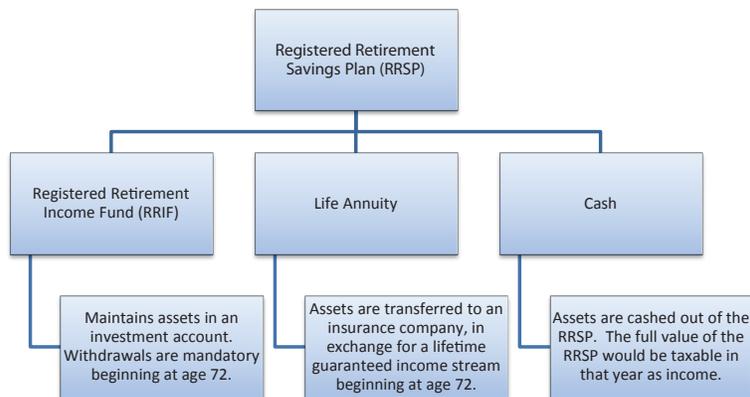


# OPTIONS FOR RRSPs AT RETIREMENT

By the end of the year in which an RRSP holder turns 71, they must change their account to an income-producing vehicle. There are three options that an individual has for this, and they have the ability to do one, or a combination of more than one option.



What are the pros and cons of each option?

	<b>RRIF</b>	<b>Life Annuity</b>	<b>Cash</b>
<b>Guaranteed Income Stream</b>	No	Yes	No
<b>Liquidity of Assets</b>	Yes – depending on investments held	No	Yes
<b>Surviving Spousal Benefits</b>	Yes	Maybe – if a joint and survivor annuity is elected	Yes
<b>Estate Planning</b>	Yes	No	Yes
<b>Market Volatility</b>	Yes	No	No – if left in cash
<b>Inflation Protection</b>	Yes	Maybe – can be indexed	No
<b>Longevity Protection</b>	No	Yes	No

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## RRIFs

RRIFs are very similar to RRSPs, as they can hold the same types of investments. The main difference is that they have a minimum required withdrawal amount each year. This is based on a percentage of the fair market value of the assets in an RRIF on January 1st of that year. You have the option to use your spouse's age (if they are younger) to reduce the required withdrawal amount; this option must be selected prior to the first RRIF withdrawal. No withdrawals are required in the year a RRIF is established. There is no maximum withdrawal amount. The table below shows the minimum required withdrawal percentages given different ages (for RRIFs established after 1993).

Age	Minimum withdrawal percentage (%)
Under age 71	$1 / (90 - \text{age})$
71	5.28
72	5.40
73	5.53
74	5.67
75	5.82
76	5.98
77	6.17
78	6.36
79	6.58
80	6.82
81	7.08
82	7.38
83	7.71
84	8.08
85	8.51
86	8.99
87	9.55
88	10.21
89	10.99
90	11.92
91	13.06
92	14.49
93	16.34
94	18.79
95 and over	20.00

Source: Canada Revenue Agency

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All funds withdrawn from RRIFs over the minimum required amount are subject to withholding taxes. The table below shows the tax to be withheld given different withdrawal amounts.

<b>Amount withdrawn in excess of minimum (\$)</b>	<b>All provinces except Quebec (%)</b>	<b>Quebec (%)</b>
<b>Up to 5,000</b>	10	21
<b>5,001-15,000</b>	20	26
<b>15,000+</b>	30	31

Source: Canada Revenue Agency, Revenu Quebec.

## **LIFE ANNUITIES**

A life annuity is a guaranteed lifetime income stream provided by an insurance company in exchange for a lump sum investment from an RRSP. The income received can be a level amount for life, or it can be indexed for inflation. Annuities are similar to pensions in that they can be structured as 'joint and survivor', where a percentage of the income continues to the surviving spouse upon death of the first spouse (can be up to 100%). Upon death (or in a joint and survivor annuity, upon death of the second spouse), no residual benefit remains for the estate or heirs. Annuity income is calculated based on age and gender of the RRSP holder at the time of purchase. Prevailing interest rates are also a factor in determining the income received from an annuity.

Annuity income benefits are protected by Assuris, the insurance company's equivalent of the Canadian Deposit Insurance Corporation (CDIC). Benefits of up to \$2,000 per month are guaranteed to the annuity holder should the insurance company become insolvent.

## **CASH**

Cashing out an RRSP is not often elected by individuals as 100% of the value of the RRSP would be taxed in the year of withdrawal. If this is preferred, it is up to the individual to determine if they want to reinvest the money in a non-registered account, TFSA, GIC or other investment option. For individuals with very small RRSP balances, this might be the preferred option.

## **INCOME SPLITTING**

50% of income from an annuity or RRIF can be split (for tax purposes) with a spouse, as long as both spouses are over the age of 65.

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CORPORATE HEAD OFFICES: RAYMOND JAMES LTD.  
SUITE 2100 – 925 WEST GEORGIA ST. // VANCOUVER, BC V6C 3L2 // 604-659-8000  
SUITE 5300 – 40 KING STREET WEST // TORONTO, ON M5H 3Y2 // 416-777-7000

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