

New RRIF rules great news for seniors

Already the most popular choice for retirement income, the RRIF option is now more attractive than ever – thanks to tax changes taking effect in 2007.

RRIFs are one of the options you can elect when your RRSP matures or when you require regular income in retirement. According to the Fidelity website, about three-quarters of Canadians select RRIFs as their retirement income strategy.

Key benefits of a RRIF

- tax-sheltered growth
- income splitting with a spouse
- \$2,000 pension credit
- control over investments
- income flexibility
- legacy for heirs

The 2007 federal budget raised the age limit for converting RRSPs to RRIFs from 69 to 71, generating two significant benefits. You can let your registered investments compound tax-free for another two years without having to draw from them. And, if you are working and earning income, you have an additional two years to add to your RRSP and enjoy the related tax deductions.

The new laws also make it possible for individuals over 65 to split up to 50% of their RRIF income with a spouse in a lower tax bracket. The result? You could pay significantly less tax as a couple, year after year, as well as each claim the \$2,000 pension credit on RRIF income. Splitting RRIF income can be done with a spouse of any age (and includes a common law partner).

How a RRIF works

RRIFs are easy to set up. When it comes time to establish a source of regular income, you simply transfer your RRSP tax-free to a RRIF. With a RRIF, you maintain control of your investments and can potentially hold all the same investments as with an RRSP. Tax is only paid on the money withdrawn, and the investments left in the plan continue to grow at pre-tax rates.

As owner of a RRIF, you must draw a minimum amount each year after the year it is established, although there is no maximum. The minimum is a percentage set by the

federal government, which increases with age. Withholding tax applies only to withdrawals in excess of the annual minimum.

For RRIF owners turning 71 in 2007, the minimum requirement for 2007 is waived. Minimum requirements are also waived in 2007 and 2008 for RRIF owners who turn 69, in 2007 and in 2008 for those turning 70 in 2007.

Another major advantage of RRIFs is that you can leave a full legacy to loved ones, unlike most annuities and pension plans. On death, 100% of the income from a RRIF can be paid to the surviving spouse, or the balance can be transferred tax-free to the spouse's RRIF or RRSP. Alternatively, the balance can be paid to an estate or non-spouse beneficiary, although the full value will be subject to tax.

With a growing list of benefits, RRIFs are an easy choice for most retirees. A Deposit Broker can customize a RRIF to your specific needs, helping you choose from Guaranteed Investment Certificates (GICs), mutual funds, cash, and other financial instruments, or a combination of investments using a self-directed RRIF.

Contact your Deposit Broker to ensure you are taking advantage of all the opportunities now offered by RRIFs.