ACCESSING YOUR RETIREMENT SAVINGS

As you approach retirement, you will need to turn your Pension and RRSP, as well as any non-registered savings, into retirement income to meet your budget needs.

The information below, addresses the options available to you for accessing your registered savings.

RRSP SAVINGS OPTIONS

You must collapse your RRSP by the end of the year you turn age 71.
RRSP funds are converted into regular income through a Registered Retirement Income Fund.

What is a Registered Retirement Income Fund (RRIF)?

Registered Retirement Income Funds are tax-sheltered plans that pay-out your accumulated registered retirement savings plan (RRSP) assets over a number of years. With a RRIF, you have control over the pay-out schedule, you continue to choose your investment options and the assets in the RRIF continue to grow tax deferred.

Income Payments

RRIF's allow you the flexibility of determining your own pay-out schedule. While there is no maximum withdrawal limit, the government legislates a minimum annual withdrawal which may be paid monthly, quarterly, semi-annually or annually. Alternatively, the RRIF allows you to calculate the minimum pay-out based on your spouse's age. This option must be decided upon when the RRIF is set up.

Flexibility

RRIF's offer flexibility in the stream of income that you elect to receive. You may opt for a level stream of payments or you may opt for only the minimum, with scheduled larger lump-sum payments to meet specific needs such as travel or a special purchase. You may also elect to have your income increase on a regular basis to combat inflation. The RRIF advantage is that, within limits, income can be tailored to meet your needs.

Investment Involvement

You retain control of your savings and remain actively involved in all investment decisions. Carriers offer guaranteed interest accounts and may also have available market based funds.

Tax Treatment

A RRIF is essentially an RRSP in reverse. The contributions you made to your RRSP throughout your working years grew on a tax deferred basis. Payment received from your Registered Retirement Income Fund will be taxed as income in the year that they are received. A RRIF allows you to receive lump sum payments at any time and these too, will be taxed based on your total income in that year.

Estate Planning

You may designate a beneficiary or a “successor annuitant”. If you designate a beneficiary other than your spouse, the value of your RRIF will be added to your estate and subjected to personal income taxes. If your spouse is your designated beneficiary, then the lump sum value of your RRIF is passed to your spouse and retains its tax-deferred status. It may then be re-invested in another registered vehicle, namely an RRSP, annuity or RRIF. The alternative, if you are married, is to designate your spouse as the “successor annuitant”. Under this option, when you die, the RRIF carries on as it was set up.

PENSION SAVINGS OPTIONS

You must also collapse your Pension investments into a retirement income vehicle, a LIF or Annuity, before the end of the year you turn age 71.

What is a Life income Fund (LIF)?

Life Income Funds, like RRIF’s, are tax sheltered plans but are designed to pay-out your accumulated registered pension plan or locked-in registered retirement savings assets over a number of years. With a LIF, you determine and control your investment options but payments are determined by a government formula. You are no longer required to buy a life annuity with the assets remaining in the LIF in the year you reach 80.

Income Payments

The government legislates a minimum and **maximum** annual withdrawal (which may be paid monthly, quarterly, semi-annually or annually). LIF payments may only be calculated using the owner’s age.

Maximum Payment

The government establishes a maximum withdrawal formula each year to ensure that funds are not depleted too rapidly. **It is important to understand that you cannot withdrawal more than the legislated maximum (unless you apply for up to 25% unlocking as discussed below).**

Improved Flexibility

LIF's offer limited flexibility in the stream of income. You may opt for a minimum payment schedule, a maximum payment schedule, or a level stream of payments with occasional larger lump-sum payments, providing they do not exceed the maximum limit.

In addition, effective January 1st, 2008, you may apply to un-lock up to 25% of your LIF assets and receive the payment in cash.

Investment Involvement

You retain control of your savings and remain actively involved in all investment decisions. Carriers will offer guaranteed interest accounts and some will also market based funds.

Tax Treatment

All LIF payments are taxed as income in the year in which they are received. The carrier will deduct and remit a withholding tax to Revenue Canada for any withdrawal over and above the minimum pay-out amount.

Estate Planning

Any assets that remain in your LIF when you die belong to your spouse. The LIF assets are released, and your spouse has the option of purchasing an RRSP, a RRIF or an annuity. If you do not have a spouse then the assets go to your designated beneficiary or estate. A beneficiary other than your spouse will have the assets of your LIF added to the estate and subjected to personal income taxes.

WHAT IS AN ANNUITY?

An annuity is a regularly scheduled receipt of money, commonly referred to as a Pension. If you are purchasing an annuity with registered pension or locked-in RRSP funds and you have a spouse, you are required to purchase a joint and last survivor annuity. This requirement may be waived, in some cases, with the signed consent of your spouse.

Life Annuity

Payments from a life annuity end at your death. If you the annuity has a guarantee period, payments may continue to our beneficiary until the annuity's expiration or be taken in a lump sum equal to the value of the remaining benefit.

Life Annuity, 5-15 Year Payment Guarantee

A life annuity is payable for your lifetime or for the guarantee period, whichever is longer. Should you die prior to the completion of the guarantee payments, the balance will be paid to your appointed beneficiary. The Life annuity is offered with guaranteed monthly payments from anywhere from 5 to 15 years.

Joint Life and Last Survivor Annuity

Provides payments for as long as either you or your spouse is living. Payments will continue until the later of your death or the death of your spouse. At that time, any guaranteed payments which remain will be paid to the beneficiary. There are two options:

1. Continuing in Full:

A life annuity payable for your lifetime and, upon your death, continuing for the lifetime of your spouse. You may add a guaranteed term to this option (5, 10, or 15 years). If all of the guaranteed payments have not been made upon your deaths, the balance will be paid to the appointed beneficiary, or if none exists, the estate.

2. Reducing on the Death of the Annuitant:

A life annuity payable for your lifetime, which upon your death, will reduce by a specified percentage (usually 50, 40 or 30 percent) and continue to your spouse for his/her lifetime. You may elect a guaranteed number of payments be paid before the reduction becomes effective.

Term Certain Annuity

Does not provide payments based on a person's life, but on a fixed term with guaranteed payments ending upon expiration of the term. ON your death, an annuity certain continues payments until the end of the guaranteed period. The number of payments is equal to 90, less your age in whole years at the purchase date. If you die before attaining age 90, the balance will be paid to your beneficiary.