Module 2 – Old Age
→ Group or Employer Plans (Ch 1, 3, 9 and 14 of *Morneau Shepell Handbook*)

1. Registered Pension Plans (RPPs)

Terms and Conditions of Pension Plans

5. Retirement Age (continued)
   - **Early retirement**
     - Legislation allows an unreduced pension to be paid as early as age 60 or when years of service (YOS) is 30 or when age + YOS = 80
     - Otherwise, person retiring before NRA receives a reduced pension
     - Plans ordinarily allow e'ee to retire anytime within 10 years of NRA but with a reduced pension (unreduced pensions not always offered)
   - Reduced pension on early retirement calculated in one of 2 ways:
     i. An actuarial equivalent reduction
     ii. A reduction that is less than the full actuarial adjustment

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Module 2 – Old Age
→ Government Pension Programs (Ch 2 of *Morneau Shepell Handbook*)

Example – Retirement Age

- Suppose that at NRA = 65, an individual's monthly RPP benefit is $4000 (or $48,000 annual pension).
- If the reduction factor is 6% for each year of early retirement, what would your RPP benefit be if you retired at:

a) Age 63.5 years?
b) Age 61 years?

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Module 2 – Old Age
→ Government Pension Programs (Ch 2 of *Morneau Shepell Handbook*)

Example – Retirement Age

a) Age 63.5 years?

$$Annual\ Benefit = 43{,}680 = 48{,}000 \times (1 - 0.06 \times 1.5)$$

b) Age 61 years?

$$Annual\ Benefit = 36{,}480 = 48{,}000 \times (1 - 0.06 \times 1.5)$$

Note: reduction factors can be stated per month less than NRA (e.g. in this case 0.5% for each month less than 65)

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Module 2 – Old Age
→ Group or Employer Plans (Ch 1, 3, 9 and 14 of *Morneau Shepell Handbook*)

1. Registered Pension Plans (RPPs)

Terms and Conditions of Pension Plans

6. "Normal" and Optional Pension Forms
   - **"Normal" form** of pension is defined in every pension plan and this determines what benefits will be received when employee (plan member) dies after retirement
     - E.g. if 'normal form' is guaranteed pension (annuity) payments for 5 years and plan member dies 2 years after retirement, beneficiary would get 3 years of payments
     - **'Normal' form often different for members who have a spouse** → joint & survivor (J&S) with reduced benefit (to 60%) on members death would be an example of a normal form for those with spouses/partners

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Module 2 – Old Age
→ Group or Employer Plans (Ch 1, 3, 9 and 14 of *Morneau Shepell Handbook*)

1. Registered Pension Plans (RPPs)

Terms and Conditions of Pension Plans

6. "Normal" and Optional Pension Forms (continued)
   - an "**Optional Form**" of pension can be elected before pension payments start and payment amount for the 'optional' form would be determined on an actuarial equivalent basis
     - E.g.: may choose a pension with a longer guarantee period, or a J&S with no reduction (where normal is 60% on death of member)

7. Pre-retirement Death Benefits
   - Legislation now requires these benefits
   - Pre-retirement death benefits must be clearly defined in the plan document

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Today's Objectives

- To discuss terms and conditions of pension plans
- To discuss terminology and comments on pension plans

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Module 2 – Old Age
→ Group or Employer Plans (Ch 1, 3, 9 and 14 of *Morneau Shepell Handbook*)

Recall that:

Terms and Conditions of Pension Plans

- A pension plan is a legal promise and principal provisions relate to:
  1. Eligibility
  2. Pension formula
  3. Credited or pensionable service
  4. Employee contributions
  5. Retirement Age
  6. "Normal" and Optional Pension Forms
  7. Pre-retirement Death Benefits
  8. Termination Benefits
  9. Disability Benefits
  10. Inflation Protection

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Module 2 – Old Age
→ Government Pension Programs (Ch 2 of *Morneau Shepell Handbook*)

Example – Pension Formula – Integration with CPP

- An employee has pensionable earnings of $75,000 and is entitled to the maximum CPP retirement pension payable in 2020, which is $14,110. She has worked 35 years for her employer and retires at age 65.
- Her employer's pension plan goal is for employees to receive up to 70% of pre-retirement income through integration with the CPP. The pension formula is 1.3% of earnings up to the YMPE and 2% of earnings in excess of the YMPE. The YMPE in 2020 is $58,700.

a) What amount of income will the employee receive from her employer's pension and the CPP? 1.3%

b) Suppose instead that the employee is 61 years of age with 35 years of service and she is able to retire with an unreduced pension. What bridge benefit will her pension provide to age 65?

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Module 2 – Old Age
→ Government Pension Programs (Ch 2 of *Morneau Shepell Handbook*)

Example – Pension Formula – Integration with CPP

a) Income from employer's pension and CPP:

$\$14{,}110.00 = Maximum\ CPP\ Benefit$

$\$26{,}708.50 = 1.3\% \times 58{,}700 \times 35$

$\$11{,}410.00 = 2\% \times (75{,}000 - 58{,}700) \times 35$

$\$52{,}228.50 = Total\ income\ from\ pension\ and\ CPP$

– Total income from pension and CPP is 69.6% of pre-retirement income

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Module 2 – Old Age
→ Government Pension Programs (Ch 2 of *Morneau Shepell Handbook*)

Example – Pension Formula – Integration with CPP

b) Bridge benefit from age 61 to 65:

$\$14{,}318.50 = 0.7\% \times 58{,}700 \times 35$ ←*Bridge benefit to age 65*

$\$26{,}708.50 = 1.3\% \times 58{,}700 \times 35$

$\$11{,}410.00 = 2\% \times (75{,}000 - 58{,}700) \times 35$

$\$52{,}437.00 = Total\ income\ from\ pension\ and\ bridge\ benefit$

– Once the employee reaches 65 and starts receiving CPP, the bridge benefit will stop being paid

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Module 2 – Old Age
→ Group or Employer Plans (Ch 1, 3, 9 and 14 of *Morneau Shepell Handbook*)

1. Registered Pension Plans (RPPs)

Terms and Conditions of Pension Plans

8. Termination Benefits
   – The benefits and rights of the e'ee upon termination of employment other than by death or retirement must be clearly defined in the plan document
   – E'ee always gets back his/her own contributions with interest
   – If e'ee is fully vested he/she can receive either
     - A deferred annuity
     - The commuted value of the deferred annuity, which then must transferred to a locked-in vehicle
   – More on this later

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Module 2 – Old Age
→ Group or Employer Plans (Ch 1, 3, 9 and 14 of *Morneau Shepell Handbook*)

1. Registered Pension Plans (RPPs)

Terms and Conditions of Pension Plans

9. Disability Benefits
   – A clear definition of disability for purposes of the plan is required
   – Most plans have some form of short-term and/or long-term disability coverage (definitions very detailed)
   – If the employer has a benefit plan that provides short or long-term benefits, the pension plan does not need to pay benefits but the employee may continue to accrue service in the plan
   – If the employer does not have a benefit plan that provides short or long-term disability benefits, the pension plan may provide an immediate unreduced pension

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1. Registered Pension Plans (RPPs)

Terms and Conditions of Pension Plans

10. Inflation Protection
    - There is no absolute requirement for inflation protection
    - Some plans have implicit protection pre-retirement – e.g. Final average earnings DB
    - With DC plans, as long as returns rise with or exceed inflation the e'ee is protected
    - For other plan types (DB - career average plan, flat benefit plan) only 'protection' is benefit enhancements/updates
    - Many plans have/do make ad hoc adjustments post-retirement
    - Public sector plans often provide some form of post-retirement inflation protection (e.g. indexed payments), details of which would be in their plan document

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1. Registered Pension Plans (RPPs)

Terminology and Comments on Pension Plans

- Provincial legislation varies by province, many are comparable to Ontario though
- **Legislation is set to protect plan members interests**

- Vesting
  - If a plan member is **vested**, this **means that they are entitled to the portion of the pension benefit provided by e'er contributions**
  - E'ee contributions always refundable, credited with interest
  - The maximum time to be fully vested is 24 months, most plans require less time than that and/or immediate vesting
  - In Quebec, since 2001 all RPPs must have full vesting as soon as e'ee joins the plan andOntario also now requires full vesting as soon as e'ee joins plan (since 2012)

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1. Registered Pension Plans (RPPs)

Terminology and Comments on Pension Plans

- Locked In
  - **"Locked in" means that the vested entitlement must provide retirement income****, i.e., the e'ee can't withdraw any contributions or portion of the pension benefit in cash prior to retirement
    - The benefit at termination can only be received in the form of retirement income (from the pension or other locked in account)
    - In Ontario the locking-in rules tend to be the same as vesting rules
  - This means if you terminate after being fully vested (and locked in), **you cannot access your RPP money until you retire and have reached NRA, i.e., the money is 'locked in'**
    - Two benefits for $$ being locked in:
      - provides for income at retirement
      - plus creditors cannot seize locked in money

** some exceptions may be made for financial hardship

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1. Registered Pension Plans (RPPs)

Terminology and Comments on Pension Plans

- Portability
  - **Portability means that the commuted value of a terminating employee's pension may be transferred, on a locked in basis, to another RPP or some other locked in Retirement savings arrangement** (and there are no tax consequences)
  - In Ontario the commuted value can be transferred to
    - Another RPP (if the other plan allows)
    - 'Locked in' RRSP
    - Locked in Retirement Account (LIRA)
    - LIF - Life Income Fund (age 55 or higher)
    - Deferred Life Annuity (payments starting at NRA or within 10 years of NRA)

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1. Registered Pension Plans (RPPs)

Terminology and Comments on Pension Plans

- What Happens when plan member retires?
  - All pensions are payable for the life of the plan member (e'ee)
  - What is paid **depends on the "normal" pension form (or optional form if elected)**
  - If the e'ee has a spouse then
    - The pension must be a joint and survivor (J&S) annuity
    - These annuities are such that payment drops to usually 60% of the initial amount if the plan member dies first
    - E'ee can opt out of J&S annuity only if spouse signs a waiver
  - If the e'ee does not have a spouse then
    - The pension (life annuity) has no guarantee period OR
    - A guarantee period of no more than 15 years

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1. Registered Pension Plans (RPPs)

Terminology and Comments on Pension Plans

- What Happens if plan member dies before retirement?
  - This **depends on whether the plan member was vested**
  - If he/she dies before being vested
    - only e'ee contributions are refunded with interest to the beneficiary
  - If he/she dies after being vested
    - Most provinces require 100% of commuted pension value to be paid to the spouse or beneficiary (or estate) if no spouse
    - Spouse has the option to take the commuted value as:
      i. a lump sum (locked in)
      ii. deferred pension
      iii. immediate pension

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Module 2 – Old Age
→ Group or Employer Plans (Ch 1, 3, 9 and 14 of *Morneau Shepell Handbook*)

1. Registered Pension Plans (RPPs)

Terminology and Comments on Pension Plans

- What Happens if plan member dies after retirement?
  - This **depends on what pension form was elected**
  - If joint and survivor annuity was the pension form:
    - payments will drop from 100% to (usually) 60% and spouse will receive these payments for as long as they live
  - If a guaranteed life annuity was the pension form
    - if death occurs after guarantee period, nothing is paid
    - if death occurs during the guarantee period, remaining guaranteed payments paid to the beneficiary
  - If a life annuity with no guarantee was the pension form
    - nothing is paid

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Module 2 – Old Age
→ Group or Employer Plans (Ch 1, 3, 9 and 14 of *Morneau Shepell Handbook*)

1. Registered Pension Plans (RPPs)

RPP Examples - Website links

1. OMERS - Defined Benefit Plan
   https://www.omers.com/Members/myOMERS
   - Provides 2% of 'best 5 years salary' × YOS, indexed benefits

2. Western - Defined Contribution Plans
   https://www.uwo.ca/hr/form_doc/pension/doc/plan_info/plan_summary.pdf
   - Faculty or academic plan: e'er contributes 8.5% of salary, e'ee can choose 1.5 of 5.5% of salary plus make voluntary contributions (up to overall combined maximum of 18% salary)

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Module 2 – Old Age
→ Group or Employer Plans (Ch 1, 3, 9 and 14 of *Morneau Shepell Handbook*)

1. Registered Pension Plans (RPPs)

RPP Examples - Website links

1. OMERS - Defined Benefit Plan
   https://www.omers.com/Members/myOMERS
   - **A great example of a large public Defined Benefit Plan**
   - **Reviewing plan also helps pull together RPP lecture topics**
   - **Points of interest on the OMERS webpage**
     - Members handbook (28 page pdf file), plan overview section
     - Actual contribution rates not in handbook (but see website link)
   - You should have an understanding of;
     - Who is covered under the plan
     - Benefit formula, Indexing
     - Contributions (is a contributory plan)-required and voluntary
     - CPP integration
     - NRA, ERA - Reduced & Unreduced Early Retirement benefits
     - Vesting, Locked In, Termination, Portability
     - Disability and Death Benefits

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Module 2 – Old Age
→ Group or Employer Plans (Ch 1, 3, 9 and 14 of *Morneau Shepell Handbook*)

1. Registered Pension Plans (RPPs)

RPP Examples - Website links

2. Western - Defined Contribution Plans
   https://www.uwo.ca/hr/form_doc/pension/doc/plan_info/plan_summary.pdf
   - **A great example of a large Defined Contribution plan**
   - **Reviewing plan also helps pull together RPP lecture topics**
   - You should have an understanding of;
     - The fact that there are different plans for different employee groups-academic and admin plans
     - Contribution rates vary by plan and there is some consideration of YOS in factors
     - Required e'ee contributions (some choice in faculty plan)
     - Voluntary contributions
     - NRA, ERA
     - Vesting, Locked In, Termination, Portability
     - Disability and Death Benefits

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Module 2 – Old Age
→ Group or Employer Plans (Ch 1, 3, 9 and 14 of *Morneau Shepell Handbook*)

2. Group RRSPs

- This is another type of Employer Plan
- Group RRSPs have gained in popularity over the years as an alternative to RPPs
  - key reason for this is that they are not subject to pension standards legislation

- Advantages of Group RRSPs (to whom in each case?)
  - No plan text to be registered with authorities
  - No locking-in of contributions
  - More flexibility to vary contributions among plan members
  - No restriction on who can be the beneficiary
  - No mandatory joint-and-survivor pension on retirement
  - Do not have to buy a life annuity on retirement

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Module 2 – Old Age
→ Group or Employer Plans (Ch 1, 3, 9 and 14 of *Morneau Shepell Handbook*)

2. Group RRSPs

- Disadvantages of Group RRSPs
  - Employer contributions are considered salary to the e'ee and this can increase employer's payroll costs (CPP, employment insurance, etc.)
  - Employer cannot be certain that the accumulated funds in a group RRSP will be used by the e'ee to provide a retirement income
  - Employer contributions are immediately vested

- For an employee, Group RRSPs have advantages over Individual RRSPs including the fact that
  - Group RRSP contributions are done by payroll deduction (convenience)
  - E'ee can benefit from the greater purchasing power and investment opportunity of a larger group(e.g. lower investment management fees than on individual RRSPs)

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Module 2 – Old Age
→ Group or Employer Plans (Ch 1, 3, 9 and 14 of *Morneau Shepell Handbook*)

2. <u>Group RRSPs</u>

- Group RRSP's often used on a stand-alone basis (no RPP offered by an e'er), but are also used by some employers as a supplement to a non-contributory defined benefit RPP
- Many group RRSP's have very low or no e'er contributions because:
  - E'er contributions are immediately vested
  - E'er contributions are considered salary to the e'ee
- Contributions to a group RRSP are tax deductible (for e'ee) but will reduce maximum contribution room for the employee's individual RRSP

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Today's Objectives

- To discuss types of individual savings plans
- To discuss features of **Tax-Free Savings Accounts (TFSA's)**
- To discuss features of **Registered Retirement Savings Plans (RRSP's)**

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Module 2 – Old Age
→ Individual Savings Plans (Ch 14 of *Morneau Shepell Handbook*)

Recall:

- The (*traditional*) **Three Pillars of Old Age Financial Security** (aka the three-legged stool)

Pillar I – Government Plans
Pillar II – Group or Employer (E'er) Plans
Pillar III – Individual Savings Plans

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Module 2 – Old Age
→ Individual Savings Plans (Ch 14 of *Morneau Shepell Handbook*)

- An individual can save for retirement in one of two main ways:
  1. **Non-registered savings plans (NRSP's)**
  2. **Registered retirement savings plans (RRSP's)**

1. <u>Non-Registered Savings Plans (NRSP's)</u>

- Includes **all money saved outside of a RRSP or pension plan**
- **A key characteristic is that money invested comes from your after-tax income and thus this savings is not taxable when turned into retirement income** (Note: would still pay taxes on interest income, gains/losses unless money is invested in a TFSA, see below)
- An option for this type that is increasing in popularity is the Tax-Free Savings Account (TFSA) introduced in 2009
  - Note: A TFSA is a government sponsored program

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Module 2 – Old Age
→ Individual Savings Plans (Ch 14 of *Morneau Shepell Handbook*)

1. <u>Non-Registered Savings Plans (NRSP's)</u>

TFSA features and Highlights

- Introduced in 2009, they are a "tax assisted savings vehicle"
- TFSA contributions are not tax deductible, however **there is no taxes on interest earned or Gains/losses incurred on investments inside a TFSA**
- TFSAs are not designed 'specifically' to provide for retirement income but can be and this is becoming increasing popular
- **Anyone 18+ can make contributions to a TFSA**
  - Note: There is **no upper age limit** on TFSA contributions
- TFSA withdrawals in year x can be replaced in year (x+1) or later
- TFSA withdrawals made are not included as income for federal government means tested benefits

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Module 2 – Old Age
→ Individual Savings Plans (Ch 14 of *Morneau Shepell Handbook*)

1. <u>Non-Registered Savings Plans (NRSP's)</u>

TFSA features and Highlights

- TFSA contribution limits are indexed (started at $5,000 in 2009) and the current (2020) annual limit is $6,000
  - Note: 2015 limit was increased to $10,000, but newly elected government reduced it to $5,500 in 2016 to 2018
  - 2020 cumulative contribution limit is $69,500 (if eligible since 2009)

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Module 2 – Old Age
→ Individual Savings Plans (Ch 14 of *Morneau Shepell Handbook*)

2. <u>Registered Retirement Savings Plans (RRSP's)</u>

- Legislation creating RRSP's has been in place for some time
  - Enacted in 1957 (government sponsored initiative)
- **RRSP's were designed to encourage individuals to save for their retirement on a tax-sheltered basis**
- RRSPs are particularly important for:
  - Self-employed people who do not participate in an employer pension plan, AND
  - The ≈70% of the working population (private industry) who do not participate in an employer provided pension plan

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Module 2 – Old Age
→ Individual Savings Plans (Ch 14 of *Morneau Shepell Handbook*)

2. <u>Registered Retirement Savings Plans (RRSP's)</u>

Characteristics of RRSP's

- **RRSP contributions are tax deductible**
- The interest income inside an RRSP is not taxable, but **contributions, interest income and capital gains are taxable when withdrawn from RRSP** (i.e., tax is deferred until withdrawal)
- RRSP's can be set up through most financial institutions
- There is a wide range of investment choices (or financial products) that can be used for RRSP investments
- Contributions can be made as late as end of year one turns age 71
- RRSP's can be used to purchase a life annuity, a RRIF, or a fixed term annuity (more on this later)
- Registered Pension Plan (RPP) commuted values can be transferred into an RRSP (may be 'locked in' → restrictions)

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Module 2 – Old Age
→ Individual Savings Plans (Ch 14 of *Morneau Shepell Handbook*)

2. <u>Registered Retirement Savings Plans (RRSP's)</u>

TFSA's vs. RRSP's

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Module 2 – Old Age
→ Individual Savings Plans (Ch 14 of *Morneau Shepell Handbook*)

2. <u>Registered Retirement Savings Plans (RRSP's)</u>

RRSP Eligibility

- To be eligible to contribute to an RRSP in a given year you must have earned income from employment from the previous year OR have some contribution room carried over from previous years
- You can deposit money into an RRSP for:
  - yourself
  - your spouse or common-law partner (income-splitting in retirement for tax planning purposes)

Annual Contribution Limit?

- Prescribed by Income Tax Act (ITA)
- Starting point - maximum contribution that can be made (formula)?

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Module 2 – Old Age
→ Individual Savings Plans (Ch 14 of *Morneau Shepell Handbook*)

2. <u>Registered Retirement Savings Plans (RRSP's)</u>

Annual Contribution Limit

- Starting point: lesser of {18% of earned income (from previous yr), maximum contribution for that year}

Notes:

1. If you are a member of an employer pension plan, this limit will be reduced by a "pension adjustment (PA)", to take into account that you (and/or your e'er) have made tax-deductible contributions into a pension plan
2. Some individuals make their maximum contributions each and every year, but if you don't contribute the maximum amount to your RRSP in a given year, unused portion can be carried forward and used in a future year

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Module 2 – Old Age
→ Individual Savings Plans (Ch 14 of *Morneau Shepell Handbook*)

2. <u>Registered Retirement Savings Plans (RRSP's)</u>

Annual Contribution Limit

- Complete annual contribution limit formula is actually net sum of 4 components: **A + B + C - D** (often only 1st two components apply) where:

  A = unused contribution room from the previous year (carry-forward)

  B = [lesser of 18% earned income, max for that year] less PA for preceding yr where PA = pension adjustment (included on T4 slip)

  Note: both earned income and PA are based on previous year

  C = Pension adjustment reversal (PAR) for the year

  D = Net Past Service Pension Adjustment (PSPA) for the year

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2. Registered Retirement Savings Plans (RRSP's)

Annual Contribution Limit

- What is considered 'earned income'?
  - Employment income
  - Business income
  - Rental income
  - Royalties
  - Alimony or maintenance payments
  - Payments received under a supplementary unemployment benefit plan
  - Research grants

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2. Registered Retirement Savings Plans (RRSP's)

Annual Contribution Limit

- Maximum (or "RRSP $ limit") is indexed to average industrial wage (AIW)

Year	TFSA Annual Contribution Limit	TFSA Cumulative Contribution Limit	RRSP Annual Contribution Limit
2020	$6,000	$69,500	$27,230
2019	$6,000	$63,500	$26,500
2018	$5,500	$57,500	$26,230
2017	$5,500	$52,000	$26,010
2016	$5,500	$46,500	$25,370
2015	$10,000	$41,000	$24,930
2014	$5,500	$31,000	$24,270
2013	$5,500	$25,500	$23,820
2009-2012	$5,000	$20,000	

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2. Registered Retirement Savings Plans (RRSP's)

Annual Contribution Limit

- When can RRSP contributions be made?
  - Anytime during the given calendar year plus 60 days into the next year (e.g.. deadline for 2019 contributions is March 2, 2020 – extended by 2 days since February 29 falls on a weekend)

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Today's Objectives

- To discuss features of **Registered Retirement Savings Plans (RRSP's)**

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Recall that:

Annual Contribution Limit

- Complete RRSP annual contribution limit formula is the net sum of 4 components: **A + B + C - D** (often only 1st two components apply) where:

  A = unused contribution room from the previous year (carry-forward)

  B = [lesser of 18% earned income, max for that year] less PA for preceding yr where PA = pension adjustment (included on T4 slip)

  Note: both earned income and PA are based on previous year

  C = Pension adjustment reversal (PAR) for the year

  D = Net Past Service Pension Adjustment (PSPA) for the year

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Example 1 – RRSP Contribution Limit

a) Calculate the maximum "2019 RRSP contribution" that can be made for the following individual

Year	Earned Income	Max. RRSP Limit	PA Value**	RRSP Contributions Actually Made	Carry-Forward at EOY
2017	110,000	26,010	6,000	12,500	None
2018	160,000	26,230	7,000	12,500	
2019	165,000	26,500			

** reported on T4 for that year

b) How does answer change if $PA = 0$ (i.e., individual has no e'er pension)

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Module 2 – Old Age
→ Government Pension Programs (Ch 2 of *Morneau Shepell Handbook*)

Example 1 – RRSP Contribution Limit

a) Maximum contribution with PA

- 2018:

  $RRSP\ Contrib\ Limit = A + B + C - D = 0 + 13{,}800 + 0 - 0 = 13{,}800$

  where $B = \min(18\% \times 110{,}000, 26{,}230) - 6{,}000 = 13{,}800$

  $Carry\ Forward\ (after\ contrib's) = 13{,}800 - 12{,}500 = 1{,}300$

- 2019:

  $RRSP\ Contrib\ Limit = A + B + C - D = 1{,}300 + 19{,}500 + 0 - 0 = 20{,}800$

  where $B = \min(18\% \times 160{,}000, 26{,}500) - 7{,}000 = 19{,}500$

b) Maximum contribution without PA

- Answer should be $13,000 ($6,000 + $7,000) higher (i.e., $33,800)

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Module 2 – Old Age
→ Government Pension Programs (Ch 2 of *Morneau Shepell Handbook*)

Example 2 – RRSP Contribution Limit

- Based on the information below, what is the amount of RRSP carry-forward for 2019 (after all deposits made for 2018 year)?

Year	Earned Income	Max. RRSP Limit	PA Value**	RRSP Contributions Actually Made	Carry-Forward at EOY
2015	137,500	24,930	9,050		7,100
2016	132,500	25,370	9,150	Own: 8,100 Spousal: 8,100	
2017	136,375	26,010	9,670	Own: 16,300	
2018	140,500	26,230	10,200	Own: 15,300	???
2019		26,500			

** reported on T4 for that year

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Module 2 – Old Age
→ Government Pension Programs (Ch 2 of *Morneau Shepell Handbook*)

Example 2 – RRSP Contribution Limit

RRSP carry-forwards

- 2016:

  $RRSP\ Contrib\ Limit = A + B + C - D = 7{,}100 + 15{,}700 + 0 - 0 = 22{,}800$

  where $B = \min(18\% \times 137{,}500, 25{,}370) - 9{,}050 = 15{,}700$

  $Carry\ Forward\ (after\ contrib's) = 22{,}800 - (8{,}100 + 8{,}100) = 6{,}600$

- 2017:

  $RRSP\ Contrib\ Limit = A + B + C - D = 6{,}600 + 14{,}700 + 0 - 0 = 21{,}300$

  where $B = \min(18\% \times 132{,}500, 26{,}010) - 9{,}150 = 14{,}700$

  $Carry\ Forward\ (after\ contrib's) = 21{,}300 - 16{,}300 = 5{,}000$

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Module 2 – Old Age
→ Government Pension Programs (Ch 2 of *Morneau Shepell Handbook*)

Example 2 – RRSP Contribution Limit

RRSP carry-forwards

- 2018:

  $RRSP\ Contrib\ Limit = A + B + C - D = 5{,}000 + 14{,}900 + 0 - 0 = 19{,}900$

  where $B = \min(18\% \times 136{,}500, 26{,}230) - 9{,}670 = 14{,}900$

  $Carry\ Forward\ (after\ contrib's) = 19{,}900 - 15{,}300 = 4{,}600$

Year	Earned Income	Max. RRSP Limit	PA Value**	RRSP Contributions Actually Made	Carry-Forward at EOY
2015	137,500	24,930	9,050		7,100
2016	132,500	25,370	9,150	Own: 8,100 Spousal: 8,100	6,600
2017	136,375	26,010	9,670	Own: 16,300	5,000
2018	140,500	26,230	10,200	Own: 15,300	4,600
2019		26,500			

** reported on T4 for that year

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Module 2 – Old Age
→ Individual Savings Plans (Ch 14 of *Morneau Shepell Handbook*)

2. <u>Registered Retirement Savings Plans (RRSP's)</u>

RRSP Withdrawals

- You can withdraw your money at any time from an RRSP (and this is promoted as an advantage),
- BUT if you take out RRSP money before 'retirement' **any withdrawals will be taxed as income in year it is withdrawn***
  - RRSP issuer will withhold some of the tax right off the top (up to 30% of the withdrawal - this withholding tax would reduce taxes owing at annual tax filing)
  - You will have to claim the full amount of the withdrawal as income

* There are two exceptions though (e.g. two situations where you would not be taxed if you take the money out before retirement)

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Module 2 – Old Age
→ Individual Savings Plans (Ch 14 of *Morneau Shepell Handbook*)

2. <u>Registered Retirement Savings Plans (RRSP's)</u>

RRSP Withdrawals

- The two exceptions are:
  a) <u>Lifelong learning plan (LLP)</u>: Here, up to $20,000 in total can be withdrawn (tax free) from an RRSP to pay for tuition and books to go back to school full time (RRSP owner or partner) – $10,000 maximum yearly withdrawal for this purpose
  b) <u>Home buyers plan (HBP)</u>: Up to $25,000 (tax free) can be withdrawn from an RRSP and be used to purchase or build a home for first time home-owners (or a home for a related person with a disability)

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Module 2 – Old Age
→ Individual Savings Plans (Ch 14 of *Morneau Shepell Handbook*)

2. Registered Retirement Savings Plans (RRSP's)

RRSP Withdrawals

- There are rules about paying back any withdrawals (i.e., back into the RRSP) for these two exceptions. What are these rules?
  a) LLP: Allowed up to 10 years to repay the withdrawn amount beginning in the earlier of the second year after the last year that the student was enrolled in full-time studies and the fifth year after the first year an LLP withdrawal was made
  b) HBP: Allowed up to 15 years to repay the withdrawn amount
- These withdrawals have to be repaid or they become taxable

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Module 2 – Old Age
→ Individual Savings Plans (Ch 14 of *Morneau Shepell Handbook*)

2. Registered Retirement Savings Plans (RRSP's)

Turning RRSP's into Retirement Income

- Contributions may be made to an RRSP up until Dec 31st of the year one turns age 71
- RRSP funds can be transfered into a retirement income plan at any time but there is a deadline; **the latest that RRSP funds can be transferred into a retirement income plan is by the end of the calendar year of your 71st birthday**
- There are **4 options** (latter 3 being considered "tax effective"):
  a) Lump Sum cash payment
  b) Life Annuity purchase
  c) Registered Retirement Income Fund (RRIF)
  d) Annuity Certain

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Module 2 – Old Age
→ Individual Savings Plans (Ch 14 of *Morneau Shepell Handbook*)

2. Registered Retirement Savings Plans (RRSP's)

Turning RRSP's into Retirement Income

a) Lump Sum cash payment
  – This payment would be fully taxed when paid (as compared to the other 3 options, which allow transfer of RRSP money tax free to another retirement income product)

b) Life Annuity purchase
  – (Part or all of) RRSP funds used to purchase a registered life annuity
  – The life annuity provides for a specified monthly income which is guaranteed for life of individual (larger amounts purchase larger monthly payments)
  – The registered life annuity monthly payments are considered taxable income (fully taxed in the year they are received)
  – Historically (until 1978) this was only choice for RRSP funds

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Module 2 – Old Age
→ Individual Savings Plans (Ch 14 of *Morneau Shepell Handbook*)

2. Registered Retirement Savings Plans (RRSP's)

Turning RRSP's into Retirement Income

c) Registered Retirement Income Fund (RRIF)
  – (Part or all of) RRSP funds used to purchase a RRIF
  – Introduced in 1978 as a choice to allow more control over the investment of the fund
  – More flexibility in the timing of withdrawals (vs. annuities)
  – ITA stipulates what minimum monthly RRIF payments can be
    - No withdrawal is required in year RRIF is purchased, but there is a minimum annual withdraw amount requirement thereafter
    - RRIF minimum payout (withdrawal) information will follow
  – Note that higher payments (or withdraws) can be chosen

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Module 2 – Old Age
→ Individual Savings Plans (Ch 14 of *Morneau Shepell Handbook*)

2. Registered Retirement Savings Plans (RRSP's)

Turning RRSP's into Retirement Income

c) Registered Retirement Income Fund (RRIF)
  – With RRSPs money grows tax free, whereas with RRIF, money is fully taxed on withdrawal (RRIF can be viewed as a reverse RRSP)
  – A one-time election (when RRIF set-up) can be made by owner to have prescribed factors based on legal partners age

d) Annuity Certain
  – This gives a specified monthly income that is guaranteed to be made until age 90
  – The term of the annuity equals 90 less age of annuitant or can be 90 less age of the spouse

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Module 2 – Old Age
→ Individual Savings Plans (Ch 14 of *Morneau Shepell Handbook*)

2. Registered Retirement Savings Plans (RRSP's)

RRIF Minimum Payouts

$$\text{Min. Payment}_{\text{year } x} = (\text{M.V. at beginning of year})\times(\text{prescribed factor})$$

Prescribed factors (effective 2015+)

Age	Minimum withdrawal %
71	5.28%
72	5.40%
73	5.53%
74	5.67%
75	5.82%
80	6.82%
85	8.51%
90	11.92%
≥ 95	20.00%

- **If RRIF owner is < 71**: minimum withdrawal % = 1 / (90 − Y) where Y = age at b.o.y. of the RRIF withdrawal

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Module 2 – Old Age
→ Government Pension Programs (Ch 2 of *Morneau Shepell Handbook*)

Example 3 – RRIF

- Suppose at age 69, you have $800,000 in an RRSP and you decide to transfer 25% of your RRSP money into a RRIF.
- What are the minimum monthly payments for age 69, 70 and 71 and 72 that you would have to withdraw? Assume the RRIF fund earns interest at an annual rate of 6% and that the only withdrawals made are the minimum amount on each birthday.

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