TD Wealth

Wealth Insights

TD Wealth Private Investment Advice

Monthly Perspectives From The Daley Group Wealth Management

Will You Be Turning 71 in 2021?

If you will be turning 71 years old in 2021, remember that your registered Retirement Savings Plan (RSP) must be withdrawn in cash, transferred to a registered Retirement Income Fund (RIF) or used to purchase an annuity by the end of the year. If you choose to convert to a RIF, you will be subject to the RIF minimum income withdrawal rules starting in the year after it is opened.

But, the decision to convert a RSP to RIF should be part of a larger retirement income strategy and shouldn't be left until the last minute. There are many factors and moving parts to consider, including:

Tax planning — RIF withdrawals are included in annual taxable income. The required minimum withdrawal is based on a set percentage of the RIF value at the start of the year; the percentage gradually increases each year, up to age 95.

Preserving income-tested benefits — In order to preserve income-tested benefits like Old Age Security (OAS), you may wish to keep RIF withdrawal amounts at a certain level. For example, by taking larger withdrawals from the RIF in certain years (or by withdrawing funds from the RSP before you convert it to the RIF), you may be able to reduce the opening asset balance and, therefore, the minimum withdrawal in a future year. This may require planning ahead. This may depend on when you plan to start OAS benefits — as early as age 65 or as late as age 70.

Pension income tax credit — If you are 65 years of age or older, you can open a RIF and do a partial conversion prior to age 71 in order to take advantage of the federal non-refundable tax credit on the first $2,000 of pension income. Provincial credits may also apply.

Income splitting — If you have a spouse or common-law partner in a lower marginal tax bracket, there may be an opportunity to lower your overall household tax bill. If certain conditions are met, you may split up to 50 percent of eligible pension income with a spouse or common-law partner on your tax return, which includes RIF income from age 65 onwards.

Planning with a younger spouse — When setting up your RIF and before you have received any payments, if you have a younger spouse, consider that you may be able to use their age as the basis for withdrawal calculations, which can result in a lower minimum withdrawal rate.

Tax-deferred growth — Don't forget that keeping funds in the RIF allows you to take advantage of tax-deferred growth. If you decide to withdraw funds, consider transferring them in-kind to a Tax-Free Savings Account (TFSA) should contribution room exist, to allow assets to grow on a tax-free basis. At the time of transfer, funds withdrawn from a RSP/RIF will be subject to tax.

Given the many considerations when converting a RSP to a RIF, it is recommended to plan ahead as you consider your overall retirement income strategy. If you need help with this, or any other retirement planning matters, please get in touch.

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