Reuter Benefits Group Plan Member Newsletter
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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. You are required to transfer your registered funds into a retirement income vehicle by the end of the year you turn age 71.

Are your registered savings in a Pension or RRSP plan? It is important to make the distinction between the two as the government dictates the maximum amount of income you may withdraw each year from your Pension Plan. There is no restriction, however, on the maximum amount of income you may withdraw from your RRSP. All income received from a registered plan is taxable in the year received.

Pension Savings Options

The two main options for locked-in pension monies are Life Income Funds and Annuities.

What is a Life Income Fund (LIF)?

A Life Income Fund is a tax-sheltered retirement income plan that allows the transfer of locked-in RRSP, pension or Locked-in Retirement Account (LIRA) funds. A LIF can offer investment and payout flexibility with a set minimum and maximum payout amount allowed each year. Payments may be received on a frequency designed to meet your needs. In most provinces the LIF can continue until the individual dies.

Under the laws of Manitoba and Newfoundland and Labrador, the retirement income vehicle created to accept funds from a locked-in RRSP, LIRA or a pension plan is a Locked-In Retirement Income Fund, or LRIF. A LRIF is similar to a LIF, except the maximum income is calculated differently. A LRIF can last for as long as the owner is living.

In 2002 Saskatchewan introduced a PRIF to accept monies coming from a pension plan, LIRA, LIF or LRIF.

Maximum Payment

The LIF maximum payout is calculated each year and total income received cannot exceed this amount. Maximums vary by province and are based on a formula established by the federal or provincial pension legislation governing the plan. The formula produces a LIF maximum income percentage chart each year based on the individual's age on January 1. The percentage is multiplied by the value of the plan on January 1 to determine the maximum withdrawal amount for that year.

Maximum Payment Flexibility

Some provinces have added new flexibility to the maximum amount of registered funds that may be withdrawn each year.

Ontario created a new Life Income Fund in 2008. This New LIF can be acquired with funds from an Old LIF, a LRIF, a LIRA, or in some cases the commuted value of a Registered Pension Plan.

There is a one-time opportunity to withdraw up to 25 per cent of the value of funds transferred into the New LIF. However, this withdrawal must be completed within 60 days of the transfer. Funds may be taken in cash or transferred to a regular RRSP or Registered Retirement Income Fund (RRIF).

In Alberta, prior to converting to a LIF, 50 per cent of the value of locked-in monies can be taken in cash or transferred to a RRSP or RRIF.

Saskatchewan's PRIF does not have any withdrawal restrictions.

Manitoba allows for a one-time transfer to a PRIF of up to 50 per cent of the LIF and LRIF. The PRIF does not restrict the maximum income that may be withdrawn.

Investment Involvement

A LIF requires you to select and manage the investment mix according to your risk tolerance and personal preferences. Financial Institutions offer guaranteed interest accounts and market-based funds.

Tax Treatment

All LIF payments are taxed as income in the year in which they are received. When payments exceed the LIF minimum, by law, tax is withheld on the excess amount. This tax is taken directly from your LIF payment and remitted to Canada Revenue Agency (CRA) on your behalf.

Estate Planning

Any assets that remain in your LIF when you die belong to your spouse. The LIF may allow your spouse to become the annuitant and continue to receive payments or the death benefit may be paid to your spouse. If you do not have a spouse at the time of your death, then the assets will be paid to your named beneficiary or to your estate.

What is an Annuity?

An annuity is a regularly scheduled receipt of money provided by an investment. An annuity can provide a guaranteed regular income for the rest of your life or for a specified number of years.

There are two types of life annuities, as follows:

Single Life Annuity

Payments from a single life annuity are guaranteed for your lifetime. If you have selected a minimum guaranteed payment period, payments may continue to your beneficiary until the annuity's expiration or be taken in a lump sum equal to the value of the remaining benefit should you die before the end of the guarantee period.

Joint and Survivor Life Annuity

This type of annuity guarantees income for the lifetimes of you and your spouse. You may also select a minimum guaranteed payment period to provide a death benefit in the event that both you and your spouse die before the end of the guarantee period. 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.) At that time, any guaranteed payments that remain will be paid to the beneficiary either in full or reduced by a specified percentage, according to the provisions of the annuity that you have selected.

Term Certain Annuity

This type of annuity provides guaranteed income for a specified period of time, as chosen at the time of purchase. When the last payment has been made, the contract expires. If you die before the last payment has been made, payments continue to the designated beneficiary until the end of the expiration period. When a term certain annuity has been funded by RRSP monies, payments must continue until the time you or your spouse reach age 90 and then payments cease.

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RRSP Savings Options

Cash

If you choose to convert some of your RRSP into cash, any amounts received from your RRSP will be considered income in the year received.

What is a Registered Retirement Income Fund (RRIF)?

A Registered Retirement Income Fund (RRIF) is a registered account that allows you to continue the investments held in your RRSP on a tax-sheltered basis while paying you an income as long as you choose or for as long as there are funds available in the plan. With a RRIF, you have control over the payout schedule and you continue to choose your investment options.

Income Payments and Flexibility

There is no maximum withdrawal limit on income received from a RRIF. There is a legislated minimum payment amount that you are required to withdraw each year as determined by Canada Revenue Agency. The minimum depends on the value of your RRIF at the beginning of the year and your age.

A spousal RRIF is set up from a Spousal RRSP. Any payments paid to your spouse will be taxed at a lower marginal tax rate, assuming your spouse's income is lower. Amounts paid to your spouse in excess of the RRIF minimum for the year will be included in your income for that year rather than your spouse's, up to the amount of your contributions to a spousal RRSP in the current or two preceding years. This attribution rule does not apply if you and your spouse are living separately due to marriage breakdown when the amounts are withdrawn or if the spousal RRSP is used to purchase an annuity.

Income Options

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.

You can choose to use your spouse's age for calculating the RRIF minimum. You may want to do this if your spouse is younger and you do not with to take as much from the RRIF as would be required for your age. You would need to select this option at the time the plan is established and once this election is made your contract must continue to be administered on this basis, even in the case of your spouse's death.

Investment Involvement

A RRIF requires you to select and manage the investment mix according to your risk tolerance and personal preferences. Financial institutions offer guaranteed interest accounts and 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.

All RRIF payments are taxed as income in the year in which they are received. When payments exceed the RRIF minimum, by law, tax is withheld on the excess amount. This tax is taken directly from your RRIF payment and remitted to Canada Revenue Agency (CRA) on your behalf.
In the first calendar year the RRIF is issued, the RIF minimum is nil. CRA therefore considers any payment to be an excess payment and tax is deducted on all amounts paid to you on the first calendar year. When you are completing your tax return each year, the amount of tax withheld from your RRIF can be deducted from the total amount you owe.

Estate Planning

You may designate a beneficiary or a 'successor annuitant' at the time you establish the plan. This would enable your spouse to become the plan's owner upon your death and payments would continue to your spouse. Otherwise, the RRIF must be collapsed and the value paid to the named beneficiary or your estate. In this case the value of your RRIF will be added to your estate and taxable to your estate in the year of death. As there are exceptions to this rule, it is advisable to consult a tax expert at the time of death.

Professional Advice

As the tax rules and options available at retirement change over time, it is advisable that you seek professional advice in selecting the retirement income option to best suit your needs.

Reuter Benefits professional advisors would be pleased to assist you at the toll-free number provided below.

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