

What's a RRIF and how does it work?

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If you've saved a substantial amount for your retirement, a RRIF can be music to your ears.

A Registered Retirement Income Fund isn't actually a product, but a type of registered account. It's what happens to your RRSP when you retire and is designed to provide an income stream from your RRSP. But different rules apply to RRIFs.

The government requires you take out a minimum amount from your RRIF every year.

The tax man requires that you convert your RRSPs to an eligible retirement income option, such as a RRIF or annuity, by Dec. 31 in the year you turn 71.



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Birkbeck of RBC Financial: Clients should take out RRIF money last.
Jana Schilder for the Toronto Star

RRIFs are the most popular option that Canadians are choosing for turning their RRSPs into income streams," says David Birkbeck, head of Retirement Products Strategy at RBC Financial Group.

You can [convert your RRSP](#) into a RRIF anywhere you opened or held your RRSP, including at banks and mutual fund companies.

You can buy an annuity with your RRSPs, instead of a RRIF. An annuity is a type of insurance product that provides an income stream.

RRIFs offer some advantages over annuities. First, you can open a RRIF with any amount of money. You can set up a RRIF with any portion of your RRSP.

Second, you don't pay tax on the money in your RRSP until you withdraw it through your RRIF.

Third, RRIFs offer flexibility. You get to decide how to invest the funds, and how much and how often you receive a payment (subject to the minimum withdrawals by Revenue Canada). Monthly withdrawals from a RRIF are the most popular option. You can set up a direct deposit to your bank account.

"You can continue to manage your capital. So, the prospect of continued growth is a benefit," says Charley Tsai, vice-president of wealth planning support with TD Bank Financial Group. A self-managed RRIF carries a \$100 fee.

You can hold stocks, bonds, GICs, mutual funds and seg. funds.

You can consolidate several RRSPs you may have with different suppliers into one RRSP, but once you convert your RRSP into a RRIF, you cannot add more capital to it.

That's why it's so important to make the right investment choices.

In a bear market, seniors may think they need to move into more conservative investments, but if they do, they risk missing out on long-term growth.

Lastly, you can withdraw a lump sum from your RRIF. This can be handy if your house needs a new roof, you've totalled your car, or you incur emergency medical expenses. For lump sum withdrawals, a fee of about \$50 can apply.

Rules to take effect July 1 mean seniors who tap into RRIFs for withdrawals beyond the minimum payment will now have that withdrawal counted as income for the Guaranteed Income Supplement.

Low-income seniors could be in for a shock in July, when the next round of GIS payments are allotted and they find their 2010 income was too high for them to qualify.

You may will or transfer upon your death your RRIF to a spouse (or common law partner), a financially dependent child or grandchild under 18, or a financially dependent mentally or physically infirm child or grandchild of any age. Income taxes can be deferred in these circumstances.

Probate fees can be avoided when you designate your beneficiary in a RRIF; the value of the RRIF will not be included in the estate.

"If you want the highest amount of flexibility from a regular income stream, a RRIF is the best choice," says Tsai.

What are the drawbacks of RRIFs?

First, once you turn your RRSP into a RRIF, you have to withdraw a minimum amount each year.

You can base the minimum withdrawal on your spouse's age. If your spouse is younger than you are, for example, the minimum withdrawal would be lower than if it were based on your age. You do not have to hold a spousal RRIF or name your spouse as beneficiary to take advantage of this option.

However, if you choose to use your spouse's age, because he or she is younger, you must do so before your first RRIF withdrawal, and once you've made it, your decision cannot be changed.

Each year, government guidelines dictate the minimum amount you have to take out of your RRIF. The amount is based, in part, on the value of your RRIF and your age (or the age of your spouse, if he or she is younger, and you elect to use that).

"If you're still working or consulting part-time and if your annual income is more than \$80,000, you could end up paying 39 per cent tax on your RRIF," says Birkbeck. "Because of this, many people take out RRIF withdrawals as an annual payment, in December, once they have a clear idea of other income that has come in during the year.

"We advise clients to take out RRIF money last."

Withholding tax rates in Ontario for RRIFs look like this: No tax is withheld when the minimum amount is withdrawn from a RRIF; 10 per cent is levied on any withdrawal of less than \$5,000; 20 per cent on amounts from \$5,000 to \$15,000, and 30 per cent on amounts over \$15,000, according to an RBC representative.

One drawback of RRIFs is you can deplete your capital and run out of money. An annuity may be a safer option, or, you may have to live on less, or work for longer.