

If You're 69, Your Retirement May Come Down to This

After saving for your retirement for most of your adult life, you wouldn't want to lose half of it to the government when you turn 69. Yet this could happen if you turn 69 and haven't converted your Retirement Savings Plan (RSP) into a Retirement Income Fund (RIF) or an annuity by December 31st. Put simply, if you do nothing about rolling your RSP over into a RIF or an annuity before the end of the year in which you turn 69, you may be taxed as if you had taken your RSP in cash. Meaning, you could be taxed on the full amount in a single year. And if this happens, there is no recourse available under the Income Tax Act.

An example: Louise of Winnipeg turned 69 on May 31, 2003. Louise is retired and has been living off an income of \$30,000 per year from her CPP allowance and investments. She decided to visit family in Vancouver for two months, returning on January 15, 2004. She had a self-directed RSP that had a market value of \$212,800 on December 31, 2003. And no action was taken prior to her return. Unfortunately, as a result of not converting her RSP she could be assessed for additional income of \$212,800 in the 2003 tax year. If this happens, Louise would fall into a 42% income tax bracket, which means she could pay over \$100,000 in tax.¹

Note: Annual investment income assumed to be interest.

Most Canadians, who are faced with winding up their RSPs, choose to move their RSP assets into a RIF. By selecting a vehicle such as a RIF, you can enjoy

the benefits of continued tax deferral as well as having the option of managing your investments in the same manner as your RSPs.

Dispelling RIF Myths

The most popular retirement vehicle is the RIF; similar to an RSP, but with an income payment component. All money earned within your RIF, including interest, dividends and capital gains from qualifying investments, is deferred from current taxes. You are only taxed on the amount you withdraw each year (effectively, personal income). There is a minimum annual withdrawal required (see chart) and there is no maximum withdrawal limit. Your RIF can hold the same types of investments as an RSP, including the benefit of 30 percent foreign content.

With a RIF, you can determine how much income you would like to receive on an annual basis, subject to the minimum withdrawals set by Canada Revenue Agency (CRA). This minimum is based on your age and the value of the RIF. The chart shows the minimum withdrawal amounts for each year.

An example: Lou turns 69 and converts his \$144,650 RSP to a RIF this year. Payments can start this year or be deferred until no later than the end of the next calendar year. Based on the chart below, he is required to take a minimum 4.76% of the value of his RIF. If Lou and his Financial Advisor are able to average an annual return higher than



his required withdrawal, Lou will preserve his capital well into his retirement, assuming he makes no lump sum withdrawals beyond his required RIF payment.

RIF Annual Minimum Payment (AMP)*

Age Regular (as of Jan 1)	RRIF Withdrawal* % of Remaining Value
69	4.76%
70	5.00%
71	7.38%
72	7.48%
73	7.59%
74	7.71%
75	7.85%
76	7.99%
77	8.15%
78	8.33%
79	8.53%
80	8.75%
81	8.99%
82	9.27%
83	9.58%
84	9.93%
85	10.33%
86	10.79%
87	11.33%
88	11.96%
89	12.71%
90	13.62%
91	14.73%
92	16.12%
93	17.92%
94+	20.00%

*For RIFs opened in 1993 and later



When planning for retirement as a couple, it is often beneficial to use the birth date of the younger spouse for calculating minimum RIF withdrawals. Doing so will allow you to reduce the amount you must withdraw from your RIF each year, thus deferring income tax on the bulk of the retirement savings longer. This option still allows you to withdraw as much as you wish.

Annuities: Retirement But Not Beyond

An annuity is a contract between you and a financial institution that guarantees a regular income throughout your retirement. Annuities have been popular with people who want the peace of mind that comes with a steady income stream, no investment decisions and low investment risk. On the other hand, if interest rates are low when you convert your RSP to an annuity, the income generated may be relatively small. With an annuity, your money effectively stops growing because you have used it to buy a contract. Finally, when choosing an annuity, you should investigate what options apply at death. Some annuities will transfer the unpaid balance to your estate, others will continue payments to your spouse until his or her death, while others make no further payments to your estate or spouse after your death.

What if You Have Locked-In Retirement Accounts (LIRAs)?

A Locked-in Retirement Account (LIRA) or Locked-in RSP results from transferring locked-in pension assets from a pension plan when leaving an employer. Pension legislation contains restrictions in order to ensure that pension funds will be available at retirement. As a result, a Life Income Fund (LIF) is one of the options available for a LIRA. LIFs allow you to control the investments in your account, but pension authorities set minimum and maximum withdrawals each year. A limitation of the LIF, is that in most cases it must be converted to an annuity no later than the year in which you turn 80. Since LIRAs come from registered pension plans, the rules governing your LIF are determined provincially or federally, depending on the legislation governing the original source of the funds.

A Locked-in Retirement Income Fund (LRIF) is available to residents whose plan is regulated by Alberta, Manitoba, Ontario or Newfoundland as an alternative for converting locked-in pension plan money. Like a LIF, there is both a minimum and maximum amount that can be withdrawn in a given year. The main difference between this product and most LIFs is that you are not required to convert the

funds into an annuity. This allows you more flexibility later on in your retirement.

A Prescribed Retirement Income Fund (PRIF) is only available to investors who have pension funds governed by Saskatchewan legislation. It is very similar to a RIF, in that there is a minimum amount that must be withdrawn and no maximum withdrawal limit and like an LRIF, you are not required to purchase a life annuity.

The options discussed might not all apply directly to your current situation. If you have significant personal savings, or are expecting income from a deferred profit sharing plan, group pension or another plan sponsored by your employer, your Financial Advisor can help you plan effectively. Now is the time to plan the future of your RSP. The first rule in ensuring an adequate income for your retirement is to be prepared. By planning ahead, you will have time to review all your options and make the best decision, avoiding unnecessary penalties or taxes. Remember, you must wind up your RSP by December 31st of the year you turn 69.

¹Source: calculation based on 2003 tax rates as posted on the Canada Revenue Agency web site. http://www.craarc.gc.ca/tax/individuals/faq/2003_rate-e.html

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