Understanding how to convert your RRSP to a RRIF

You've spent years saving for your retirement. Now's the time to enjoy the many benefits of these savings, so you can live on your own terms. A Registered Retirement Income Fund (RRIF) allows you to gradually withdraw funds for your use today and into the future.

What is a RRIF?

A RRIF is an extension of a Registered Retirement Savings Plan (RRSP). While your RRSP is used to save for your retirement, a RRIF is used to systematically draw income during your retirement.

RRIFs offer the same investment options and tax-deferred growth as your RRSP. However, once an RRSP is converted into a RRIF, you can no longer make contributions and you are required to make a minimum annual withdrawal, as set out by federal regulations. The funds you withdraw from your RRIF are taxable as this amount is added to your taxable income for that year.

Converting an RRSP to a RRIF

You can convert your RRSP holdings to a RRIF at any time. However, an RRSP must be converted to a RRIF, annuity, or paid out in a lump sum by the end of the calendar year that you turn age 71. If you convert your RRSP to a RRIF, payments are not required to begin until the calendar year following the year that the RRIF account was opened.

When converting an RBC® RRSP to an RBC RRIF, the investments held in the RRSP can be transferred directly into the RRIF account. This way, RRSP investments are not required to mature or be liquidated before being transferring to a RRIF.

Calculating your minimum payment

Once your RRSP is converted into a RRIF, you can withdraw any portion of your RRIF, as long as you meet the minimum withdrawal each year. Your minimum payment is based on when the RRIF was established, your or your spouse's age and the amount currently held within the RRIF.

Before age 71

The minimum payment for individuals who convert to a RRIF, and are aged 70 or less at the beginning of the year, is calculated based on the following formula:

$$\left\{\begin{array}{c}\text{RRIF market value}\\ \text{on January 1 of}\\ \text{current year}\end{array}\right\} \times \left\{\frac{1}{\begin{array}{c}\text{90 – age on January 1}\\ \text{of current year}\end{array}}\right\}$$

After age 71

After the year you turn 71, your minimum payment is determined by a percentage of the market value of your RRIF. This percentage has been established by the Canadian government and is provided in the chart on the next page.

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Age	Minimum Amount
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%

* Minimum payments from RRIFs established prior to January 1st, 1993 are determined using different percentages.

Transferring funds upon death

Any remaining funds in your RRIF become taxable income on the date of your death, unless you have a spouse, or have children or grandchildren under the age of 18 who were financially dependent on you at the time of your death. In this case, the funds in your RRIF can be transferred to an RRSP or RRIF of your spouse, or of a child with a disability, without triggering taxable income, or tax can be deferred by purchasing annuities to age 18 for children without disabilities.

Considerations for when and how much to withdraw

Income planning in retirement

Budgeting quite often plays a big part in retirement income planning. It's a good idea to first understand what your regular monthly living expenses would be, plus any other miscellaneous expenses such as travel or entertainment. You are then in a position to review all your sources of retirement income and assess how your RRIF payments will need to factor into meeting your retirement needs. If you do not have to rely heavily on RRIF income, take advantage of the flexibility in the timing and amount of withdrawals to minimize the impact on your taxes and other payments.

Tax planning strategies

Since RRIF payments are considered taxable income in the year you withdraw, they are added to your "other income" for tax purposes. Remember that once you convert your RRSP to a RRIF, you're required to withdraw funds each year and will be taxed on those funds. That's why the timing of your RRIF conversion is so important.

- Taking payments earlier than needed, or more than needed, may unnecessarily place you in a higher marginal tax bracket.
- Once funds are withdrawn from your RRIF, you will lose the benefit of tax deferred growth.
- If you don't immediately require the full amount of your minimum payment, consider contributing what's not needed into a Tax-Free Savings Account (TFSA).
- If your spouse is younger than you, you may want to base minimum payments on his or her age, allowing for lower minimum payments and tax deferred growth of your investments for a longer period of time.
- Another strategy is to take advantage of income splitting opportunities available with RRIF and other eligible pension income, which helps to reduce the overall taxes you may pay.

Minimizing potential clawback impact

Your taxable income impacts your eligibility for certain government benefits, such as Old Age Security. Any additional income may result in a reduction, or claw back, of some of these benefits, so factor in timing and the amount you need to withdraw, before making a decision.

Choosing the right investment mix for your RRIF

Since your RRIF can hold a variety of investments, you may want to select a diversified portfolio. You may consider purchasing different types of investments to allow for both the flexibility of short-term funds to withdraw annually (such as GICs), as well as the potential for your savings to experience long-term growth (such as mutual funds and equities).

Estate considerations

Consider naming your spouse as the "successor annuitant" of your RRIF. This designation allows RRIF payments to continue to go to the surviving spouse, without interruption, and minimizes estate administration and taxes.

Talk to an RBC advisor

Whether you're in the midst of planning or already enjoying your retirement years, now's the perfect time to speak to an RBC advisor. They can help you look into options for converting your RRSP to a RRIF, as well as provide strategies to maximize the benefits of your RRIF.

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