Optimizing Your RRIF

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Registered Retirement Income Funds (RRIFs) are one method of drawing an income from Registered Retirement Savings Plans (RRSPs) in retirement. There are a few things to consider to get the best value from your retirement savings with RRIFs.

For many Canadians, RRSP savings will be the major source of their retirement income. The main concern for most is the risk of outliving their money. Another priority for many retirees is minimizing income taxes.

The minimum income that needs to be drawn from a RRIF increases each year. Any funds left in the account will continue to grow tax-postponed. Don't forget that eventually all funds will have to be withdrawn. If a huge withdrawal is made due to death or medical emergency, the income tax implications can be staggering.

Colin has other savings he can use for retirement income and only wants to draw the minimum from his RRIF. He learned that the annual amount can be lower than he expected by electing to use his younger wife's age instead of his own for the income calculation.

He also realized that, while his RRSP investments in GICs weathered the market turbulence over the last few years, a current 2% or so return would mean his funds will deplete more quickly than he really wants. Colin decided that he needs to add some risk to his retirement income savings in order to keep ahead of inflation as well. He may want to consider a plan that offers a low to medium risk in well managed investment funds in an account that also offers some solid income as well as the possibility of death guarantees for some of his money.

Colin should avoid falling into the trap of delaying an income too long from his RRIF. With tax law allowing him to split qualifying retirement income with his wife, he may actually be able to draw much more from his RRIF each year and actually pay less income tax. If this creates more income than they need, they can deposit the excess into Tax Free Savings Accounts (TFSAs) - if they have deposit room.

Even though Colin elects to take income by way of a RRIF, he isn't stuck with that decision for life. It may be to his advantage at a later age to convert some of his RRIF account to an annuity that could pay a much higher income than the RRIF would. While this may mean less left for their children, the income may be more important.

Contact our office today [1] to get the conversation started.

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