TD Wealth

Wealth Insights

TD Wealth Private Investment Advice

Monthly Perspectives From The Daley Group Wealth Management

The RRIF: Four Things You May Not Know

Registered Retirement Savings Plan (RRSP) season has come and gone. Those who have contributed may have put thoughts of the RRSP to low priority. Yet, thinking ahead to the time when you will eventually access funds can have its merits.

Most commonly, the RRSP is converted to a Registered Retirement Income Fund (RRIF) and there may be income or tax-planning opportunities. Here are four things you may not know about the RRIF:

1. You can convert the RRSP to the RRIF earlier than age 71. The RRSP matures by the end of the calendar year in which the holder turns age 71 and is often converted to a RRIF at that time. However, you are able to open a RRIF earlier than this age. Minimum withdrawal payments will be required in the calendar year following the year that the RRIF account was opened. To calculate the annual minimum withdrawal, the RRIF market value at the start of the year is multiplied by a "prescribed factor," which is based on age.

2. You can hold the RRSP and RRIF at the same time. While the RRIF is usually used by an investor to transfer funds to once their RRSP matures, there may be instances in which you may want both. If you want to generate pension income to take advantage of the federal pension income tax credit, you could consider opening a small RRIF at the age of 65. At the same time, you could continue operating your RRSP to benefit from ongoing tax deductions from your contributions. Consider also that, for tax purposes, you can notionally split up to 50 percent of your eligible pension income (which includes RRIF income from age 65) with a spouse (or common-law partner).

3. You are able to convert the RRIF back to the RRSP. If you've converted funds to the RRIF earlier than age 71 and realize that it's no longer to your benefit, you are able to convert it back. Some may decide to do an early conversion if they retire early, take a sabbatical or have an extended leave from work, since the loss of income means they will be in a lower tax bracket or they may need funds. However, if they return to work, it may be beneficial to resume the RRSP.

4. You can base withdrawals on a spouse's age. If you have a younger spouse, it may be useful to use their age to result in a lower minimum withdrawal rate for your RRIF. Be aware that this can only be done when first setting up the RRIF and before you have received any payments, so plan ahead.

If you have any RRIF questions please get in touch. If you're turning 71 in 2023, let's discuss options for the maturing RRSP before year end.

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