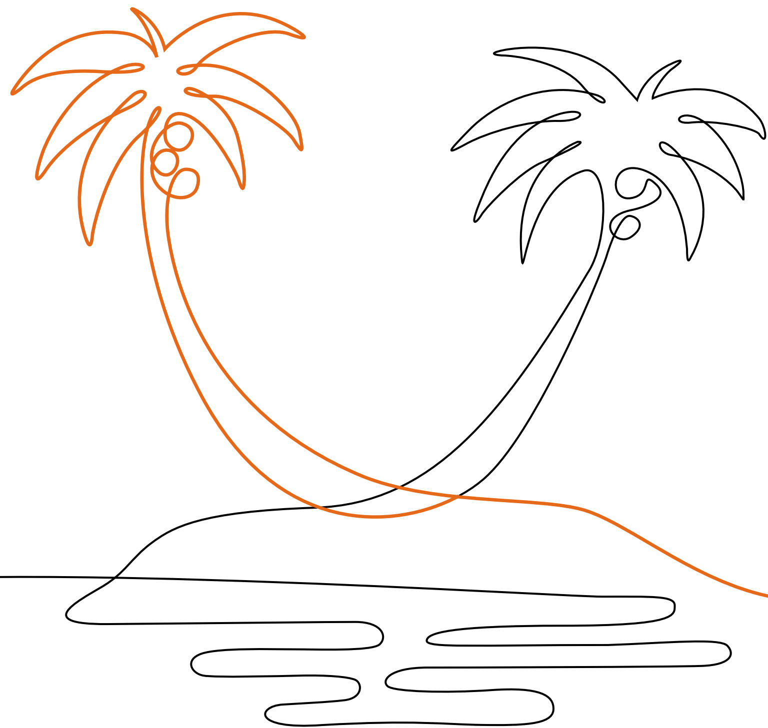
Guide to Registered Retirement Income Funds

This short guide explains how RRIFs work, how to transfer funds into them, how much you can withdraw, and the tax implications.

Qtrade Direct Investing™

Write Your Own Future QTRADE

A Registered Retirement Income Fund (RRIF) is one of the financial options available to registered retirement or pension plan holders approaching retirement. When you turn 71, your plans mature and require you to transfer or convert your investments. That's where a RRIF comes in.



Contents

Introduction **4**
What is a RRIF? 4
Who could benefit from a RRIF? 4
What are the age restrictions? 4

Opening a RRIF **5**
You can choose the investments you hold in your RRIF 6
Summary of qualified investments 6

Managing RRIF withdrawals **7**
Annual minimum amounts 7
A selection of minimum withdrawals required, according to age 7
Calculating how much you will need 7
Staggering your withdrawals 8
"In-kind" transfers 8
Self-directed RRIFs 8
Withholding tax 9
Using your spouse's age to calculate RRIF withdrawals 10

Tax implications of RRIFs and how to reduce their impact **11**

What happens to your RRIF when you die? **12**

What alternatives are there to taking out RRIFs? **12**

Qtrade Direct Investing: Write your own future **13**

How to set up a self-directed RRIF **13**

How to open a Qtrade Direct Investing account **14**
Transferring other investments to your new online account 14
Not quite with us yet? 14

For help with RRIF accounts with Qtrade Direct Investing, please speak to one of our investment representatives. Call 1.877.787.2330 or 604.605.4199, or send an email to directinvesting@qtrade.ca

.

Introduction

If you're holding investments in registered retirement savings plans (RRSPs) or pension plans, you need to have a plan for what to do with your holdings when the accounts mature. In the year in which you turn 71, the Canada Revenue Agency (CRA) requires that you close your RRSP accounts and the following year, start drawing money from the investments.

There are three ways you can do this:

1. You can choose to withdraw funds in cash, but you will be required to pay income tax on the full amount.
2. You can buy an annuity, which will provide you with a constant income stream.
3. Or, you can transfer your holdings into a RRIF. You can also divide your retirement savings into two or three of these options.

Since RRIF are one of the most popular options (because the bulk of the assets stay within a tax-sheltered investment), this guide will focus specifically on them. It will walk you through the key information you'll need to know about RRIFs and who might benefit from using them.

What is a RRIF?

A RRIF is a registered, tax-deferred financial product, just like an RRSP. But while RRSPs are designed for retirement savings, RRIFs are designed to provide steady retirement income. The investments in your RRIF are allowed to continue growing tax-free and withdrawals are treated as income for tax purposes.

After you have opened a RRIF, you can transfer cash and investments from Registered Retirement Savings Plans (RRSPs), Pooled Registered Pension Plans (PRPPs) and Registered Pension Plans (RPPs). Withdrawals begin the year after you open your RRIF and have an annual minimum that increases every year. If you choose to, you can also withdraw more than the minimum amount.

While you must close your RRSP during the year you turn 71, you can open a RRIF any time before then. One reason you might want to convert your RRSP savings to RRIF early is to help supplement your income with RRIF payments so you can defer beginning your Canada Pension Plan (CPP) and/or Old Age Security (OAS) payments. The longer you delay CPP and OAS payments (as late as age 70), the higher your benefit payments will be.

Once a RRIF is set up and your RRSP assets transferrred, you cannot make contributions to that RRIF. You can also open more than one RRIFs.

Who could benefit from a RRIF?

Anyone who has a registered retirement or pension plan can benefit from a RRIF. Withdrawing money from registered plans is costly. If you were to cash out your RRSP, for example, the full value of your investments would be added to your income for that year, and you would pay tax on that amount.

RRIFs are specifically designed to smoothly transfer your retirement or pension savings into another registered fund that allows for tax-free growth and a more affordable way to withdraw those funds.

What are the age restrictions?

You can open a RRIF at any age, but you must convert your RRSPs into a RRIF during the year you turn 71. If you want to retire early, for example at 60, and start drawing down your savings, you could transfer your RRSP funds to a RRIF as soon as you retire.

The alternative is to withdraw funds directly from your RRSP, which would mean a withholding tax of between 10-30 per cent and raising your income level for that tax year. In contrast, when you transfer tor RRSP funds to a RRIF, your savings remain tax-sheltered, and you are only required to take a minimum amount from it on an annual basis.

Opening a RRIF

You can open a RRIF through an online brokerage, robo-advisor, credit union, bank, trust company, caisse populaire, insurance company, or mutual fund company. Your RRIF doesn't have to be with the same financial institution where you hold your RRSPs.

To open a RRIF, all you need to do is contact your preferred financial services company, complete an application and set up a withdrawal schedule. You will also decide whether the withdrawal schedule will be based on your age or your younger spouse's, if applicable.

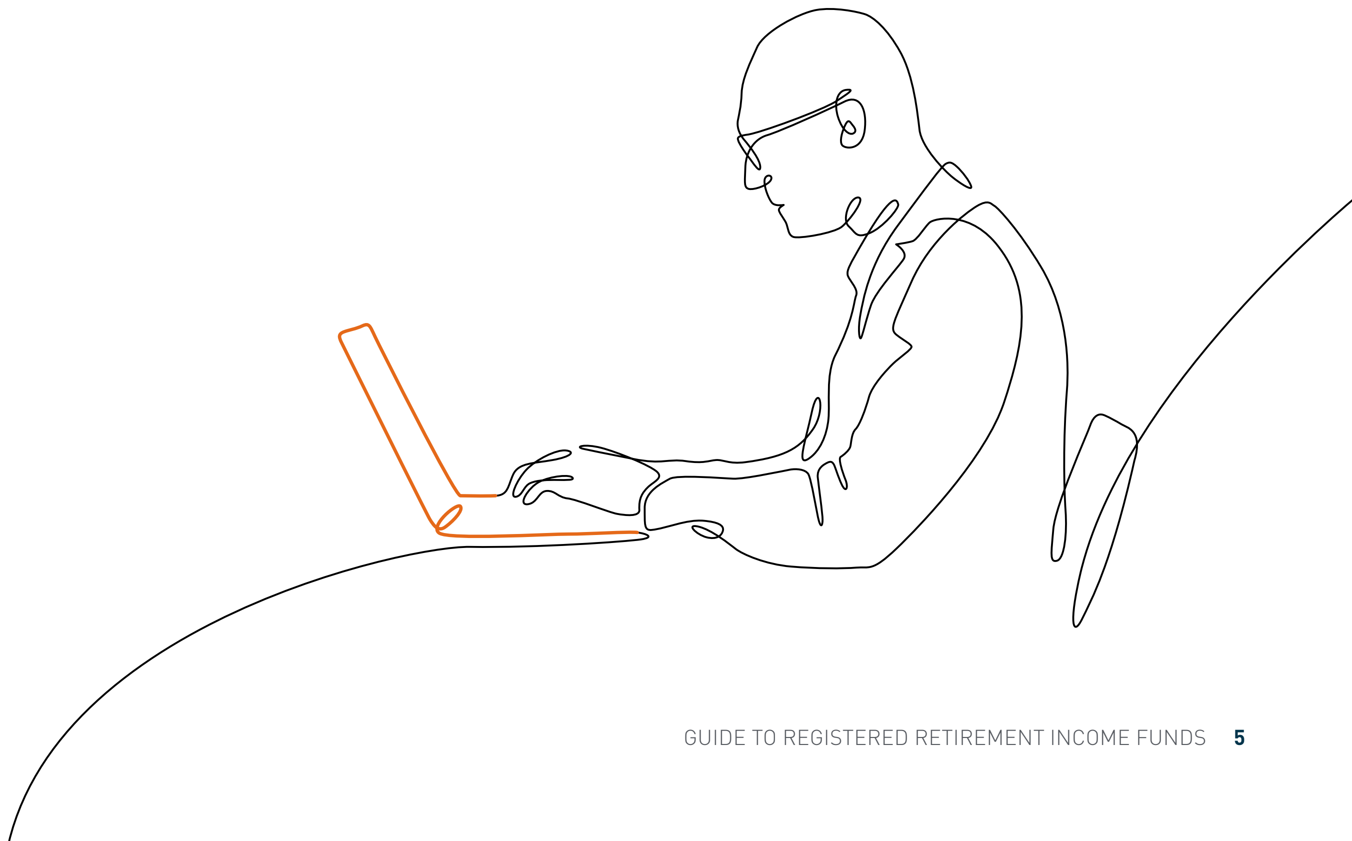
Opening an account using your younger spouse's age can be beneficial because the required withdrawal minimums could be significantly lower. This can be helpful for older spouses who don't need to withdraw the full minimum amount of their RRIF, based on their own age. It means you can keep more of your savings and pay less tax. Do your homework before making this decision, though, as it can't be changed back to your age later.

You can own more than one RRIF and, as with RRSPs, you can elect to open a self-directed RRIF. This could be a good option if you are comfortable taking control over your investments. If you prefer not to manage your own investments, a fully managed RRIF, in which a wealth professional manages the fund, is also an option.

There are some questions that are worth asking your brokerage or financial institution before opening a RRIF with them:

- Are there fees for opening a RRIF?
- What is the withdrawal frequency?
- Are extra withdrawals available at any time?
- What investment options are offered?

Once your RRIF is set up, you can't make any further contributions to it and it can't be cancelled until you pass away. However, you are able to transfer it to another RRIF account at another financial institution.



You can choose the investments you hold in your RRIF

In the same way that you can choose the investments in your RRSPs, you can also choose the investments that make up your RRIF.

Examples include individual stocks, bonds, GICs, mutual funds, and exchange traded funds (ETFs). There are some rules that apply, however, regarding the exact nature of the investments held in a RRIF. Your assets must be invested in what the CRA calls "qualified investments" or there could be tax implications. The CRA publishes guidelines on what constitutes a qualified investment.

It's important that your RRIF doesn't include any non-qualified investments, as the penalties can be high. You could be subject to 50% tax on the fair market value of the investment.

You can also take out RRIFs in U.S. dollars. There are several advantages to these, especially if you hold a lot of U.S. stocks. Dividends are not subject to an automatic conversion into Canadian dollars (and the losses that come about with foreign exchange transactions). Any sales of U.S. stocks can remain in U.S. funds until new U.S. stocks are bought, rather than being transferred into Canadian currency.

Exchanging Canadian to U.S. currency and vice versa can cost up to 2% of the total value, which can have a large impact on your investments' growth. U.S. dollar spousal RRIFs are also available from a small number of investment firms (Qtrade is one of them). Spousal RRIFs are RRIFs that have had funds transferred from a spousal RRSP. The key advantage of a spousal RRSP is to enable a couple to income split and apply tax to the spouse with the lower income.

Summary of qualified investments

The investments that can be held within a RRIF are the same as those for RRSPs:

- Cash
- GICs
- Shares
- ETFs
- REITs
- Mutual funds
- Segregated funds
- Federal, provincial and corporate bonds
- Insured mortgages or hypothecs

More details can be found at the CRA website.

Managing RRIF withdrawals

Annual minimum amounts

The year after you open a RRIF, you must start withdrawing a minimum amount, which increases slightly every year. You can withdraw more than the minimum, but never less.

If you do withdraw more than the minimum, that amount cannot be put towards your withdrawal the following year. You will also pay withholding tax on the amount withdrawn above the minimum amount, based on a sliding scale of percentage amounts.

As we mentioned earlier, you can elect to have your minimum amounts calculated using either your own age or the age of your younger spouse, if applicable. The percentage of the withdrawal for any given year is based on the balance in your RRIF at the end of the previous year.

For example, if you turned 75 this year and your balance on December 31 of last year was $500,000, your minimum withdrawal for the current year would be $29,100 (based on a withdrawal rate of 5.82 per cent).

From the age of 71 upwards, the minimum withdrawal amount is set by the Canada Revenue Agency as in the table below. Before the age of 71, the minimum amount is calculated by dividing one by (90 minus your current age).

For example, at age 55, your minimum RRIF withdrawal would be calculated as follows:

1 divided by (90 – 55 = 35) = 2.86%

A selection of minimum withdrawals required, according to age

Age	Minimum withdrawal amount
55	2.86%
60	3.33%
65	4.00%
70	5.00%
71	5.28%
75	5.82%
80	6.82%
85	8.51%
90	11.92%
90+	20.00%

A full list of minimum withdrawal amounts can be seen at the Canada Revenue Agency's website.

Calculating how much you will need

It makes sense to create a retirement budget in preparation for when you start withdrawing from your RRIFs by compiling a list of all your regular expenses.

You then need to calculate all your retirement income. This should include all non-registered investment income, plus wages if you are continuing to work, any company pensions, Old Age Security (OAS), and the Canada Pension Plan (CPP). Ideally, this amount along with your RRIF minimum withdrawal will cover your annual expenses. This will mean you don't have to withdraw more than the RRIF minimum, helping you avoid depleting your capital or paying withholding tax on the excess withdrawals.

Remember that if you wait to draw your CPP, the amount you will receive increases with each year that it is deferred, up to 42 per cent more at 70 than if you take it at 65. Similarly, if you defer OAS payments until 70, you will receive 36 per cent more than at 65. Bear this in mind when budgeting your retirement income. You also need to consider possible OAS clawbacks, so discuss this with your accountant.

For more information about how deferring CPP and OAS payments increases your benefit, please visit the CRA website.

Staggering your withdrawals

While you must withdraw a minimum annual amount, it doesn't have to be all at once. You can plan how you receive your income depending on your needs. Withdrawals can be monthly, quarterly, semi-annually, or annually.

It can be a balancing act ensuring that your investments are fluid enough to provide consistent income while still delivering adequate growth. For example, it's important to manage your accounts so that you aren't penalized for cashing in an investment early or selling other investments when they are at a low value.

If your RRIF is self-directed, ensure that enough of your assets can be easily transferred to cash, such as short-term GICs.

"In-kind" transfers

You don't have to cash in your investments to make your minimum withdrawals

"In-kind" transfers allow you to withdraw investments from your RRIF in order to meet the minimum requirements without cashing them in. If you don't need the income, you can transfer the investments "in-kind" from your RRIF to a non-registered account or TFSA (if you have contribution room) at no cost.

Assets are valued at their fair market value at the time of their transfer. So, for example, if you transferred 1,000 shares worth $8 per share, the value of the withdrawal would be $8,000 and added to your annual income.

The adjusted cost base (ACB) of your assets would be $8,000, regardless of what you originally paid for them. The ACB will be used to work out the capital gains when you come to sell the assets, if they are held in a non-registered account.

Any "in-kind" transfers can represent all or part of your annual minimum withdrawal.

Self-directed RRIFs

If you prefer to keep full control over your investments, a self-directed RRIF could be a good option. You get to make all the decisions as to how your money is invested.

You just need to be aware of the CRA's rules surrounding the qualified investments that you must adhere to, otherwise the tax penalties can be severe.

If you are knowledgeable about markets and their various assets—and if you have had a self-directed RRSP¬¬ in the past—a self-directed RRIF could make sense. It gives you full freedom (within CRA rules) to control your RRIF portfolio and manage the assets within it.

It allows you the flexibility to switch your investments at any time. It also permits you to respond quickly to any movements in the markets or changes to your personal needs.

Withholding tax

If you want to withdraw more than the minimum from your RRIF, you will be subject to withholding tax.

The tax is calculated on a sliding scale of percentages, much like that used for RRSP withdrawals. With RRIFs, however, you only pay withholding tax on the amount you take out above the minimum amount.

For example, if your minimum amount for the year is $25,000, but you elect to withdraw $28,000, you would pay withholding tax on $3,000, which would be $300 in total (or $630 in Quebec).

Here are some examples of the amounts of withholding tax that would occur. Quebec has different tax amounts and so is shown separately:

Examples of the amounts of withholding tax that would occur.

Amount withdrawn above minimum	Withholding tax rate	Withholding tax amount
$5,000	10%	$500
$15,000	20%	$3,000
$30,000	30%	$9,000

Examples of the amounts of withholding tax that would occur — Quebec.

Amount withdrawn above minimum	Withholding tax rate	Withholding tax amount
$5,000	21%	$1,050
$15,000	26%	$3,900
$30,000	31%	$9,300

Depending on your tax bracket, you may owe more or be owed a refund when filing your taxes.

Using your spouse's age to calculate RRIF withdrawals

Using a younger spouse's age can have several benefits, particularly if you don't need the full minimum withdrawal based on your age. It could keep you in a lower tax bracket, reduce the income tax you pay and help retain more capital.

In this hypothetical example, a 71-year-old RRIF holder has $1,000,000 in their account. Their spouse is 65 years old. The chart shows the increase/ decrease in capital when using the spouse's age compared to the RRIF holder's age. Figures are based on an assumed average growth in investments of 5 per cent and with withdrawals made at the end of every year.

Year	Age	Withdrawal rate	Balance at EOY	Spouse's age	Withdrawal rate	Balance at EOY
1	71	5.28%	$997,200	65	4.00%	$1,010,000
2	72	5.40%	$993,211	66	4.17%	$1,018,383
3	73	5.53%	$987,947	67	4.35%	$1,025,002
4	74	5.67%	$981,328	68	4.55%	$1,029,615
5	75	5.82%	$973,281	69	4.76%	$1,032,086

The difference in the principal of investments using the spouse's age rather than the RRIF holder's age would be **$58,805** over just five years.

Tax implications of RRIFs and how to reduce their impact

Withdrawals from RRIFs are counted as income and, as such, incur income tax. The amount you pay will depend on your minimum withdrawal level and how much other income you have. There are several ways you can minimize the amount of tax you have to pay.

Given that you can choose the age from when you start your RRIF, up until age 71, it makes sense to start withdrawing from RRIFs when you have the lowest income tax rate.

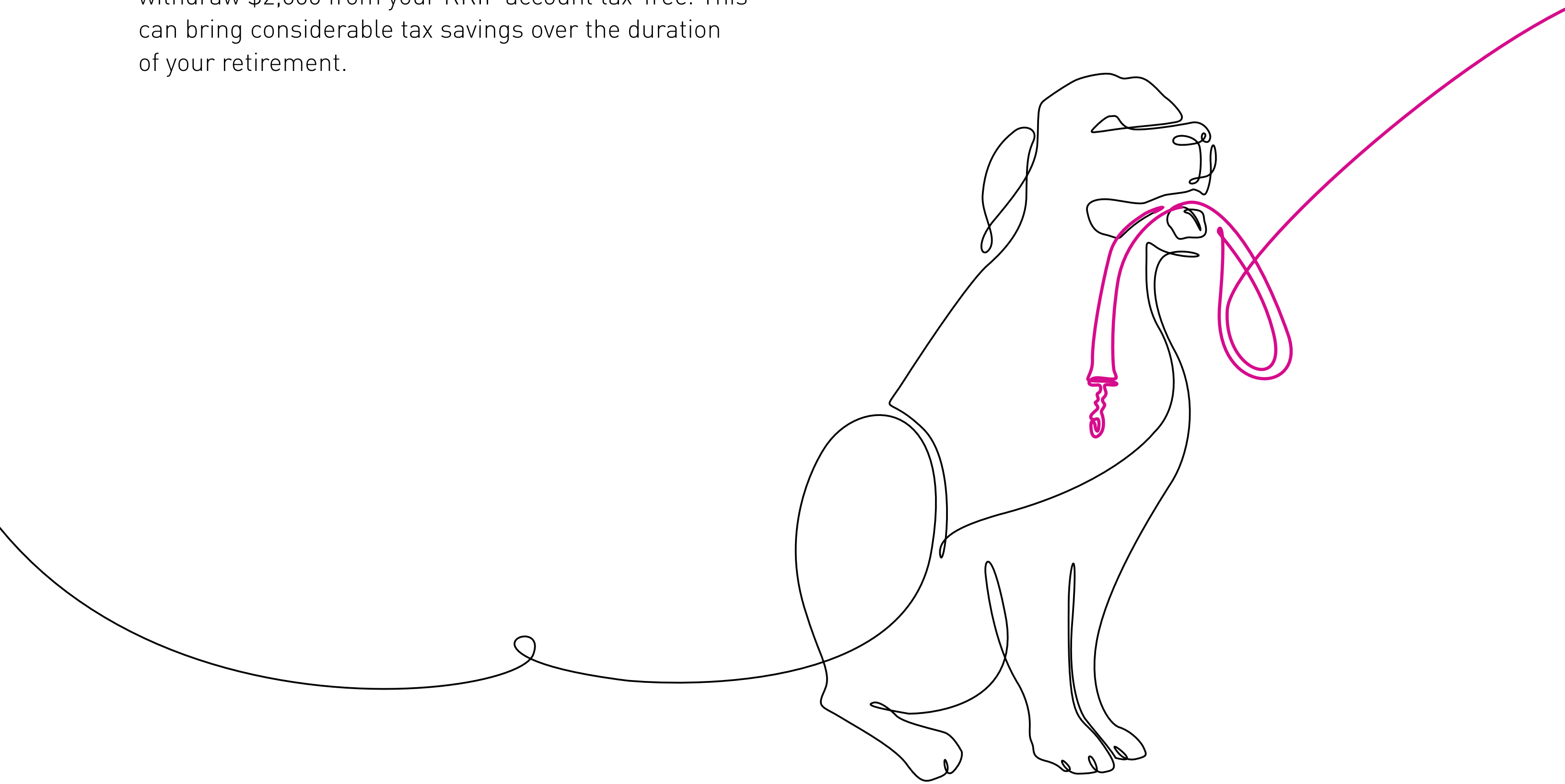
You can still contribute to your RRSP in the year you turn 71, which, if you are still working, will reduce your tax bill considerably.

Once you reach age 65, and if you don't have a company or private pension, you could qualify for the pension income amount. This tax credit allows you to withdraw $2,000 from your RRIF account tax-free. This can bring considerable tax savings over the duration of your retirement.

People aged 65 and over can split their pension income (including RRIF withdrawals) up to 50% with their spouse. If one of you has far more income than your partner, you can reduce your taxable income considerably, both on the amount to be taxed and the tax bracket.

If you have a younger spouse, using their age to calculate minimum RRIF withdrawals will reduce the amount you have to withdraw and therefore the amount of tax you will ultimately pay.

Also, if you don't need all the money you are forced to withdraw from your RRIF, placing the remainder in a TFSA will allow it to grow tax-free.



What happens to your RRIF when you die?

After your death, your RRIF can be left to your spouse without incurring any taxes. If you name your spouse as beneficiary, the money can be transferred directly into their RRSP, RRIF or PRPP. Funds can also be used to buy an eligible annuity. If you have named your spouse as your successor annuitant, they will be able to take over your RRIF with no tax implications and receive RRIF payments.

In either case, your RRIF will not be considered as part of your estate and won't be subject to probate fees.

If you have a financially dependent infirm child or grandchild, your RRIF proceeds can also be transferred to their registered disability savings plan (RDSP).

If you don't have a surviving spouse, qualified beneficiaries (children or grandchildren) can receive the amount tax-free. Other people can be named beneficiaries, or the amount can be added to your estate and distributed accordingly, but in both cases it will be taxable.

What alternatives are there to taking out RRIFs?

When it comes to converting your RRSP funds, there are few options available other than RRIFs. You can withdraw the entire amount in cash, but it is considered income. It could therefore take you into a higher tax bracket and bring a huge tax bill. Not surprisingly, few people choose this option.

The other option is to take out an annuity. This is a financial product, typically sold by insurance companies and providers, that guarantees a regular income. The payments you receive from the annuity are made up of interest on the amount invested, a return of part of your capital and a return of capital from those annuity holders who die earlier than expected.

You can receive payments monthly, quarterly, twice a year, or annually, depending on the product you buy. You can start receiving payments right away or buy a deferred annuity, where payments start at a later date of your choosing.

The amount of money that you receive will depend on a number of factors:

- The amount of money invested
- Your age and gender
- Your health at the time of taking out the annuity
- How long you want to receive payments
- The company providing the annuity and the interest rates they offer
- If the annuity will be transferred to your beneficiary or if the payments end with your death
- The type of annuity

Most annuity payments end on death, but some products have joint or survivor options, where payments continue as long as one spouse is living.

There are several annuity options:

A life annuity provides a guaranteed income until the day you die.

A term certain annuity provides income for a fixed period only. If you die before the end of the term, your beneficiaries will receive the payments.

A variable annuity provides both a fixed and variable income. The variable amount will fluctuate, depending on the performance of the investments within the annuity.

For those people who like to keep closer control over their investments and who want to leave an inheritance, annuities tend to be a less popular option than RRIFs.

Qtrade Direct Investing: Write your own future

You've got goals. For your future. For your family's future. Pursue them with the confidence that comes from expanded investor knowledge and expert insights. And from tools that help guide your investment decisions.

With Qtrade Direct Investing, you'll have the confidence to buy and sell stocks, bonds, ETFs, and mutual funds – with low trading fees.

**Execute with ease on an award-winning [trading platform](). **Qtrade has consistently been ranked among the top online investing platforms in Canada.

Realize opportunity with [industry-leading tools](). Whatever your level of investment experience, build, evaluate and test your portfolio with calculators, and tools like Portfolio Creator™, Portfolio Score™ and Portfolio Simulator™, which feature the industry's most advanced risk analysis and portfolio-building technology.

Move forward with Canada's best online trading support. You can count on Qtrade. Friendly and responsive client service. Online self-help. How-to videos. An extensive library of articles and [learning resources](). And more.

How to set up a self-directed RRIF

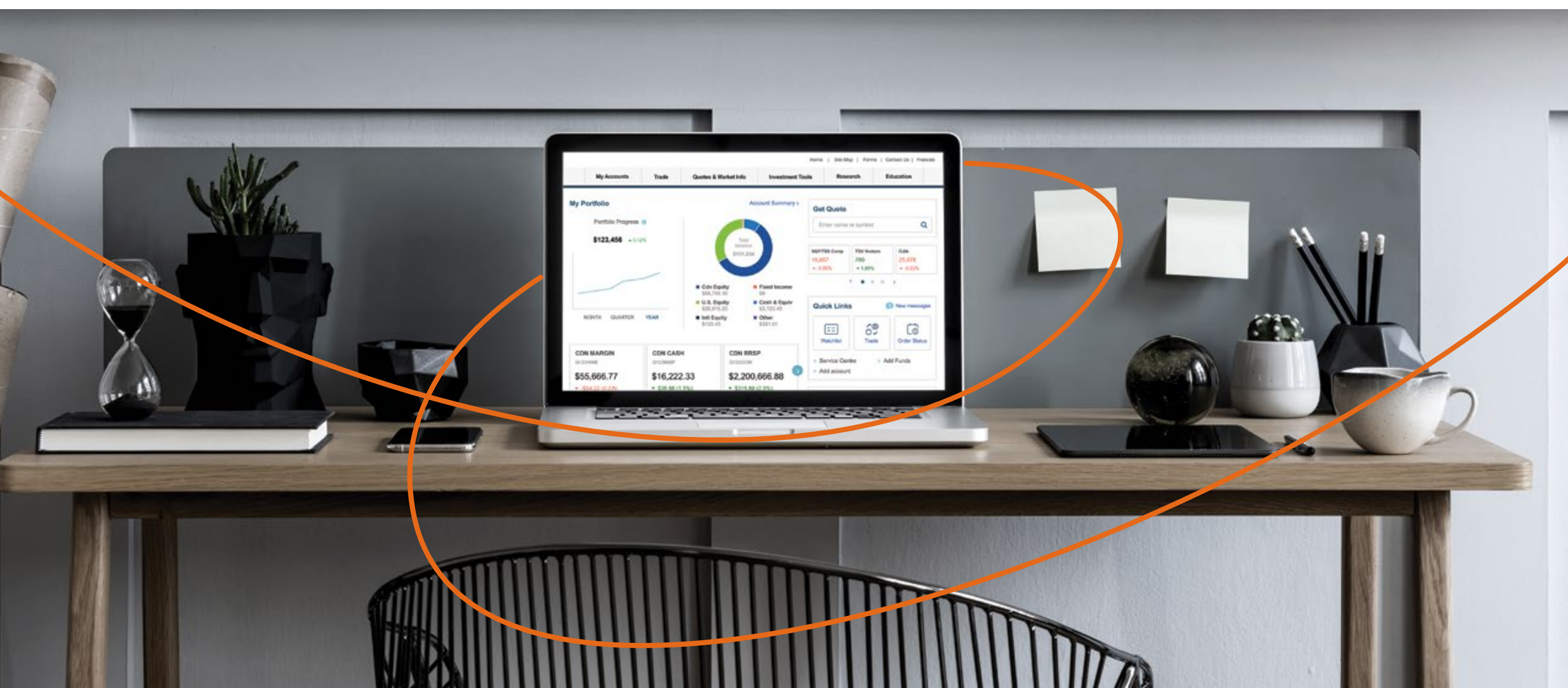
A self-directed RRIF allows you to have control over your investments.

If you have the time and skills to follow the markets, research companies and evaluate the quality of each asset, you can choose to build a portfolio of individual securities.

However, if you prefer a less hands-on approach but still want exposure to equity markets, you can also maintain control over your RRIF assets by choosing Exchange Traded Funds (ETFs), mutual funds or complete portfolio solutions.

Getting started

- Complete our online application
- Transfer your assets directly from your RRSP account
- Start investing



How to open a Qtrade Direct Investing account

There are three steps to get your account up and running, so you can start investing:

1 **Complete our online application** from your desktop or mobile device.

2 **Fund your account** using an Electronic Funds Transfer or bill payment from your banking account; or by transferring assets from another investment account.

3 **Start investing!** www.qtrade.ca/apply

You can move money into your brokerage account from your banking account via electronic funds transfer, or by using your credit union's or bank's bill payment functionality.

Transferring other investments to your new online account

It's easy to move your investments from another brokerage to your new online investing account. At Qtrade, you can complete a Transfer form as part of your new account application, then print it and send it in along with your application. If you transfer $15,000 or more from another financial institution to Qtrade Direct Investing, we will reimburse up to $150 of your transfer-out fees.

The sooner you start, the more time you will have to reach your investment goals. Open an account at www.qtrade.ca/apply.

Not quite with us yet?

Before you commit to a trading account, you can still get a closer look at how Qtrade helps you invest with confidence. Take us for a spin with a trial account and check out the features that our community of Qtraders enjoys.

Sign up for a free 30-day trial account and see where investing confidence comes from.

- Access a wide array of **research**, including sample analyst reports
- Use **screeners** to discover investment ideas
- Read current market and economic **news**
- Manage **watchlists** to track stocks
- Try out **calculators** and other investment planning tools.

Sign up today qtrade.ca

For questions about self-directed investing accounts, speak to one of our knowledgeable investment representatives. Call 1.877.787.2330 or 604.605.4199, or send an email to directinvesting@qtrade.ca.

We're here to help →

1.877.787.2330 or 604.605.4199
directinvesting@qtrade.ca

700 – 1111 West Georgia Street
Vancouver, BC V6E 4T6

Open an account at www.qtrade.ca/apply

qtrade.ca/investor

Online brokerage services are offered through Qtrade Direct Investing, a division of Credential Qtrade Securities Inc. Qtrade, Qtrade Direct Investing, and Write your own future are trade names and/or trademarks of Aviso Wealth Inc. This material is for informational purposes only. While this material has been compiled from sources believed to be reliable, Qtrade Direct Investing does not guarantee the accuracy, completeness, timeliness or reliability of this information. Information, figures and charts are summarized for illustrative purposes only and are subject to change without notice. All investments are subject to risk, including the possible loss of principal.

2200395E 06/22 AODA