

Today's Objectives

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

Module 2 – Old Age

→ Individual Savings Plans (Ch 14 of *Morneau Shepell Handbook*)

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

Module 2 – Old Age

→ Government Pension Programs (Ch 2 of *Morneau Shepell Handbook*)

Example 1 – RRSP Contribution Limit

- a) Calculate the maximum “2018 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)

Module 2 – Old Age

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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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2. Registered Retirement Savings Plans (RRSP's)

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- BUT if you take out RRSP money before 'retirement' **any withdrawals will be taxed as income in year it is withdrawn***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)

Module 2 – Old Age

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2. Registered Retirement Savings Plans (RRSP's)

RRSP Withdrawals

- The two exceptions are:
 - a) Lifelong learning plan (LLP): 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) Home buyers plan (HBP): 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)

Module 2 – Old Age

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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?

Module 2 – Old Age

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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 transferred 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

Module 2 – Old Age

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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

Module 2 – Old Age

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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

Module 2 – Old Age

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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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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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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.