REGISTERED RETIREMENT INCOME FUND

Retirement income on your own terms

Once you've reached retirement, it's time to cash in your Registered Retirement Savings Plan (RRSP). Federal legislation requires that RRSPs be collapsed by the time the investor reaches the age of 71[1]. However, cashing out the entire sum in one lump-sum amount triggers immediate income tax consequences for the investor, which is why a Registered Retirement Income Fund (RRIF) is often a suitable option[2].

[1] Under the Income Tax Act, you must convert your RRSP into retirement income before December 31 of the year you turn 71.
[2] You also have the option of purchasing an annuity with the proceeds of your RRSP.

CONTINUED TAX DEFERRAL

While an RRSP offers a tax-deferred shelter as you save towards retirement, a RRIF enables you to continue deferring taxes into your retirement years. RRIFs allow you to draw income from your savings — which are taxed only at the time of withdrawal — while continuing to defer taxes on the remainder. Your savings continue to earn investment income in a RRIF.

FUNDING YOUR RETIREMENT

You cannot make contributions to a RRIF, and you must withdraw a minimum amount from the RRIF each year. The minimum withdrawal amount is determined by your age and the value of the RRIF on January 1ST of each year, although you have the option to withdraw more than the minimum amount.

The money withdrawn from the RRIF is taxed as regular income, although it should be noted that the marginal tax rate is typically lower at retirement than when funds were originally contributed to an RRSP.

Converting your RRSPs into RRIFs is a valuable tool to avoid paying taxes on the entire amount all at once. Instead, reap the rewards of continued tax-deferral.

Contact us today.

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