How to Get Income Out of Your RRSPs

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Roger and Linda, like many Canadians, have saved for years for their retirement. They took advantage of RRSPs and now have a substantial amount of savings. As Roger will turn age 71 this year, they need to decide on the best strategy for using their RRSPs for their retirement income needs.

Until now, Roger and Linda have been relying on their non-RRSP investments and government benefits so their RRSPs could continue to grow tax-postponed. Roger has to choose from the following by the end of the year or all his RRSP funds will be fully taxed:

Take the Money and Run

Roger can withdraw all, or a portion, of his RRSP funds as cash (different rules apply to 'locked-in' funds). This is not generally recommended because heavy taxation could result. Any amount withdrawn from an RRSP is considered income for that year. Depending on his tax bracket and province of residence at the time, he could pay up to 50% in income taxes. Also, any income earned on these funds after they are withdrawn is no longer tax sheltered.

Transfer to a Registered Retirement Income Fund

Roger can transfer his RRSP into a Registered Retirement Income Fund (RRIF). If the funds are locked-in (previously from a pension plan), they can be transferred to a locked-in version with plan name and features determined by province of residence. This is essentially an extension of his RRSP that can keep the investments mostly intact.

RRIFs require a certain degree of ongoing investment management that, depending on Roger's personal preference, may be an advantage or a disadvantage. Because the value of the funds will depend on future investment performance, income levels may fluctuate.

Roger can choose the amount he wants to withdraw each year, subject to a minimum set by law. Depending on his investment and payout choices, the RRIF may also provide inflation protection. The drawback is that because there is no maximum (except locked-in plans) on withdrawals, Roger could deplete his funds too soon.

Buy an Annuity

An annuity will provide Roger with a guaranteed income for life or to age 90, depending on the type he chooses. However, once he purchases the annuity, he cannot change the payments or make lump sum withdrawals. Annuity payments are based on interest rates at the time of purchase. In times of low interest rates, Roger may want to use a RRIF initially and convert to an annuity when rates are higher.

Roger does not have to make only one choice. He may take a cash lump sum for a major purchase, an annuity for a regular income to cover his basic living expenses, and a RRIF for inflation protection as well as liquidity for such things as emergencies, opportunities and travel.

**Fictional characters for illustrative purposes only.*

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