MEMBER

Retirement Services

Understanding All The Basics

RRSP | RRIF | ANNUITY | LIF | LRIF 2010/2011

This booklet is provided to you courtesy of a credit union. It is written in everyday language – in response to the need expressed by many credit union members for clear and understandable information on RRSPs and Retirement Income Options.

This issue of THE BASICS is based on the legislation in effect or proposed as of July, 2010.

THE BASICS is intended as an information guide only. If any clarification is required, you should refer to the actual legislation, contact the Canada Revenue Agency (CRA), or refer to Guide T4040 RRSPs and Other Registered Plans for Retirement.

What's New?

2010 Federal Budget

- **Rollover of RRSP/RRIF to RDSP**
  Where the spouse/common-law partner or financially dependent infirm child or grandchild is the recipient of the deceased annuitant's RRSP/RRIF, he/she may be eligible for a tax-free rollover provision where the funds are contributed to an RDSP. The RDSP contributions under this rollover provision cannot be made before July 2011.

  At the time of writing, the legislation was not yet in force.

British Columbia Pension Legislation

On September 3, 2009, the British Columbia pension legislation was amended. The annuitant of an LIRSP/LIF may apply for a withdrawal where his/her life expectancy has been considerably shortened due to a disability or terminal illness. Previously, the legislation recognized a physical disability only.

Manitoba Pension Legislation

Effective May 31, 2010, the Manitoba pension legislation was amended. The following is a highlight of the changes:

- **LRIF option eliminated** – LRIF contracts opened prior to May 31, 2010 must be converted to a LIF or, if age eligible, to a LIRA on or before December 31, 2010.
- **Waiver of death benefits** – The spouse/common-law partner may waive his/her entitlement to death benefits under a LIRA and/or LIF. The annuitant and spouse/common-law partner may jointly elect to revoke the waiver. This option is not available to LRIF contracts until the funds are transferred to a LIF/LIRA. At the time of writing, the legislation did not permit the spouse/common-law partner to waive this entitlement under an MB RRIF.
- **Shortened life expectancy** – The provision was amended to allow for a withdrawal of all or a portion of a LIRA/LIF/LRIF contract where the life expectancy of the annuitant is shortened to less than two years due to a terminal illness or disability.

- **Non-residency** – The annuitant may withdraw all the funds under the LIRA/LIF/LRIF where he/she is no longer a resident of Canada.
- **Joint survivor entitlement** – Unless the annuitant and the spouse/common-law partner jointly elect to waive this entitlement, the pension payments cannot be reduced below 60% on death of either. Previously, the requirement was 66 2/3%.
- **Maximum LIF payments** – The calculation now includes the income and gains, net of losses, earned in the LIF in the immediately preceding year.
- Transfers of LIRA/LIF to LRIF are not permitted.

Table of Contents

RRSP

What is an RRSP? 1
What Does an RRSP Mean to You? 1
What Happens at Retirement? 2
Who is Eligible to Contribute? 2
Definitions of Spouse/Common-law Partner 2
What is Earned Income? 3
RRSP Deduction Limits 3
Special Transfers to Your RRSP 5
RESP Accumulated Income 6
Contributing to RRSPs in Your Spouse's Name 7
Removal of Contributor Detail Following Breakdown of Marriage/Common-law Partnership 8
Carry Forward Unused Deduction Room 8
Carry Forward of Undeducted Contributions 8
Pension Income Credit 9
Contribution Deadline 9
Over-contributions 10
Can You Borrow for an RRSP? 10
Official Receipt 11
Who Sells RRSPs? 11
How Safe are RRSP Investments? 11
Creditor Protection 11
What Types of RRSPs are Available? 12
Group RRSPs 14
Income Tax Considerations 15
What Does an RRSP Cost? 15
What Should You Look for in an RRSP? 16
Benefits and Advantages 16
Can You Transfer Your RRSP? 16
Can You Withdraw Funds? 17

The Home Buyers' Plan ... 18
The Life Long Learning Plans ... 21
Is There Withholding Tax? ... 23
Can You Leave Funds in an RRSP Indefinitely? ... 23
Designation of Beneficiary ... 23
What Happens if You Die? ... 26
Contributions After Death ... 26

Retirement Income Options

How Does an RRSP Provide Retirement Income? ... 27
What Options are Available? ... 27
When Can You Start to Receive Retirement Income? ... 28
Is Retirement Income Taxable? ... 28
Withholding Tax ... 29
When Should You Buy? ... 29
Registered Retirement Income Fund (RRIF) ... 30
Life Income Fund (LIF) ... 33
Restricted Life Income Fund (RLIF) ... 33
Variable Benefit Accounts (VBA) ... 33
Locked-In Retirement Income Fund (LRIF) ... 34
Saskatchewan RRIF (SK RRIF) ... 34
Manitoba RRIF (MB RRIF) ... 34
Defined Contribution Retirement Income Account (DC RIA) ... 34
Term Certain Annuity to Age 90 (TCA 90) ... 35
Life Annuity ... 35
Are There Any Risks Involved? ... 36
Can You Commute Your Retirement Income Options? ... 36
What Happens in Case of Death? ... 37
Who Sells Retirement Income Options? ... 38
How Do You Choose an Option? ... 38
Calculation of RRSP Deduction Limit ... 39

RRSP

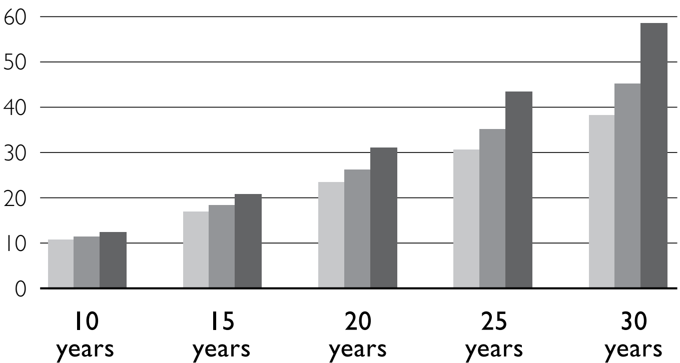
What is an RRSP?

A Registered Retirement Savings Plan is a government approved plan through which you save money for your retirement years. Your contributions, within limits, are tax deductible, and the income earned is tax sheltered. You can have any number of plans.

What Does an RRSP Mean to You?

You are investing money when you can most afford it during your peak earning years – to build up a comfortable retirement fund.

The following graph shows the amount you could accumulate by annual RRSP contributions of $1,000 at the beginning of each year, assuming constant interest rates of 1.5%, 2.5% and 4% p. a.



Not only do you invest some money that would otherwise be paid in taxes, but the earnings of your plan are not taxed until you withdraw them. Since 100% of these earnings can be reinvested and compounded, the growth of your RRSP increases rapidly over the years, as the above graph shows.

Your retirement savings will also increase significantly if you make each RRSP contribution as soon as allowed, for example, early in the year.

What Happens at Retirement?

The first stage of an RRSP is to accumulate retirement savings. The next stage is to provide retirement income. Your accumulated savings may be invested in a variety of options to provide a retirement income which can continue for life or to age 90. Only the retirement income payments are taxed each year as you receive them, thus spreading the taxation of your accumulated savings over your retirement years.

Who is Eligible to Contribute?

Anyone with "earned income" subject to Canadian taxation, including non-residents, may contribute to an RRSP. Even if you are not taxable, you should file a tax return to report your earned income and create RRSP deduction room.

You can make part or all of any contribution to a plan in your spouse's or common-law partner's name. You, as the contributor, are still entitled to the tax deduction. Contributions can be made until the end of the year in which the planholder's 71st birthday occurs. **An over-contribution (see page 10) can be carried forward beyond this year and deducted in subsequent years providing you have earned income on which to base the deduction.**

Definitions of Spouse/Common-law Partner

Income tax legislation defines the term "spouse" to be a person of the opposite sex who is a party to a legal marriage.

The term 'common-law partner' is defined as two persons, regardless of sex, who cohabit in a conjugal relationship and who have cohabited throughout the 12 month period that ends at that time. This period can be less than 12 months if both partners are the natural or adoptive parents of the same child, or if one common-law partner has a child who is wholly dependent on the other for support and over whom the other has custody.

The term "common-law partner" does not apply if at the particular time the individuals were separated for 90 days or more due to a breakdown of the conjugal relationship.

What is Earned Income?

Your RRSP deduction is based on your prior year's earned income. The following qualify as earned income:

- salary, wages, bonuses and taxable fringe benefits (minus union or professional dues and employment expenses claimed as deductions)
- taxable wage loss replacement or long-term disability income resulting from employment
- Canada Pension Plan disability benefits
- Amounts received under the *Wage Earner Protection Program Act*
- net income from self-employment (minus current year business losses)
- net rental income from real estate (minus current year rental losses)
- taxable alimony or maintenance payments received
- royalties of an author or inventor
- net research grants

NOTES:

1. *Earned income must be reduced by deductible alimony or maintenance payments.*
2. *Interest, dividend, capital gains income, and E.I. benefits, do not qualify as earned income.*
3. *Income which is not taxed, such as Workers' Compensation and welfare benefits, cannot be used as earned income.*

A worksheet is provided on page 39 of this booklet to assist you in calculating your earned income. CRA also provides a form for the calculation of earned income in its Guide T4040 RRSPs and Other Registered Plans for Retirement.

RRSP Deduction Limits

Your Notice of Assessment from CRA, received after filing your tax return, will state your RRSP deduction limit for the following year. At certain times of the year, you can also phone the CRA TIPS line listed in your telephone directory to confirm your deduction limit. The calculation of the amount will depend on whether you are a member of a pension plan, and if you are, the type of pension plan.

Your RRSP deduction limit (preceding paragraph) does not include special transfers to your RRSP (see page 5).

NOTE: The amount of RRSP contributions you can deduct from your income ("RRSP deduction limit") may be less than the amount you can contribute (see Over-contributions, page 10). Employer contributions made to an RRSP on your behalf form part of your RRSP contribution.

The worksheet on page 39 of this booklet may enable you to calculate your RRSP deduction limit.

CAUTION: Before making any RRSP deduction, make sure you will still be fully utilizing your available tax credits for the year.

Maximum Deduction

The maximum RRSP contribution you may deduct for the current year is:

- 18% of your earned income for the prior year, up to the maximum amount for the current year; MINUS Your "Pension Adjustment" (PA)* for the prior year and "Past Service Pension Adjustment" (PSPA)** PLUS Your "Pension Adjustment Reversal"(PAR)***

***** The present amounts are:**

		Earned Income (in prior year) for maximum
2010	$22,000	$122,222
2011	$22,450	$124,722

After 2011, this amount will be indexed by the average increase in industrial wages as published by Statistics Canada.

* *Your PA for the prior year should be on your T4 slips for that year. It reflects the value of future benefits arising from membership in a registered pension plan (RPP) or deferred profit sharing plan (DPSP). If you were not a member of a RPP or DPSP in the prior year, your PA is zero. If you were a member of a "money purchase" RPP or a DPSP, the PA is the total contributions to the RPP or DPSP in respect to the prior year by you, or on your behalf by your employer, union, etc. If you were a member of a "defined benefit" RPP, the PA is determined by a complex formula. You may wish to ask your employer how it is calculated.*

** *"Uncertified PSPA", or an upgrade to a pension plan, affects RRSP deduction limits for the following year. "Certified PSPA", or a pension buyback for an individual, affects the year of buyback or the year the information is sent to CRA.*

*** *A Pension Adjustment Reversal (PAR) may arise if you are a member of a defined benefit RPP and the pension is not vested when you terminate your employment.*

The greater the future benefits provided by your pension plan, the less you will be able to deduct as RRSP contributions. This addresses the main objective of the Retirement Savings legislation – to create equality in the tax-sheltered retirement benefits available to all taxpayers, regardless of their type of pension plan, or whether they are self-employed, or employed but have no pension plan.

Special Transfers to Your RRSP

In addition to your RRSP deduction limit, there are a number of special deposits you can make to your RRSPs.

Lump Sum Transfers

You can transfer lump sums DIRECTLY from a Registered Pension Plan or a Deferred Profit Sharing Plan (DPSP) to **your** RRSP.

You can transfer amounts DIRECTLY from another of your RRSPs (see page 16) or from your RRIF (see page 30) to your RRSP.

RRIF Payments in Excess of Minimum

Until the end of the calendar year in which you turn 71, you can transfer DIRECTLY to an RRSP in your **own name** up to 100% of any payment from your RRIF in excess of the mandatory minimum payment amount for the year. CRA form T2030 can be used for this purpose.

Retiring Allowances

A retiring allowance is a lump sum or sums paid to you by your employer, at or after your termination, in recognition of your loss of employment. Accumulated sick leave credits paid qualify under this definition, but holiday pay, death benefits and pension benefits do not. The portion of a retiring allowance eligible for sheltering in **your own** RRSP can either be transferred directly (no income tax deducted), or up to 100% can be contributed in the year of receipt or within 60 days thereafter. No portion of a retiring allowance can go to an RRSP in your spouse's name.

The maximum retiring allowance which can be sheltered is:

- $2,000 for each full or partial calendar year of service with your current employer prior to 1996, plus

- an additional $1,500 for each full or partial calendar year of service prior to 1989 with your current employer, in which you were not a member of a pension plan or DPSP, or years for which your employer's contributions to such plans have not vested in you.

The transfer of a retiring allowance to an RRSP does not affect your RRSP deduction limit for that year.

RESP Accumulated Income

Provided the RESP subscriber has sufficient RRSP contribution room and is a Canadian resident, she/he can transfer up to $50,000 of accumulated income from an RESP to an RRSP in the name of the subscriber or to a spousal RRSP in the name of the subscriber's spouse.

Any of the following conditions must be met:

- the RESP must have been in existence for at least 10* years and all beneficiaries of the Plan are deceased, or all living individuals who are or were beneficiaries under the RESP have attained the age of 31 years and are not pursuing post-secondary education, or
- the payment must be made in the 35th year following the year the Plan was entered into, or
- each individual who was a beneficiary under the Plan must be deceased when the payment is made.

Only amounts transferred within the subscribers RRSP deduction limit and deducted in that year will avoid taxation. There is a special 20% surtax on excess accumulated income withdrawn by the subscriber.

* *The "10 year" and "age 21" rules may be waived in special circumstances.*

Contributing to RRSPs in Your Spouse’s Name

NOTE: Throughout this booklet:

- *the term spouse can also be read as common-law partner (see definition on page 2)*
- *the term spouse in the locked-in pension information also includes other individuals who have been given similar rights under applicable pension legislation*
- *reference to spousal plan includes common-law partner plan*

Part or all of your RRSP deduction limit (see page 3) can be contributed to RRSPs for your spouse.

Any amounts you contribute to RRSPs for your spouse are subject to an attribution period. (See **Withdrawals from spousal RRSPs**, page 17.)

If one spouse will be in a higher tax bracket in retirement, as much of the RRSP funds as possible should be accumulated in the name of the spouse who will be in the lower bracket. The income eventually created from the funds will then be taxed at that spouse’s lower tax rate.

To set up a spousal RRSP, your spouse applies for a plan in his or her name, even though your spouse may not have any earned income. Although you make the contributions to the plan, the assets of the plan belong to your spouse.

Even if you are over 71, you can contribute to an RRSP for your spouse until the end of the calendar year in which your spouse turns 71.

If your spouse also wishes to contribute to an RRSP based on his or her own income, a plan separate from the spousal plan is strongly recommended.

One final note – having RRSP funds in both spouses’ names will ensure that both of you can qualify for the pension income credit by age 65 (see page 9).

Removal of Contributor Detail Following Breakdown of Marriage/Common-law Partnership

CRA will permit the removal of the contributor detail following relationship breakdown. You must request the removal of the contributor's name on your RRSP contract. In addition, you are required to provide written confirmation that:

- you are no longer living with the contributor due to relationship breakdown;
- there were no spousal contributions made to any spousal RRSP in the calendar year you are making the request, nor in the two immediately preceding calendar years; and
- you have not withdrawn funds from the particular RRSP in the current calendar year.

Carry Forward Unused Deduction Room

If you don't claim your maximum RRSP deduction, you can carry forward the unused deduction room indefinitely. This applies whether or not you actually make a contribution. Your Notice of Assessment from CRA records any cumulative deduction room in determining your maximum RRSP deduction for the current year.

If you don't have the cash to contribute now, you can make larger catch-up contributions in future years when you have the cash available. But remember, you maximize your retirement savings by making each RRSP contribution as early as possible.

Carry Forward of Undeducted Contributions

If you have the cash to contribute now, but expect your income to be taxed at a higher rate in the future, you can contribute now and claim the deduction in a future year or years. This strategy is not penalized as an over-contribution as long as your contributions are within your deduction room. And it has the advantage of tax-sheltering the earnings on your contribution.

The official tax receipt should be filed with your tax return in the year of contribution, even if not deducted, and the amount reported on Schedule 7 of your tax return.

Pension Income Credit

The pension income credit is a federal income tax credit on qualified pension income (see below). The maximum pension income credit is $2,000. In 2009, the maximum pension income credit was $300 ($2,000 x 15% lowest tax bracket.) Provincial income tax rules closely parallel the federal calculation and will save you an additional amount of provincial tax. The total tax reduction depends on your province of residence.

Amounts that DO qualify for this credit

At any age:

- periodic payments from a pension plan, super-annuation plan or VBA including foreign pensions taxable in Canada

If you are 65 or over in a year, or regardless of age if received as a result of the death of your spouse:

- income from a RRIF, LIF, RLIF, LRIF, SK RRIF or MB RRIF, or an annuity purchased with RRSP or DPSP funds
- interest earned on term certain (general) annuities

Amounts that DO NOT qualify

- Old Age Security
- any payments from the CPP or Quebec pension plans
- retiring allowances
- lump sum withdrawals from a pension or superannuation plan
- cash withdrawals from an RRSP

Contribution Deadline

You may contribute at any time during the year. Contributions made during the first 60 days of any year may be deducted for the current or the immediately preceding taxation year.

CRA has confirmed that if the last day of the 60-day period falls on a Saturday or Sunday, the deadline will be extended to the following Monday.

If you are contributing by mail, your application and/or deposit must be received by the plan issuer on or before the contribution deadline.

Over-contributions

Over-contributions are contributions that exceed your deduction room. An over-contribution of up to $2,000 can be made by an individual who was 18 years of age or over in the prior year, and can be carried forward indefinitely.

If you make contributions which increase your over-contribution above $2,000, you will pay a 1% penalty tax per month on the amount in excess of $2,000.

Non-voluntary (normally employer) contributions to group RRSPs based on current earnings are not taken into account until after the end of the year in which they are made. At that time, your additional deduction room for the current year will reduce the excess.

Any excess contribution you cannot deduct may be refunded without additional taxation. You must receive a refund subject to the above penalty in the year you over-contributed, in the year the Notice of Assessment for that year is issued, or in the following year. However, if CRA can prove that at the time you made the contribution you had no reasonable prospect of being able to deduct it for that year or for the prior year, and that you made part or all of the contribution with the intent of withdrawing it tax-free, they can deem the refund of the over-contribution to be taxable to you. Therefore **you should not intentionally make an over-contribution unless you are sure you will be able to use it as your RRSP deduction in one or more future years, based on earned income.**

You can carry forward an over-contribution beyond the year in which you turn 71. You can deduct part or all of it in any subsequent year within your deduction limit.

Can You Borrow for an RRSP?

Yes, but you cannot deduct interest on money you borrow to contribute to an RRSP. You should not use an RRSP as security for a loan. If you do, you could be taxed on the value of the plan.

Official Receipt

After your RRSP contribution has been processed by the RRSP issuer, you will receive an official receipt. This must be filed with your tax return for that year even if you choose not to deduct it until a later year. Financial institutions are required to report all RRSP contributions to CRA.

Who Sells RRSPs?

Credit unions, trust companies, life insurance, mutual fund companies, banks and investment dealers all sell RRSPs. While all RRSPs provide the same tax deduction, not all plans are the same. Each issuer offers one or more ways to invest your money, and the growth rates, terms, conditions and fees vary.

How Safe are RRSP Investments?

Before you invest in any RRSP, ask about deposit insurance protection. There is no insurance on mutual funds, nor on most investments commonly held in self-directed RRSPs.

Creditor Protection

In addition to RRSPs issued by insurance companies, there are a number of other options available to provide creditor protection of RRSPs and RRIFs held with other financial institutions:

- **Federal legislation**
  The *Bankruptcy and Insolvency Act* protects bankrupt individuals' RRSPs and RRIFs from creditors. To prevent abuse, RRSP contributions made in the 12-month period prior to bankruptcy will not be protected.

  It is important to note that this legislation will not prevent creditors in most provinces from claiming against RRSP and RRIF funds in cases where the annuitant has not filed for bankruptcy.

- **Provincial legislation**
  – Effective November 27, 2008, the British Columbia *Court Order Enforcement Act* was amended and now protects RRSP/RRIF funds, held by annuitants residing in British Columbia, from creditors with the exception of an enforcement under the *Family Maintenance Enforcement Act*. An enforcement process commenced prior to November 1, 2008, is not protected.

- The Manitoba *Registered Retirement Savings Protection Act* provides protection of RRSP/RRIF funds, held by annuitants residing in Manitoba, from creditors with the exception of enforcement under *The Family Property Act or The Family Maintenance Act*. Enforcement in process prior to November 1, 2007, is not protected.
- The Newfoundland and Labrador *Judgment Enforcement Act* provides protection of RRSP/RRIF funds held by annuitants residing in Newfoundland and Labrador from creditors with the exception of enforcement under the *Support Enforcement Act* or the *Support Orders Enforcement Act*, 2006. Enforcement in process prior to April 5, 2007, is not protected.
- The Prince Edward Island *Designation of Beneficiaries Under Benefit Plans Act* provides protection of RRSP and RRIF funds from execution or seizure, held by annuitants residing in Prince Edward Island, where a designation in favour of a spouse, child, grandchild or parent of an annuitant is in effect.
- The Saskatchewan *Registered Plan (Retirement Income) Exemption Act* provides protection of RRSP/RRIF funds from creditors with the exception of enforcement under the *Enforcement of Maintenance Orders Act, 1997*. If the Court determines the jurisdiction of the RRSP/RRIF annuitant to be Saskatchewan, the RRSP/RRIF will be protected from creditors.

• **Pension legislation** – In most cases, the funds cannot be attached by a third party demand. There are exceptions, however, and certain types of third party demands may be honoured. (For example, a garnishing order issued under matrimonial property legislation may be effective against locked-in funds.)

What Types of RRSPs are Available?

There are three basic types of individual plans available: Deposit Type Plans, Mutual Funds, and Self-Directed Plans. The following is a short description of each plan – but remember that plan features will vary among issuers.

Deposit-Type Plans

Deposit-type RRSPs are the most common plans. They offer familiar savings options including saving accounts, term deposits or guaranteed investment certificates.

The rate of interest may be variable, fixed or index-linked. Key choices include the term of the deposit (ranging from daily to multi-year); and frequency of interest calculations and payments to the RRSP (daily, monthly, annually, or end of term). Key considerations include the issuer's policy regarding early withdrawals (your investment may be non-redeemable for the term); and deposit insurance coverage.

Mutual Funds

There are many types of funds available. Common types are money market funds, income funds and equity funds. The first is invested in short-term securities such as treasury bills, and government and corporate notes. Income funds have the same investments from time to time, but predominantly invest in longer term bonds and mortgages. An RRSP-eligible equity fund invests primarily in Canadian stocks. There are also balanced funds which hold all three types of investments.

The funds are divided into units. Unit values are updated frequently based on the market value of the investments.

When mutual funds are held in an RRSP, income or capital gains distributions are commonly used to purchase additional units.

Since mutual fund investments do and will fluctuate in value, they don't provide a guaranteed rate of return. Mutual funds are not covered by deposit insurance. Sales fees, called front-end or back-end loads, can be charged on the acquisition or redemption of units. In addition, all mutual funds pay management fees.

Self-Directed Plan

With this kind of plan, you can make all your own investment decisions within a wide range of qualified investments. A trustee does all the administration work for you. A self-directed plan may be uneconomical for those with limited RRSP funds, because of the normal administration and transaction fees.

Self-directed plans are suitable for those with considerable investment experience and ample time to manage the funds, or for those who want all their RRSP investments within one plan.

Plans involving mortgages usually incur substantially higher fees. It is permissible to hold within your self-directed RRSP a mortgage on any property you own (non-arm's length mortgage) that is eligible for mortgage insurance. This will result in additional mortgage insurance, legal and possible appraisal fees. Generally, you should only do this with more than $25,000 of RRSP funds, and should plan for the mortgage to exist for more than 3 years.

More than one self-directed RRSP can invest in the same mortgage. Only in certain provinces can locked-in RRSPs/LIRAs (see page 17) be invested in a non-arm's length mortgage.

Group (Employer-Sponsored) Plans

Group RRSPs have become popular in recent years as more and more employers make them available to their employees. They can have all the same investment options as the other types of plans. An individual account is maintained within the group RRSP for each participating employee. A group RRSP can also provide for an employee to contribute to an account in their spouse's name. Contributions to a group RRSP by an employer form part of the employee's deduction limit.

They are also taxable income to the employee, offset by receiving an RRSP contribution receipt. You may not be able to withdraw the employer's contributions and/or your own contributions, and the income thereon, as long as you remain in that employment. Additional restrictions (such as requiring that the employer's portion be used to provide a pension at retirement) are not allowed.

Contributions to group RRSPs by employers and employees are usually voluntary. Employer contributions vest immediately. If employees contribute through payroll deduction, the income tax deducted from their pay cheque is reduced at the same time, recognizing the reduction in their taxable income.

When the employment terminates, any restrictions imposed by the employer on withdrawal or transfer of the funds from the group RRSP cease.

Income Tax Considerations

Capital gains or dividends earned in an RRSP increase its value. All of the funds eventually coming out of an RRSP must be declared as income for tax purposes. Therefore, you will eventually pay tax on 100% of any capital gains and a full rate of tax on any dividends realized within an RRSP. Compare this to investments held outside an RRSP. Only one half of capital gains would be taxed, and you would pay a reduced amount of tax on the dividends by being able to claim the dividend tax credit. A Tax-Free Savings Account (TFSA) is a registered plan that is available to tax shelter investment income and capital gains. Contact your credit union for additional information on this new registered product.

What Does an RRSP Cost?

Always be sure to ask about fees before deciding on an RRSP. Not all issuers charge fees, but many do. Here are a few of the most common charges:

Front-End Load

Many issuers sell RRSPs through commissioned salespeople. The sales costs are often deducted from your contribution. Only the net amount is actually invested for you.

Back-End Load

Instead of a front-end load, many mutual funds offer the option of a deferred sales fee if you close out the plan within a certain number of years. This can be a percentage of the original contributions or the value at redemption. The percentage usually decreases for each year you stay invested in the same group of funds, and reaches nil within a maximum of 10 years.

Management Expense

This is an annual fee paid by the mutual fund to cover administrative costs including trustee fees, investment advisor fees and the cost of government reporting. Over a number of years, this can represent a significant reduction in the net yield from your plan.

Other Fees

Many issuers charge a flat fee on RRSP withdrawals, or if you transfer an RRSP to another issuer.

What Should You Look for in an RRSP?

Look for the plan that has the best potential return for the risk you are prepared to take.

If there are fees involved, take them into account in comparing the anticipated annual growth. Remember, a front-end load reduces the amount invested.

If for any reason you prefer a short term investment, make sure that your plan can be terminated quickly and at little or no cost.

To compare the earnings on guaranteed type RRSPs, don't look just at interest rates. Ask for the net annual yield.

The more you know about your RRSP before you invest, the better.

Benefits and Advantages

Under section 146(2) (c.4) of the *Income Tax Act*, an RRSP issuer cannot give you any benefits or advantages that are "conditional in any way on the existence of the plan". Allowable benefits are generally limited to the provision of administrative or investment services. Any other allowable benefit must go into your RRSP, and not to you or to a person with whom you are not dealing at arm's-length.

Can You Transfer Your RRSP?

The *Income Tax Act* allows you to transfer your RRSP tax free between issuers at any time. However, if your RRSP investments are non-redeemable, the issuer may not permit a transfer until the term expires. The transfer must be made directly from one issuer to the other.

RRSP Transfers Following Breakdown of Marriage

If RRSPs are included in property to be divided between spouses (as defined on page 2) on breakdown of the relationship, all or part of an RRSP may be transferred between them without income tax consequences. The transfer must be made pursuant to a court order or a written separation agreement, and CRA form T2220 must be completed to document the transfer. Transfers will be reported on a T4RSP issued in the name of the Annuitant. This is for reporting purposes by the financial institution to CRA and the annuitant is not required to file the T4RSP with his/her tax return.

Can You Withdraw Funds?

Funds in most RRSPs can be withdrawn in whole or in part, depending on the original conditions at the time the plan was established. The money you withdraw is taxable and will be reported on a T4RSP by the issuer of your plan.

Locked-in RRSPs/LIRAs/RLSPs

These are RRSP contracts that contain funds transferred from Registered Pension Plans (RPP) that are subject to pension legislation. The Locked-in RRSPs are available for pension funds that are federally regulated and pension funds governed under the pension jurisdiction of British Columbia. The LIRA is available for all other provincial pension jurisdictions. The RLSP is a Restricted Locked-in Savings Plan that is available under the Federal *Pension Benefits Standards Act, 1985*. A transfer from an RPP to an RLSP is not permitted. The RLSP can only accept funds from a Restricted Life Income Fund (RLIF).

Withdrawals from a Locked-in RRSP/LIRA/RLSP are normally not permitted. There may be a minimum age restriction to convert the funds to a retirement income option and there may be restrictions to purchase a life annuity. Some pension jurisdictions will allow you to purchase a Life Income Fund (LIF) or a Locked-in Retirement Income Fund (LRIF) as an alternative to a life annuity. Saskatchewan pension legislation contains a SK RRIF as a retirement income option to replace LIF and LRIF (see page 34). Under the Federal *Pension Benefits Standards Act*, 1985, the Restricted Life Income Fund (RLIF) is available in addition to LIF.

Withdrawals from Spousal RRSPs

There are special rules for withdrawals from spousal plans. If you have contributed or contribute to any **spousal** plans in the year of a withdrawal, or in either of the two preceding years, the lesser of the funds withdrawn or the amount you contributed during this period will be taxable in your name. This is commonly referred to as the 3-year attribution rule.

Contributions within these three years are deemed to be the first funds withdrawn, regardless of whether the funds withdrawn were actually contributed prior to the attribution period. If the amount withdrawn is more than the amount contributed by you within the 3-year attribution period, the excess is declared by your spouse.

To ensure a withdrawal is taxable to the registered owner and not the contributor, YOU SHOULD WAIT UNTIL THE THIRD TAXATION YEAR AFTER THE LAST CONTRIBUTION TO ANY SPOUSAL PLAN.

Form T2205 is available at the Taxation Services Offices to help determine who is taxable.

The attribution period terminates on the death or non-residency from Canada of either party, or upon the legal separation of the spouses.

It also terminates if the RRSP funds are transferred to purchase an annuity. It does apply if they are transferred to a Registered Retirement Income Fund (RRIF) and more than the mandatory minimum payment amount is taken from the RRIF in any of the 3 years. The amount in excess of the mandatory minimum payment, to a maximum of the contributions within the 3 years, would be taxed in the hands of the contributor.

The Home Buyers' Plan

Each eligible RRSP holder can withdraw, without immediate taxation, up to $25,000* to be used as part of a downpayment for a qualifying residence. Income tax will not be paid on any portion of the withdrawal repaid to an RRSP before or during the 15 year repayment period explained on page 21. The repayments will not be tax deductible.

** The 2009 Federal Budget increased the HBP maximum withdrawal from $20,000 to $25,000 effective January 28, 2009.*

NOTE: Throughout this booklet:

- *the term spouse can also be read as common-law partner (see definition on page 2)*
- *the term spouse in the locked-in pension information also includes other individuals who have been given similar rights under applicable pension legislation*
- *reference to spousal plan includes common-law partner plan*

For First-Time Home Buyers

The Home Buyers' Plan (hereafter referred to as the Plan) can only be used by first-time home buyers. An individual qualifies as a first-time buyer if, at the time of the withdrawal(s) under the Plan and the four previous calendar years:

- the individual did not own a home that was the individual's principal place of residence, and

- if the individual is/was married or in a common-law relationship during the above-noted time period, the individual did not live in a home that was owned and occupied by the present spouse. However, use of the Plan by an individual's spouse prior to the marriage/ common-law relationship does not in itself disqualify the individual from participating; i.e. if the home then acquired has not been occupied by the individual during the marriage/common-law relationship.

An individual may participate in the Home Buyers' Plan more than once if all previous withdrawals were repaid prior to the current year and they otherwise qualify under the above definition of a first-time buyer.

The first-time home buyer restriction is waived for disabled individuals or for a relative supporting a disabled individual. The disabled individual must qualify for the disability tax credit. The purpose of the Home Buyers' Plan withdrawal must be to acquire a home that is more accessible to, or better suited for the care of, the disabled person.

Definition of Qualifying Residence

To utilize the plan, you must have entered into an agreement to purchase or construct a home that:

- is located in Canada;
- was not previously owned by you or your spouse;
- will be acquired by October 1 of the year following the year of withdrawal;
- is intended to be occupied as your principal place of residence no later than one year after its acquisition.

Mobile homes, co-op units, and shares in a co-operative housing corporation also qualify.

Loss of RRSP Deductions

You will not be able to deduct any portion of an RRSP contribution that is withdrawn under the Plan within 90 days after it is contributed. For this purpose, all the contributions ever made to a particular RRSP are considered to be

withdrawn on a first-in first-out basis. For instance, if you have an individual RRSP worth $5,000 to which you make an additional contribution, and in less than 90 days you withdraw $5,000 from this RRSP under the Plan, you will still be able to deduct the contribution.

Reduced RRSPs at Retirement

Before making a withdrawal under this Plan, you should consider the loss of the compounded earnings on this amount for the period the funds will be out of your RRSPs. Even if you make the repayments as requested, there can be a substantial reduction in the value of your RRSPs at retirement.

Applying for Your Home Buyers' Withdrawal

You apply by completing CRA form T1036 with your RRSP issuer. No withholding tax will be deducted from a qualifying withdrawal.

Other Withdrawal Information

- you can withdraw from any number of RRSPs, with different institutions, as long as your total withdrawals do not exceed $25,000;
- all withdrawals must be within the same calendar year, except if you make a withdrawal within a calendar year, one or more additional withdrawals requested by you within that year can be received in the January following;
- withdrawals can be made up to 30 days after the completion of a purchase;
- withdrawals by your spouse from a spousal plan will not be attributed to you; any amount not repaid by your spouse will be taxed in your spouse's name;
- it is the financial institution's decision whether it will allow early withdrawals from non-redeemable investments;
- a withdrawal is not permitted from a locked-in RRSP, LIRA or RLSP (see page 17);
- amounts withdrawn will be reported on a T4RSP in the year withdrawn.

Repayments

You are requested to repay (to any RRSP) the amount withdrawn, without interest, in equal payments over a 15 year period commencing in the second calendar year following the year of your withdrawal(s). Repayments made in the first 60 days following a calendar year can be treated as if they were made within the calendar year. On your income tax return, you will designate what portion of your total RRSP contributions are repayments under the Plan, and therefore not deductible from income.

If you repay less than the specified amount in a year, you will be taxed in that year on the portion you did not repay. If you repay more than the amount specified in a year, but not the whole balance of the withdrawal, your required repayment in subsequent years will be reduced.

If you die or become a non-resident, the balance which has not been repaid or taxed will be taxed as a lump sum in that year. To provide relief from this lump sum taxation, upon your death your surviving spouse can take over your repayment or alternative income inclusion schedule.

Retired RRSP Holders

This Plan is attractive to retirees who qualify as first-time home buyers. Each qualifying spouse can use up to $25,000 of their RRSP funds toward the purchase of a residence. If you don't make any repayments you will be taxed, on the amount withdrawn, evenly over 15 years. However, perhaps you plan to withdraw at least this amount from your RRSPs in each of those years anyway. These withdrawals would be taxable. By utilizing this Plan, you get the use of up to $25,000 now, you pay no additional tax in the year of the withdrawal or the following year, and then you (or your surviving spouse) pay the tax with devalued dollars over 15 years thereafter.

The Life Long Learning Plans

An individual may withdraw up to $10,000 per year from his or her RRSP, without immediate taxation, to finance full-time training or higher education of at least 3 months duration for the individual or the individual's spouse.

Full-time is defined as at least 10 hours of study per week. Disabled students can qualify with part-time enrollment. Withdrawals cannot exceed $20,000 over a 4 year period.

It is the financial institution's decision whether it will allow early withdrawals from non-redeemable investments. Withdrawals are not permitted from Locked-in RRSPs/LIRAs/RLSPs (see page 17).

A tax deduction is not allowed for an RRSP contribution made less than 90 days before it is withdrawn under this provision.

You will be requested to repay (to any RRSP) the amount withdrawn, without interest, in equal payments over a 10 year period commencing in the year following the last year in which the student is enrolled full-time, or in the sixth year following the first withdrawal, whichever is earlier.

Any amount not repaid as requested will be added to the income of the planholder for that year. Special rules will apply if the RRSP funds are withdrawn and the student does not complete the educational program.

Before making a withdrawal for education, you should consider the loss of the compounded earnings on this amount for the period the funds will be out of your RRSPs. Even if you make the repayments as requested, there may be a substantial reduction in the value of your RRSPs at retirement.

You apply by completing CRA form RC96 with your RRSP issuer. No withholding tax will be deducted from a qualifying withdrawal. A T4RSP will be issued to you in the year of withdrawal.

Is There Withholding Tax?

Yes, when you withdraw money from your RRSP, government regulations require tax to be withheld as follows:

10% – on a withdrawal not over $5,000
20% – on a withdrawal over $5,000 (but not over $15,000)
30% – on a withdrawal over $15,000

Where more than one withdrawal is being made and the total amount to be withdrawn for the year is reasonably known in advance, the tax rate is based on the total of all withdrawals.

The amount of tax withheld will be reported to you on a T4RSP and should be claimed on the "Total income tax deducted (from all information slips)" line of your tax return. You should remember that RRSP withdrawals are included in your taxable income, so the tax withheld will not necessarily cover the taxes payable due to the withdrawal. On the other hand, if you are not taxable, by filing a tax return you can receive a refund of the taxes withheld.

If you are a non-resident when you withdraw funds, non-resident tax of not more than 25% will be deducted depending on the tax treaty between Canada and your country of residence.

Can You Leave Funds in an RRSP Indefinitely?

No, you must either purchase a retirement income option or withdraw your funds before the end of the calendar year in which you reach age 71.

Designation of Beneficiary

NOTE: Throughout this booklet:

- *the term spouse can also be read as common-law partner (see definition on page 2)*
- *the term spouse in the locked-in pension information also includes other individuals who have been given similar rights under applicable pension legislation*
- *reference to spousal plan includes common-law partner plan*

When Designating a Beneficiary on an RRSP or RRIF

- You may appoint one or more primary beneficiaries, as well as one or more alternate beneficiaries. Your spouse can be named as either a primary or alternate beneficiary.
- The portion of the RRSP or RRIF proceeds payable to your spouse or to a financially dependent child or grandchild may be transferred directly to another plan as permitted by the *Income Tax Act* or paid to the beneficiary.
- The proceeds of the RRSP or RRIF will be divided among the named "primary beneficiaries" who are alive at the date of your death. If all the primary beneficiaries have predeceased you, the proceeds would be divided among the named "alternate beneficiaries" who are alive at the date of your death. If none of the named beneficiaries survive you, or if none of them are willing to accept the funds, the proceeds will be paid to your estate.
- Except in those situations noted below, the estate is responsible for reporting and paying income tax on the funds. This could result in an inequitable distribution of assets if the designated beneficiaries are not the only residual beneficiaries of the estate.
- If the designation names a child under the age of majority or an incompetent individual, there may be a legal requirement that the proceeds of the RRSP or RRIF be paid to the Public Trustee or Official Guardian.
- If your designated beneficiary predeceases you, the designation on the contract does not provide for the proceeds to pass to that beneficiary's children.

Liability for Income Tax

The estate is required to pay the income tax on any RRSP or RRIF proceeds paid to your designated beneficiary. Exceptions could occur if:

1) Your spouse is designated as the sole beneficiary of the RRSP or RRIF and the entire amount is transferred to his/her RRSP or RRIF. If all these conditions are not met, a joint election by your spouse and your estate representative can be made to report all or part of the amount as income of your spouse.

2) You had financially dependent children or grandchildren at the date of your death. Provisions in the *Income Tax Act* permit the transfer of RRSP or RRIF proceeds to financially dependent children or grandchildren, and depending on the circumstances, the proceeds may be reportable as income of the child or grandchild rather than income of the deceased.

If the child is physically or mentally infirm, the proceeds can be transferred to an RRSP or RRIF. The estate would not be required to pay income tax on the amount transferred.

NOTE: If your estate has insufficient assets to pay taxes on RRSP or RRIF proceeds paid to designated beneficiaries, Canada Revenue Agency (CRA) will collect the outstanding income tax from those individuals.

Making the 'Best' Designation

The decision of when and how to make a designation is YOUR responsibility. The "best" designation is the one that meets your personal and estate planning objectives.

Careful consideration should be given to:

- **Changes in your personal circumstances**
  When you prepare a new Will or if you marry, any former Wills are revoked. Depending on the applicable provincial legislation, a designation in a Will may be revoked at the same time. A designation on a "designation form" will not automatically be revoked or changed by any future marriage or divorce. A new designation form must be completed in order to effect a change.
- **The liability for the payment of debts and taxes**
- **Pertinent provincial and federal legislation**
  Pension funds are subject to and controlled by specific legislation. If you designate a person other than your spouse (or other individual who has been given similar rights under applicable legislation) to receive the proceeds, such legislation may override and void your designation.

Whatever method of designation you select, a review is recommended when there are changes in legislation or in your personal circumstances. If you do not designate anyone or if the beneficiary predeceases you or refuses the gift, the proceeds will be paid to your estate and distributed in accordance with the terms of your Will (or under the laws of intestacy if you don't have a Will).

What Happens if You Die?

If your spouse is the beneficiary of your RRSP, or inherits these amounts under your Will, the proceeds can be transferred to an RRSP, RRIF or annuity for your spouse. He or she will not have to pay tax on the funds until they are withdrawn. If your spouse is over 71, he or she can use all or part of the funds to purchase a retirement income option.

If your beneficiary is a child or grandchild who was financially dependent on you, there are a number of options available for continued tax sheltering (see page 37).

In all other circumstances, your RRSP funds are taxed on your final tax return. The result is the same as if you had withdrawn your RRSP immediately before your death.

If a registered charity is the designated beneficiary of the RRSP in the plan or Will, the charitable donations tax credit can be extended to the estate. This extension is retroactive to deaths that occurred in 1999.

Contributions After Death

Following your death, your legal representative can arrange contributions to RRSPs for your spouse, and deduct those amounts on your final tax return. This applies to contributions for the year of death made within your RRSP deduction limit (see page 3). The contributions must be made within 60 days after the end of the calendar year of your death.

Retirement Income Options for RRSP Funds

How Does an RRSP Provide Retirement Income?

Regular contributions to an RRSP will result in a substantial accumulation of savings. When you desire income, you can invest your savings in one or more of three retirement income options. You can have any number of each option.

What Options are Available?

The *Income Tax Act* provides the following income options:

- Variable Benefit Account (VBA)
- Term Certain Annuity to Age 90 (TCA 90)
- Life Annuity
- Variable Benefit (VB) from a Money Purchase Pension Plan
- Defined Contribution Retirement Income Account (DC RIA)

NOTE: Throughout this booklet:

– the term spouse can also be read as common-law partner (see definition on page 2)
– the term spouse in the locked-in pension information also includes other individuals who have been given similar rights under applicable pension legislation
– reference to spousal plan includes common-law partner plan

RRIFs, life annuities and VBs provide an income that can last for the lifetime of you or your spouse. TCA 90s last until you or your younger spouse turn 90.

Funds which have been transferred from a pension plan are usually subject to pension legislation. At one time, you were restricted to purchasing only life annuities with these funds. Some provinces have approved Life Income Funds (LIFs) and/or Locked-in Retirement Income Funds (LRIFs) for these funds (see page 33), as alternatives. These are subject to the RRIF legislation in the *Income Tax Act*.

Effective April 1, 2002, SK RRIF was introduced under Saskatchewan pension legislation as a retirement income option to replace LIF and LRIF.

Effective March 25, 2004, British Columbia pension legislation was amended to permit LIF type payments from a pension plan.

Effective May 25, 2005, MB RRIF was introduced under Manitoba pension legislation. MB RRIF is only available to eligible LIF/LRIF annuitants. (After 2010, only available under LIF as Manitoba eliminated LRIF in 2010 – see page 34)

Effective May 10, 2006, Saskatchewan pension legislation was again amended to permit VBs (or RRIF-type payments) from money purchase pension plans.

Effective August 10, 2006, Alberta pension legislation was amended to permit DC RIA where the RPP has been amended to permit this option.

Effective June 12, 2007, Manitoba pension legislation was amended to permit VBAs (or LIF-type payments) from money purchase pension plans.

Effective May 8, 2008, Federal *Pension Benefits Standards Act, 1985 (PBSA, 1985)* Regulations was amended to include Restricted Life Income Fund (RLIF) that operates like a LIF and includes a one-time 50% unlocking option.

Effective July 12, 2010, the Federal *Pension Benefit Standards Act, 1985* was amended to permit 'variable benefits' (or LIF-type payments) under a defined contribution provision where the plan permits.

When Can You Start to Receive Retirement Income?

There is no longer any minimum required age for the purchase of a retirement income option, except with most Locked-in RRSPs and LIRAs. You must purchase your retirement income option, before the end of the calendar year in which you turn 71. You can make a contribution to your RRSP for that year as long as you contribute by December 31.

Is Retirement Income Taxable?

There is no tax consequence when transferring your RRSP funds to a retirement income option. You only report, for tax purposes, the resulting payments as received. Since the income is spread over your retirement years, so is the tax liability. If you are 65 or over in the year, your retirement income qualifies for the Pension Income Credit (see page 9) if you are not already qualified. Also, if both you and your spouse have separate retirement incomes, this splitting of income may reduce your taxes.

Neither RRIF payments nor annuity payments qualify as earned income. Annuity payments cannot be transferred to an RRSP. RRIF payments in excess of the mandatory minimum payment amount (see page 5) may be transferred DIRECTLY to an RRSP in your name until the end of the calendar year you turn 71. This might enable you to reduce the value of a RRIF to deposit insurance limits.

Withholding Tax

Income tax may be deducted from RRIF payments, but not annuity payments.

The withholding tax is at the same rates as with direct RRSP withdrawals (see page 23) based on the total amount of all scheduled payments from the RRIF that year that are in excess of the annual minimum amount. The withholding tax applies to the full amount of payment taken from your RRIF in the same calendar year the RRIF is opened. Thereafter, it only applies to the portion of a RRIF payment in excess of the mandatory minimum payment amount for the year.

When Should You Buy?

You should convert your RRSP funds to a form of retirement income if:

- you need more cash in regular periodic payments, or
- you are 65 or over in the year and need the qualification for the Pension Income Credit, or
- you will pay a reasonable rate of tax on the income now, but may be in a higher tax bracket or subject to the Old Age Security clawback in later years.

The best time to purchase annuities is when interest rates are at the peak of a cycle.

The mandatory minimum payment from a RRIF cannot be sheltered from taxation. Therefore, you should take into consideration that purchasing a RRIF before the mandatory conversion age will increase your taxable income.

Registered Retired Income Fund (RRIF)

NOTE: Throughout this booklet:

– the term spouse can also be read as common-law partner (see definition on page 2)
– the term spouse in the locked-in pension information also includes other individuals who have been given similar rights under applicable pension legislation
– reference to spousal plan includes common-law partner plan

You cannot contribute directly to a RRIF. Funds can be transferred from an RRSP, another RRIF, a Registered Pension Plan, a Deferred Profit Sharing Plan, or a commuted RRSP annuity.

Some RRIFs are similar to continuing an RRSP, with the exception that you must take some taxable payments from the RRIF. You can choose any payment level, as long as the total each year is at least equal to the mandatory minimum amount. There is no maximum payment level. With many RRIFs you can fluctuate your payments up or down above the minimum from year to year. Obviously the higher the payments you take, the sooner your funds will be depleted. RRIFs can continue for the lifetime of the holder or their spouse.

Spouse's Birthdate

You can elect to base your RRIF on your spouse's birthdate. You must make this election at the time you apply for your RRIF.

- If you choose the age of a younger spouse, your minimum payment will be lower.
- If you select the age of an older spouse, your minimum payment will be higher without triggering withholding tax at source.
- If both RRIFs are based on the same birth date, when one spouse passes away the survivor can combine two or more RRIFs into one, rather than having to continue with separate RRIFs.

If you didn't make this election when you applied for your RRIF, or you marry, you can transfer your RRIF to a new RRIF based on your spouse's age.

Minimum Payment

You don't have to take any payment from a RRIF in the calendar year it is first funded. In subsequent years, there is a mandatory minimum payment amount which changes annually based on your age (or your spouse's age if you have elected) and the total value of the RRIF at the beginning of the year.

Minimum Payment, Age Less Than 71

If your age (or your spouse's age if you have elected) is less than 71 at the beginning of the year, the minimum payment amount you must receive is calculated by subtracting the age at January 1 from 90, and dividing the result into the value of the RRIF at the beginning of the year. This formula produces an increased payment each year.

Minimum Payment, Age 71 to 77

If the age at the beginning of the year is from 71 to 77, the minimum payment depends on whether the RRIF was first funded before or after January 1, 1993.

The percentages in the first column on page 32 apply to RRIFs first funded before January 1, 1993, and to which:

- *no additional RRSP funds have been added after that date, and*
- *no funds have been transferred from another RRIF funded after that date.*

The second column applies to RRIFs first funded after January 1, 1993, or a previous RRIF that receives funds from either of the above sources after that date.

All calculations are based on the total value of the RRIF at the beginning of the year.

NOTE: The percentages for ages 60 to 69 are approximate. Where your age is less than 70, the correct calculation is 'plan value ÷ (90 – age)'.

Age	Pre-1933 RRIFs %	Post-1992 RRIFS %
60	3.33	3.33
61	3.45	3.45
62	3.57	3.57
63	3.70	3.70
64	3.85	3.85
65	4.00	4.00
66	4.17	4.17
67	4.35	4.35
68	4.55	4.55
69	4.76	4.76
70	5.00	5.00
71	5.26	7.38
72	5.56	7.48
73	5.88	7.59
74	6.25	7.71
75	6.67	7.85
76	7.14	7.99
77	7.69	8.15

Minimum Payment, Age More Than 77

From age 78 on, the following percentages are applied to the value of all RRIFs at the beginning of the year, based on the age at that time:

Age	%	Age	%
78	8.33	87	11.33
79	8.53	88	11.96
80	8.75	89	12.71
81	8.99	90	13.62
82	9.27	91	14.73
83	9.58	92	16.12
84	9.93	93	17.92
85	10.33	94 and older	20.00
86	10.79		

Investment Choices

RRIFs are available in all the same types as RRSPs (see pages 12-14), including self-directed. The actual investments in a self-directed RRSP can be transferred to a self-directed RRIF. Shorter term investments provide some protection against the future inflation of interest rates.

Other Questions to Ask

Ask about fees, deposit insurance protection and estate preservation on any RRIF before you invest. RRIFs are fully transferable between issuers.

Life Income Fund (LIF)

A LIF holds funds locked-in under pension legislation. The same mandatory minimum payments apply as with a RRIF; however, with a LIF there is also a maximum payment amount per year. LIF governed under Federal *PBSA, 1985*, New Brunswick and Ontario pension legislation, the maximum payment restriction continues to age 90. LIF governed under Alberta pension legislation, the maximum payment restriction continues to age 85. LIF governed under Newfoundland and Labrador pension legislation or Saskatchewan pension legislation, the LIF must be converted to a life annuity before the end of the year the annuitant attains age 80. LIF governed under British Columbia, Manitoba, Nova Scotia and Quebec pension legislation, the maximum payment restriction continues for the life of the contract.

Restricted Life Income Fund (RLIF)

RLIF holds locked-in funds governed under Federal *Pension Benefits Standards Act, 1985 (PBSA, 1985)*. The same mandatory minimum payments apply as with RRIF, however, with an RLIF there is also a maximum payment amount per year. Like *PBSA, 1985* LIF, there is no requirement to convert an RLIF to a Life Annuity at age 80.

Variable Benefit Account (VBA)

The *Income Tax Act* regulations were amended to permit RRIF-type payments from money-purchase pension plans. Manitoba and Saskatchewan pension legislations permit the VBA.

Locked-in Retirement Income Fund (LRIF)

An LRIF holds funds locked-in under pension legislation. It is a RRIF, non-commutable **for life**. Conversion to an annuity is not mandatory, but is an option at any time. The same mandatory minimum payments apply as with a RRIF, however, there is also a maximum payment amount per year to ensure the LRIF continues for the lifetime of the holder. An LRIF is only available under Newfoundland and Labrador pension legislation. Effective May 31, 2010, Manitoba eliminated LRIF; see **What's New** section.

Saskatchewan RRIF (SK RRIF)

The SK RRIF is available for funds governed under Saskatchewan pension legislation. Unlike the LIF or LRIF, the funds are not locked in. There is no maximum withdrawal limit from a SK RRIF. This means that all the funds could be withdrawn in one lump sum, although this would not normally be recommended. A new LIF or LRIF is no longer an option for Saskatchewan pension funds. Like the LIF / LRIF, the SK RRIF is protected from creditors. Individuals may transfer their LIRA, LIF or LRIF (governed under Saskatchewan legislation) to a SK RRIF. If the Registered Pension Plan (RPP) permits, the RPP may transfer directly to a SK RRIF.

Manitoba RRIF (MB RRIF)

The MB RRIF is available for funds governed under Manitoba pension legislation. Unlike the LIF or LRIF, the funds are not locked-in. There is no maximum withdrawal limit from MB RRIF. This means that all the funds could be withdrawn in one lump sum, although this would not normally be recommended. The MB RRIF is protected from creditors. Eligible individuals may request a one-time transfer of up to 50% of their LIF or LRIF (governed under Manitoba legislation) to a MB RRIF*. If the Registered Pension Plan (RPP) permits, the RPP may transfer directly to a MB RRIF.

* *After 2010, only available with funds under a LIF as funds under an LRIF must be converted to a LIF, or if age eligible, a LIRA on or before December 31, 2010.*

Defined Contribution Retirement Income Account (DC RIA)

The DC RIA is available for funds governed under Alberta pension legislation. The DC RIA is held with an RPP administrator and provides LIF type payments.

Term Certain Annuity to Age 90 (TCA 90)

The TCA 90 provides regular periodic payments which can continue until your 90th year. If your spouse is younger than you, the TCA 90 can be purchased to continue to your spouse's 90th year. As an alternative to an annuity with a fixed rate of return, some issuers offer TCA 90s on which the yield and payments are periodically adjusted with changes in interest rates.

Life Annuity

A life annuity provides a series of regular payments that will continue for at least the rest of your life, no matter how long you live. There are two basic forms of life annuities:

Single Life

A single life annuity with no guaranteed period gives the highest initial life annuity payments, but only for your lifetime, with no further payments after your death (see Guaranteed Payments below).

Joint and Last Survivor

This annuity provides payments for the lifetime of both you or your spouse. The payments can continue to the last survivor at the full amount, or they can reduce by any stipulated percentage on your death, or the death of either spouse. Providing for such a reduction will provide higher payments while both spouses are alive, and provide a payment stream which relates to what actually happens to living costs.

Guaranteed Payments

Any life annuity can be purchased with a guaranteed period to ensure that either you or your beneficiaries get back all of your original investment (plus full interest if you wish) even if you live only a short time. The longer the guaranteed period (it can be to age 90), the lower your payments.

In addition to the reducing Joint and Last Survivor option described on page 31, you have other options in choosing a payment stream which may suit your circumstances, including:

Integrated Life Annuity

You can integrate your RRSP annuity with Old Age Security. You will receive substantially increased annuity payments until age 65, at which time the payments will reduce by the maximum OAS entitlement at the time you purchase the annuity.

Indexed Life Annuity

This increasing income option provides annuity payments that either increase by 1, 2, 3 or 4% automatically each year, or increase based on the return of a specified group of assets. This provides you with some protection against inflating living costs. Choosing this option does, however, substantially reduce your payment in the early years.

Are There Any Risks Involved?

The RRIF and the TCA 90 are designed to repay the full investment and all earnings to you or your beneficiaries.

If your RRIF is invested in mutual funds or equities, you have the risk of losses.

With a life annuity, there is a risk that all of your capital and its earnings may not be repaid to you by the time payments cease on your death. Purchase of a guaranteed period can eliminate this risk.

In most provinces your investment in a credit union, bank or trust company RRIF or TCA 90 will be covered by the same deposit insurance fund that covers RRSP deposits.

Most life insurance companies are members of a consumer protection plan which is intended to safeguard their RRIFs, or the life annuity income, should a life insurance company fail to meet its obligations.

Can You Commute Your Retirement Income Options?

A RRIF can be terminated and the full value taken in a lump sum provided the funds are not invested in a non-redeemable term, and the wording of the contract does not prohibit commutation. Commutable annuities can also be purchased. You will have to accept a lower yield on a commutable annuity in exchange for this option.

The commuted value of a RRIF can be used, without taxation, to directly purchase an annuity. The commuted value of an RRSP annuity can similarly be used to invest in a RRIF. This flexibility might be valuable should there be further legislative changes in the future affecting the retirement income options.

If we ever again experience extremely high yields on life annuities, as in 1981, having this flexibility would allow you to convert part or all of your RRIF to the high annuity yield for the rest of your life.

The terminated value of a RRIF in excess of the mandatory minimum payment amount for the year can be transferred directly to an RRSP in your name provided you are not past the year in which you turn 71. This enables you to terminate the mandatory income from a RRIF.

What Happens in Case of Death?

With a life annuity with no guarantee, the payments cease upon death. If you purchase a TCA 90 and you die before age 90, or if you die within the guaranteed period of a single life annuity, payments can continue to your spouse for the remainder of the guaranteed payment period, or until his or her death.

With a RRIF, your spouse, if named on the plan, can take your place without tax consequence and make his or her own decision on the income and payout term, or can transfer the balance to another eligible plan.

If your estate or someone other than a spouse or a dependent child or grandchild is the beneficiary, the remaining value at that time (with a life annuity this is the discounted cash value of the remaining guaranteed payments), will be paid in a lump sum to the estate or beneficiaries. This lump sum is taxable on your final tax return.

If your beneficiary is a physically or mentally handicapped child or grandchild who was financially dependent on you, part or all of the remaining value can be transferred, without taxation, to an RRSP, RRIF or annuity in the child's or grandchild's name, or taxed in his or her name. If the beneficiary is an able-bodied child or grandchild under 18 who was financially dependent on you, part or all of the remaining value can be transferred, without taxation, to a Term Annuity to Age 18, with annuity payments taxed in the child's name over that period.

If a charity is the designated beneficiary of the RRIF in the plan or Will, the charitable donations tax credit can be extended to the estate. The extension is retroactive to deaths that occurred in 1999.

Who Sells Retirement Income Options?

All RRSP issuers can get approval to offer RRIFs and TCA 90s. Only life insurance companies offer life annuities, although they can be arranged through most insurance agencies.

How Do You Choose an Option?

Because of the wide variety and the fact that the available yields change frequently, it is wise to obtain the help of a financial advisor before selecting your retirement income option(s).

The selection of a retirement income option depends entirely on your personal situation (health, present income and tax brackets, cash requirements, desired inflation protection or estate preservation, etc.). You may often select more than one of the options to create your retirement income package.

With a RRIF you can choose your own investments and change your payment amount from time to time. Your funds may or may not last for life, depending on the payment amounts you choose. Depending on your choice of RRIF investments, your RRIF may be covered by deposit insurance.

Life annuities provide an income for life and require no ongoing decisions. In comparison to a life annuity, the TCA 90 usually provides slightly lower payments in exchange for a long guaranteed period. With a Variable Benefit Account (VBA) or Defined Contribution Retirement Income Account (DC RIA), the funds remain in the money-purchase pension plan and provide payment flexibility similar to a RRIF. The TCA 90, the VBA, the DC RIA and the RRIF provide good estate preservation; should you pass away and not leave a spouse, the remaining balance will be paid in a lump sum to your estate or other beneficiaries.

Calculation of RRSP Deduction Limit

Use Your Figures for the Prior Year:

Total employment earnings*		$_______	
Minus:			
Union or professional dues claimed	$_______		
Employment expenses claimed	(_______)	(_______)	$_______
Plus:			
C.P.P. disability benefits			_______
Net income from self-employment			_______
Net rental income from real estate			_______
Taxable alimony or maintenance payments received			_______
Royalties of an author or inventor			_______
Net research grants received			_______
Wage Earner Protection Program payments**			_______
Subtotal			_______
Minus:			
Current year loss from self-employment			(_______)
Current year rental loss from real estate			(_______)
Deductible alimony or maintenance payments paid			(_______)
YOUR EARNED INCOME FOR PRIOR YEAR			$_______
MAXIMUM RRSP DEDUCTION BASED ON EARNED INCOME Lesser of 18% of above earned income or maximum amount for current year (see page 4)			$_______
Minus:			
Your pension adjustment (PA) and net past service pension adjustment (PSPA) (see page 4)			(_______)
Plus:			
Your pension adjustment reversal (PAR) (see page 4)			$_______
YOUR RRSP DEDUCTION LIMIT FOR CURRENT YEAR			$_______

NOTES:

1. *The above DEDUCTION LIMIT can be contributed to your own RRSP, or to an RRSP for your spouse or common-law partner.*
2. *It includes RRSP contributions made on your behalf by an employer.*
3. *It does not include special transfers to your RRSP (see page 5).*

* *Including taxable wage loss replacement or long-term disability income resulting from employment, but excluding Employment Insurance or Worker's Compensation payments.*

** *Include commencing 2010.*

® HANDS & GLOBE Design is a registered certification mark owned by
the World Council of Credit Unions, used under license.
© 2010 Credit Union Central of Canada. All rights reserved.

RRSP6BXB