BABY BOOMERS: 3 Things To Know Before Cashing Out Your RRSP

Description

If you're a baby boomer approaching retirement age, there's a good chance you have an RRSP. As you might know, at age 71, you need to either withdraw your RRSP funds, transfer them to an annuity, or put them into a RRIF. RRIFs are by far the most popular RRSP withdrawal options, as they reduce the amount of tax you have to pay on the funds.

If you've spent decades putting money into an RRSP, you want to make sure that you get the most out of it when it comes time to withdraw. To that end, there are three big things you need to know before cashing out your RRSP. Each of these points applies to anybody at any stage of their RRSP investing journey, but are especially important to keep in mind as you approach age 71.

There are mandatory minimum RRIF withdrawals

You probably already know that once you put your RRSP funds into a RRIF, you need to make withdrawals every year. What you might not know is that there are minimum amounts you need to withdraw. The mandatory RRIF minimum increases with age, starting at around 4% of your holdings when you're 71 and reaching as high as 20% when you're 95. In order to cover mandatory minimum withdrawals, it's good to hold dividend stocks like **Fortis Inc** (TSX:FTS)(NYSE:FTS), because they produce income that can cover your withdrawals without you needing to sell assets.

You pay tax on the money you take out

When you withdraw funds from your RRIF, they're treated as taxable income and taxed at your marginal rate. Accordingly, it's imperative that you actually be retired before you cash out your RRSP. If you think that for some reason you'll have to work past age 71, you might be better off putting your retirement savings in a TFSA than an RRSP, as there are no taxes on TFSA withdrawals.

If you take out more than the minimum, you'll pay withholding tax

You will pay a certain amount of tax on the money you withdraw from your RRIF, even if you're only withdrawing the minimum. However, if you withdraw more than the minimum, you'll pay an extra withholding tax, which can get pretty high. For example, if you withdraw more than $15,000 in excess of the minimum under current rules, you'll pay withholding tax of 30%.

Of course, this withholding tax will eventually be recalculated to match your marginal tax rate when you file your taxes in the next year. The deduction is simply the CRA forcing an amount to be withheld because it expects your year-end tax rate to be high. However, in the short term, when the money comes out of your account, having a big chunk of it upheld up-front can be extremely inconvenient.

For this reason, it can be good to hold high-yield stocks like **Royal Bank of Canada** (TSX:RY)(NYSE:RY) in your RRIF. With yields north of 4%, these types of stocks can produce enough income so that you don't need to withdraw extra money–assuming you've been diligent about building up your RRSP nest egg for decades.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:FTS (Fortis Inc.)
2. NYSE:RY (Royal Bank of Canada)
3. TSX:FTS (Fortis Inc.)
4. TSX:RY (Royal Bank of Canada)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing

Date
2025/09/10
Date Created
2019/03/26

Author
andrewbutton