Make a smart choice for a successful retirement

NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT

You've invested consistently in your Registered Retirement Savings Plan (RRSP) over the years and built up a substantial nest egg for your retirement, which is such an important time of your life.

Whether you're already retired or still at the point where you're looking into your options, you'll need to decide which income solution is best suited to your needs. But what's the right choice between a Registered Retirement Income Fund (RRIF) and an annuity?

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Let's start
with the basics...

What happens to my RRSP when I retire?

Your RRSP has to be terminated on December 31 of the year in which you turn 71. At that point, you have an important choice to make.

You can choose from three options

1. Cash in all your RRSP savings.

   Result: The funds will be considered income and the entire amount will be taxable that year.

2. Transfer your RRSP savings into an RRIF.

   Result: Income taxes on those amounts will be deferred until later.

3. Convert your RRSP into an annuity.

   Result: Income taxes on those amounts will be deferred until later.

Although both options 2 and 3 allow you to defer the taxes on your savings, RRIFs and annuities have their own distinctive features, as explained in the following pages.

Can I convert my RRSP before I turn 71?

It's possible to convert your RRSP before the deadline but there are some precautions you should take.

RRSP converted into RRIF

After you convert your RRSP savings into an RRIF, you're required to withdraw a minimum amount each year. That amount is taxable and will be calculated for you by your financial institution.

You're allowed to contribute to your RRSP during the year you turn 71. However, you must have earned eligible income during the year you were 70 or you must still have unused contribution room.

RRSP converted into annuity

In general, the decision to buy an annuity is final. Many events could occur in your life before you turn 71 and they could affect your financial needs. Make sure you think it over carefully.

PROFESSIONAL TIP

If receiving income on a regular basis isn't absolutely necessary for you, it may be preferable to withdraw small lump sums from your RRSP whenever you need them. Then, when you reach the point where you want regular income, you can convert your RRSP into an RRIF or an annuity or a combination of the two.

Everything you need to know about RRIFs

What is an RRIF?

The purpose of an RRIF is to provide you with retirement income and allow you to defer the income taxes on your savings. With an RRIF, you continue to own and fully control your retirement savings. Like an RRSP, an RRIF lets you invest your savings at your entire discretion by choosing from a broad range of investment solutions while growing your capital on a tax-deferred basis. However, in contrast to an RRSP, you cannot contribute to an RRIF.

Flexible income management

One of the best features of an RRIF is the flexibility it provides in terms of determining your income. You're required to make an annual minimum withdrawal, but you can always withdraw more, depending on your needs. Most RRIF solutions allow you to decide the frequency of your withdrawals (monthly, quarterly, semi-annual or annual) and also give you the option of making one-time withdrawals whenever you need them. Not surprisingly, that flexibility also comes with a responsibility: You have to arrange your withdrawals so you don't prematurely deplete your retirement capital.

Withdrawing a minimum amount each year

In early January, the financial institution where you have your RRIF will do the necessary calculations and let you know the minimum amount that you'll have to withdraw that year. The amount is calculated as a percentage of your RRIF's market value at the start of the year and is based on your age. The funds withdrawn each year are taxable.

Minimum withdrawals as a percentage of RRIF* assets based on age
(January 1, 2018)

Age on January 1	Minimum rate	Age on January 1	Minimum rate	Age on January 1	Minimum rate
71	5.28%	80	6.82%	89	10.99%
72	5.40%	81	7.08%	90	11.92%
73	5.53%	82	7.38%	91	13.06%
74	5.67%	83	7.71%	92	14.49%
75	5.82%	84	8.08%	93	16.34%
76	5.98%	85	8.51%	94	18.79%
77	6.17%	86	8.99%	95 +	20.00%
78	6.36%	87	9.55%		
79	6.58%	88	10.21%		

* RRIFs opened after 1992.

What about income tax on withdrawals above the minimum?

If you withdraw an amount that exceeds the annual minimum, withholding tax will be deducted at source. Since the amounts you receive from your RRIF have to be entered on your tax return, you may subsequently be entitled to a tax refund or you may have to pay additional tax. By limiting your withdrawals to the minimum, you can continue to grow your savings in a tax-sheltered environment.

PROFESSIONAL TIPS

Save by using your spouse's age

If your spouse is younger than you are, you have the option of using your spouse's age to calculate your annual minimum RRIF withdrawal. With that method, you can save on taxes by withdrawing less than the minimum calculated for your own age. Your retirement savings will therefore continue to grow in a tax-sheltered environment. Keep in mind, however, that the decision is irrevocable and must be made before you start making withdrawals.

Use your TFSA to pay less tax

Tax-Free Savings Accounts (TFSAs), which were first launched in Canada in 2009, give you a variety of ways to invest on a tax-deferred basis while still covering your needs.

- **Your own TFSA**
  Are you able to meet your own needs without having to use the minimum withdrawal from your RRIF? Invest it in your TFSA and grow your investment in a tax-sheltered environment.
- **Your spouse's TFSA**
  If you give an amount to your spouse who can then contribute it to his/her TFSA, the funds will be tax sheltered but your spouse will not be prevented from making additional contributions. However, don't forget that the total amount deposited must not exceed the TFSA contribution room established by the government.
- **Your children's TFSA**
  If you'd like to assist your children financially, give them a gift by investing in their TFSA. However, your children must be at least 18 years of age.

Convert your RRSP into an RRIF

Like the RRSP, our RRIF offers you great flexibility in how you manage your assets. You have access to the same array of investments as you do with an RRSP:

- Treasury bills
- Savings bonds and strip bonds
- Individual shares
- ETFs
- Mutual funds

Everything you need to know about annuities

What is an annuity?

When you buy an annuity, you transfer an amount to a financial institution, which is generally an insurance or trust company. It uses that amount to make a payment to you on a regular basis so you can cover your needs.

There are different types of annuities to choose from. For example, the funds from your personal registered savings (RRSP or RRIF) could be converted into a registered annuity:

- **Life annuity**
  Annuity with payments that are guaranteed for as long as the annuitant lives.
- **Fixed-term annuity**
  Annuity paid for a specified number of years determined in advance (until the annuitant turns 90).

Each type of annuity has its own features and advantages but also comes with some compromises. The payments can be fixed or indexed for inflation. However, the indexed payment option is costly and has a major impact on the initial income you will receive, depending on the capital amount that you pass on to the issuer.

The longer you live, the greater your chance of getting back all your capital plus interest.

Factors that determine your annuity payment

The annuity payment that you receive will of course depend on your total accumulated capital and the type of annuity you choose. But other factors are also taken into consideration, such as the prevailing interest rates when you buy the annuity, and your life expectancy.

Women, for example, generally receive lower annuity payments even if the amount of their savings is the same because statistics show they live longer. In other cases, it may be possible for annuitants to receive larger payments by providing proof of poor health.

Betting on how long you will live

In many ways, you could say that purchasing an annuity is a bet on your life expectancy. The longer you live, the greater your chance of getting back all your capital plus interest.

Take the example of a life annuity, which offers a fixed monthly amount paid until the annuitant's death. If the annuitant dies shortly after the date of purchase, all the assets would be forfeited to the issuing institution, but only a few payments would have been made and nothing would be left for the annuitant's heirs.

Stable income guaranteed year after year

With an annuity, you know exactly how much you'll be receiving. Although annuities offer stable income, you're limited to fixed regular payments. In addition, as is the case for other fixed income products, annuities provide less protection against inflation, with the exception of indexed life annuities.

PROFESSIONAL TIP

Annuities are irrevocable

Buying an annuity is an irreversible decision: If unforeseen circumstances occur, the payment amount cannot be adjusted. What's more, it's the equivalent of locking into an interest rate… forever. For that reason, you need to carefully weigh your decision, especially when interest rates are low and expected to rise.

In short, how to make the right choice?

RRIFs and annuities are both tools whose purpose is to convert your accumulated retirement savings into taxable income but they have some major differences.

Main differences between RRIFs and annuities

RRIF

- You stay in control.
- You maintain ownership of your capital and decide how it will be invested.
- You have to make an annual minimum withdrawal, but there is no limit on the maximum you can withdraw.
- You can manage the withdrawals as you see fit.
- In the event of your death, the remaining balance can be left to your heirs.
- Retirement savings in your RRIF continue to grow on a tax-deferred basis.

Annuity

- You irrevocably transfer ownership of the amounts built up in your RRSP to a financial institution.
- You are guaranteed a predetermined, stable income for the rest of your life or for a specific period.

PROFESSIONAL TIP

Consider diversifying your income sources

If you like the idea of receiving income payments on a regular basis but the prevailing interest rates are low, a worthwhile compromise could be to combine an annuity and an RRIF. You can open an RRIF now, and then use part of your funds to buy an annuity later when rates are more advantageous. Together with government retirement benefits, the annuity would give you enough income to meet your basic needs.

The remaining balance of your RRIF would continue to grow in a tax-sheltered environment and could eventually be used as a complementary income source or be left to your heirs.

At a glance

	RRIF	Annuity
Will I retain ownership of my savings?	Yes	No
Will I receive a fixed income payment every month?	Certain types of RRIF allow you to receive regular fixed income.	Yes
Will my payments be guaranteed?	The income and capital for an RRIF containing GICs will be guaranteed by the issuer. For a self-directed RRIF, it is possible to invest in a wide range of government fixed-income securities that essentially provide the equivalent of a guarantee for the income if they are held until maturity.	Yes. Annuity payments are guaranteed by the issuer.
How often will I receive payments?	As often as you like, provided you make your annual minimum withdrawal. You may also make additional withdrawals whenever necessary.	Annuity payments are usually monthly.
Can I determine my annual income myself and change it as required?	Yes	No
Can I change my mind later?	Yes	No
Will I continue to benefit from my capital's growth?	Yes	No
Will withdrawals be subject to withholding tax?	Withholding tax is applied only to the withdrawals that exceed the required annual minimum. However, the total amount withdrawn each year must be declared as income and is therefore taxable.	In general, no withholding tax is applied to the income from a registered annuity purchased with funds from an RRSP but those payments are taxable.
Can I continue to make my own investments as I did with my self-directed RRSP?	Yes, if you choose a self-directed RRIF.	No
Will my income be eligible for the pension income credit as of age 65?	Yes	Yes
Can I leave my retirement savings to my heirs or provide them with other income?	Yes	Annuities guaranteed until age 90 and life annuities with a guaranteed period will pay a residual amount to your heirs if you die before the end of the guarantee period.

To find out more about RRIFs and annuities, please contact your National Bank Financial Wealth Advisor. Whether you are already retired or interested in learning about the best solutions available for you, your advisor will give you guidance on managing your assets.

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