Understanding your choices when converting your RRSPs

Having stayed strong to your financial plan all these years has finally paid off. Now you can start to enjoy the wealth you've accumulated for your retirement.

As you transition into retirement, there are a number of changes on the horizon:

- You'll likely have different income needs in retirement, as you'll be spending your time in different ways.
- You'll say goodbye to familiar saving vehicles like the Registered Retirement Savings Plan (RRSP) and turn your attention to retirement income products.

The Canada Revenue Agency (CRA) requires that you convert your registered retirement savings into an income stream by the end of the year in which you turn 71. You will now be faced with important decisions about what to do with your RRSP(s).

Income options such as a Registered Retirement Income Fund (RRIF) or an annuity are some of the most common choices, but which one is right for you? It's wise to take the time now to understand your options so you can make the choice that best suits your lifestyle.

Locked-in funds

If you have savings from an employer's pension plan, these savings might still be in the plan, or you may have transferred them to a Locked-in Retirement Savings Plan (LRSP) or a Locked-in Retirement Account (LIRA). Similar to an RRSP, you are required to convert these plans into an income stream by the end of the year in which you turn 71.

Corresponding plans (similar to a RRIF) include a Life Income Fund (LIF), Locked-in Retirement Income Fund (LRIF), Prescribed Retirement Income Fund (PRIF) or life annuity (depending on the pension legislation governing your locked-in plan).

Insurance

RRIF or annuity?
Which makes more financial sense for you?

For everyone, the reasons for choosing one over the other are very different. It might have to do with your lifestyle, how healthy you and your spouse are and how confident you feel about managing your own investments. There are pros and cons for each option, and each will need to be considered carefully based on your personal situation. Let's take a look at the differences between a RRIF and an annuity.

What is a RRIF?

With a RRIF, assets are held in an account much like an RRSP and will remain tax-deferred until the funds are withdrawn. They are a popular choice for converting RRSPs into an ongoing source of income as they allow you to continue to make and manage all your investment decisions. While you must make a minimum annual withdrawal from a RRIF, there is no maximum limit.

What is an annuity?

An annuity provides you with a guaranteed source of income for life, or for a set term. It's your choice. Assets remain tax-deferred until the funds are withdrawn. Annuities are a popular choice for those concerned about outliving their retirement savings or about fluctuations in the market, or for those who don't want to manage their investments.

For both RRIFs and annuities, withdrawals or payments are considered taxable income in the year they are made.

Cashing out

For savings that are in non-locked-in registered plans (such as RRSPs), you have the option of "cashing out" — i.e. withdrawing some or all of your savings. When you withdraw funds from an RRSP, they become fully taxable as income and could put you at risk of exhausting your capital much earlier than you would like. If you are interested in this option, please speak with your advisor to review your choices and discuss the tax implications of cashing out.

A side-by-side glance

Here's a look at the advantages and potential disadvantages of a RRIF and an annuity. The information below will help you to determine which product best suits your needs.

RRIF	Annuity
Advantages ■ Flexibility to change the amount of your income and make lump-sum withdrawals at any time (subject to minimum withdrawal requirements) ■ Opportunity for continued investment growth by managing your own investments **Potential disadvantages** ■ A chance you could outlive your RRIF income ■ You assume the risk and must make continual investment decisions ■ Poor returns could mean less retirement income ■ Annual income can vary based on the value of your RRIF	**Advantages** ■ A guarantee that you cannot outlive your savings ■ A guaranteed monthly income for life or a specific term ■ Less worry and work as neither you nor your spouse is required to make any investment or management decisions ■ No risk of market volatility as the insurance company assumes all investment risk **Potential disadvantages** ■ Most annuities cannot be surrendered or altered after you start taking income ■ Cash withdrawals to cover emergencies are not allowed ■ The payment amount cannot be changed

Converting your RRSPs to suit your lifestyle

We understand that retirement planning can be complex and you're facing some difficult choices. That's why we suggest you sit down with your advisor to go over your unique financial situation before you make a decision. The following chart shows how each choice suits different needs.

Guaranteed future income — Annuity	Management of your own investments and flexibility — RRIF	Balanced approach — Mix of annuity and RRIF
If you feel more comfortable with guaranteed investments like GICs, or if you are concerned about the potential effects of market volatility and fluctuating interest rates, an annuity may be a wise addition to your retirement income portfolio. If you're in good health, are likely to live a long life and may be concerned about outliving your retirement savings, purchasing a life annuity will help you maintain your lifestyle for life.	If you would like to maintain control over your investments or enjoy playing the market, a RRIF provides these advantages. By choosing to invest in stocks or equity funds, you may be able to obtain higher rates of return and take advantage of compounding. RRIFs also provide flexibility as you can take income as it's needed — although, the income you take out is subject to minimum withdrawal requirements.	If you prefer a balanced approach, another alternative is to begin with a RRIF and then convert it to an annuity (on a tax-deferred basis) at a later date. Alternatively, holding both an annuity and a RRIF can be beneficial. The annuity will provide you with guaranteed income for life while the RRIF will provide you with an income and potential investment returns. Your age and your income are the main factors — the older you are when the annuity begins, the higher the income.

Estimating your income

How much income you receive depends on a number of factors. When choosing a RRIF, annuity or both, take into consideration all of these: your age, your life expectancy, the deposit amount, the interest rates and the rate of return. The following chart shows estimated payments based on a $200,000 investment in registered funds for different types of annuities and RRIFs.

Estimated annual income based on a $200,000 investment in registered funds[1]

	Annuities[2]			RRIFs[3]		
Age	Single Life Annuity (Male)	Single Life Annuity (Female)	Joint Life Annuity	RRIF at 2% Rate of Return	RRIF at 4% Rate of Return	RRIF at 6% Rate of Return
72	$14,990	$13,515	$12,144	$14,133	$14,410	$14,687
75	$14,990	$13,515	$12,144	$12,420	$13,423	$14,486
80	$14,990	$13,515	$12,144	$9,981	$11,887	$14,110
85	$14,990	$13,515	$12,144	$7,983	$10,477	$13,679
90	$14,990	$13,515	$12,144	$6,335	$9,162	$13,157
95	$14,990	$13,515	$12,144	$4,167	$6,640	$10,489
99	$14,990	$13,515	$12,144	$1,847	$3,182	$5,424

[1] For illustrative purposes only.

[2] RBC Life Insurance Company Payout Annuities illustration effective December 19, 2012, purchased at age 72 with a 10 year guaranteed term. Upon death there is no residual value to the estate or beneficiary, unless a guaranteed term remains.

[3] RRIF minimum payout schedule — Canada Revenue Agency.

Get the most out of your retirement with the right professional advice

As you move into your retirement years, you can look to RBC Insurance® to help you create a retirement income plan that meets your financial goals. We can show you how insurance solutions can help you meet your retirement goals.

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Insurance

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