Canada Revenue Agency: Save Taxes When Turning Your RRSP Into a RRIF

Description

The closing of the Registered Retirement Savings Plan (RRSP) is mandatory on the user's 71st birthday. You can request a lump sum payment by the end of the calendar year you turn age 71. If you prefer a systematic withdrawal of your retirement savings, you can convert it to the Registered Retirement Income Fund (RRIF).

After the conversion, you can't contribute to the RRSP anymore. You can say the RRIF is an extension of the RRSP, because you can transfer investments in your RRSP directly to the RRIF. Funds in the RRIF will likewise grow on a tax-deferred basis.

The RRSP is a savings tool, while the RRIF is a mechanism to control withdrawals of retirement income. However, the process and subsequent utilization of the RRIF are not without tax implications. It would help learn beforehand the tax consequences so there won't be unpleasant surprises when turning your RRSP into an RRIF.

Withdraw only what you need

The RRIF becomes a source of retirement income. Starting the year after establishing an account, you must withdraw a minimum amount every year. Since the Canada Revenue Agency (CRA) treats RRIF withdrawals as taxable income, create a retirement budget.

Assess your living expenses, including leisure and entertainment costs, to know how much you would need to withdraw yearly. The money will keep growing the longer you keep your investments. You contain the tax bill at the same time. Remember that RRIF withdrawals add to your total retirement paycheck.

Stick to the minimum payment

Stick to the minimum RRIF payment requirement if possible to keep your taxable income in check. By doing so, you maximize the amount of other benefits and not affect them. More importantly, you avoid the clawback of income-tested government benefits such as the Old Age Security (OAS) and Guaranteed Income Supplement (GIS).

Dividend all-star for retirees

If you have **National Bank of Canada** (TSX:NA) shares in your RRSP before converting to the RRIF, you don't need to sell or liquidate. Directly transfer the bank stock because it's a dividend all-star. The sixth-largest bank has raised dividends for 10 consecutive years and currently yields a decent 3.95%.

National Bank dominates the market in Quebec, whose economy is one of the most resilient in Canada. This $24.15 billion bank derives 55% of its revenues from the province. Other provinces contribute 25%, while the rest comes from international markets.

The bank's digital transformation is paying off, with 50% of its clients actively using National Bank's digital channels. Notably, the financial markets segment ranks first in government debt underwriting. Management hopes to achieve between 5% and 10% EPS growth in the medium term while maintaining a payout ratio of not more than 50%.

Analysts covering this super-regional bank are bullish. The price estimate in the next 12 months is $85 — an 18% jump from its current price. Year to date, National Bank investors are up by 3%.

Reduced RRIF minimum withdrawal amount

To help protect Canadians' retirement savings, the government lowered the RRIF minimum withdrawal amount in 2020 by 25%. Assuming your minimum is $10,000, the payment or withdrawal amount is down to $7,500. The reduction provides seniors who worry about exhausting their RRIF assets during the pandemic with more flexibility.

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