CASE IN POINT

Sales Tax Estate Planning Underwriting & Product Newsletter

RRIFs: Deferring Income

Carl, age 70 and Wendy, age 66, retired a few years ago. Fortunately for them, they didn't require an income from all of their investable assets. In fact, their version of this next phase of their lives included Carl doing some part- time consulting work. They decided to keep Carl's Registered Retirement Savings Plan (RRSP) as long as possible. Carl turns 71 this year. What are his options if he wants to minimize the amount of income he must declare?

Carl must wind up his RRSP by the end of the year in which he reaches age 71. He may choose to convert his RRSP to a Registered Retirement Income Fund (RRIF). He can still control how his money is invested. In fact, when Carl converts his RRSP to a RRIF, the investments held in the RRSP can be transferred directly to the RRIF account. Carl must withdraw a minimum percentage from the plan each year. There is no cap on how much he can withdraw. The minimum amount he must withdraw is set out by regulations and is based on age. Withdrawals will not be required until the calendar year following the year that Carl opens his RRIF. The balance in his RRIF will continue to be tax sheltered.

2016, Issue 10

Peter A. Wouters,
Director, Tax Retirement & Estate Planning Services, Wealth

Peter works with independent advisors and other professionals raising awareness on issues and concerns faced by affluent individuals, professionals and business owners. He supports efforts in researching and developing optimal solutions for clients aimed at improving their financial well-being and supporting their personal wishes and lifestyles. He annually provides 100's of workshops, seminars and technical support throughout the country on tax, retirement income and estate planning issues, concepts and strategies to both advisors and consumers. As a Registered Financial Gerontologist, a good deal of his time is spent on building awareness and educating people of all professions who work with or specialize in the needs, expectations and issues of elders. Comprehensive lifestyle planning is an important element of these processes.

The Sales, Tax, Estate Planning, Underwriting & Product (STEPUP) team provides internal and broker support, including seminars, education, advanced concept illustrations & Client case technical consultations.

Peter can be reached at peter.wouters@empire.ca

Empire Life Investments
stay true

Case in Point

Carl can base his withdrawal rate on his younger spouse, Wendy's age. This will reduce the minimum withdrawal percentage and may allow Carl to extend the tax deferral on his registered funds.

Up to $2,000 of income may be eligible for the $2,000 pension income tax credit.

He may split his income with his spouse. If Wendy is in a lower tax bracket, this will reduce the overall amount of income tax owed. This strategy may also reduce the clawbacks on Carl's government benefits like Old Age Security. It does increase Wendy's net income at the same time and may affect how much she is entitled to from a number of government benefits.

Any remaining funds in Carl's RRIF become taxable income on the date of his death, unless Wendy, his spouse is still living or he has children or grandchildren who are financially dependent on him at the time of his death. If Wendy is still alive when Carl dies and he has named her named successor annuitant, she becomes the annuitant of the RRIF and the payments and investments can continue "as is", uninterrupted. If she is not named the successor annuitant there is still a mechanism by which the balance in Carl's RRIF can be transferred to Wendy's RRSP or RRIF on a tax sheltered basis. Alternatively, the balance may be moved to a Pooled Registered Pension Plan (PRPP) in Wendy's name, or the balance can be transferred to an annuity, RRSP or RRIF of a child or grandchild who is financially dependent on Carl because of a disability, without triggering tax. Income tax can also be deferred by using the balance of the RRIF to purchase annuities to age 18 for his minor children or grandchildren who are financially dependent on Carl but who are not disabled.

There are other considerations besides tax minimization that Carl and Wendy should review and include in their decisions. One key topic is income optimization; that's getting the most spendable cash flow from all of their investable assets, pensions and government benefits. They could benefit from sitting down with an advisor experienced in retirement income planning to explore their wants and values, for both while they are alive and after they pass. A qualified, credentialed advisor can help with strategies and stress testing those strategies. After all, the plans and strategies need to fit them now and continue to do the job they were designed to do when they were first set up.

Empire Life Investments®