CASE IN POINT

Sales Tax Estate Planning Underwriting & Product Newsletter

RRIFs and Successor Annuitant Benefits

Sam and Christine live in Moncton, New Brunswick. Sam is celebrating his 71st birthday this year. He has held on to his Registered Retirement Savings Plan (RRSP), optimizing the tax sheltered benefits of doing so. He named his wife Christine as beneficiary of that plan. Sam wants to convert his RRSP to a Registered Retirement Income Fund (RRIF). He wants to ensure that Christine gets the balance of his plan should he predecease her. Sam and Christine are comfortable with the investment mix and want to continue with it. They think that all they have to do is complete a form converting Sam's RRSP to a RRIF with the same financial institution and figure out how much they need each month to help fund their lifestyle. Christine will automatically receive the payment stream when Sam dies. Is that right?

Let's break this down.

Christine does not automatically continue to be the beneficiary of the RRIF. If Sam doesn't name Christine as the beneficiary of his RRIF, then when he dies, the balance is commuted and paid to his estate. Sam needs to make this specific designation either with the financial institution or in his will. When Sam makes this designation of Christine as the sole beneficiary of his RRIF, then on death, the RRIF is commuted. The underlying investments

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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 an accredited 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.

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are sold and the balance is paid to her. If she wants to have a RRIF, then she needs to transfer the designated amount to a RRIF in her name. She can elect to rollover Sam's RRIF to her RRIF and tax shelter the value of Sam's plan immediately before he died. The payment stream would be recalculated using her age.

If Sam had intended to preserve both the investment structure and the payment stream of his RRIF for Christine's benefit, then he should name her as successor annuitant of his RRIF, either in the plan document with the financial institution or (in the case of a RRIF holding mutual funds) specifically in his will. That way, Christine would simply take over the RRIF without any additional paperwork and continue to receive the payments as originally structured. The underlying investments would not have to be sold, avoiding any charges and triggering any losses if the market value was down when Sam died. Christine would not have to deal with any extra reporting slips covering income or changes in value between the time Sam died and she took over the plan. The transfer would be seamless.

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