71 years old in 2019, remember that funds in your Registered Retirement Savings Plan (RRSP) must be withdrawn, transferred to a Registered Retirement Income Fund (RRIF) or used to purchase an annuity by the end of the year. If you choose to convert to an RRIF, you will be subject to the RRIF minimum income withdrawal rules starting in the year after you open the RRIF.

The decision to convert an RRSP to a RRIF should be part of a larger retirement income strategy. There are many moving parts that may impact the conversion, including:

Tax planning — RRIF withdrawals are included in annual taxable income. The required minimum withdrawal is based on a set percentage of the RRIF value at the start of the year (the percentage gradually increases each year, to age 95).

Preserving income-tested benefits — In order to preserve income-tested benefits like Old Age Security (OAS), you may wish to keep RRIF withdrawal amounts within a certain level. By taking larger withdrawals from the RRIF in certain years, or in the RRSP before you convert to the RRIF, you may be able to reduce the opening asset balance and, therefore, the minimum withdrawal in a future year. This may require advanced planning. This may also depend on when you plan to start OAS benefits — as early as age 65 or as late as age 70.

Pension income tax credit — If you are 65 years of age or older and do not have pension income, you can open an RRIF and do a (partial) conversion prior to age 71 in order to be eligible to receive the federal, non-refundable tax credit on the first $2,000 of pension income. Provincial credits may also apply.

Income splitting — If you have a spouse* in a lower marginal tax bracket, there may be an opportunity to lower your overall household tax bill. You can notionally split up to 50 percent of eligible pension income with a spouse on your tax return, which includes your RRIF income once you turn age 65.

Planning with a younger spouse — When setting up your RRIF and before you have received any payments, if you have a younger spouse, you may be able to use your spouse's age as the basis for withdrawal calculations, which can result in a lower minimum withdrawal rate.

Tax-deferred growth — Don't forget that keeping funds in the RRIF allows you to take advantage of tax-deferred growth. If you decide to withdraw funds, consider depositing assets into a Tax-Free Savings Account (TFSA) should contribution room exist, to allow assets to grow on a tax-free basis. At the time of withdrawal, assets withdrawn from an RRSP/RRIF will be subject to tax.

Given the many considerations when converting an RRSP to an RRIF, it is recommended to plan ahead as you consider your overall retirement income strategy. If you need help with this, or any other retirement planning matters, please get in touch.

*Including common-law partner.

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