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The Learning Kurve

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Your Future Is Now

Prepare the transition to retirement income well ahead of time.

During your working life the federal government allows you several ways to accumulate tax-deferred money for your retirement. In the end, however, the government wants to recover at least some of the taxes you didn't pay on the earned income that built the funds. If you have a Registered Pension Plan (RPP) at your place of work, you will pay income tax on the monthly benefits paid after you retire. If you have a Deferred Profit Sharing Plan (DFSP), you will pay tax on your withdrawals. If you have a Registered Retirement Savings Plan (RRSP), you must ultimately create a Registered Retirement Income Fund (RRIF) from which you must withdraw taxable amounts according to a schedule. You can also create or add to a RRIF from your DFSP and your RPP if they allow lump-sum withdrawals. These withdrawals can be made tax free if the funds are rolled over into a RRIF.

If you are considering retirement within the next five years, the following may help in determining your financial strategies. The focus here is on the rollover of the RRSP.

1. There is no minimum age for setting up a RRIF. It must, however, be set up no later than the end of the calendar year in which you turn 71. You can also make your last eligible contribution in that same year. You convert the RRSP to a RRIF by asking your financial institution to fill out the forms and make the registration for you. When that is done, the balance of the RRSP is simply rolled over into the RRIF. Compulsory withdrawals from the RRIF begin the following year. Funds remaining in the RRIF continue to be tax sheltered until withdrawn.

2. Once a RRIF is established, additional contributions cannot be made.

3. Withdrawals are made according to a schedule established by the Canada Revenue Agency (CRA). You do not have to use your own age as the basis for the calculation of the withdrawal rates. For instance, if you are 71 and your spouse is 66, you can choose your spouse's birth year. Since early withdrawals are made at a lower rate, it is advantageous to use the spouse's birth year. If you are going to use the age of a younger spouse, you must inform the financial institution before the first withdrawal. You cannot make a change after that. A younger base age may allow the older spouse not only to reduce taxable income but also to avoid the clawback of Old Age Security that begins when total annual income exceeds a threshold amount set by Service Canada. For 2013 this amount is $70,954.

4. A RRIF can hold the same types of investments as your RRSP. Your non-cash RRSP holdings can be transferred to the RRIF "in kind", i.e., without converting them to cash.

5. If you withdraw more than the scheduled minimum, your financial institution will withhold a portion of the excess and remit it to CRA on your behalf as income tax.

6. Upon the death of the RRIF holder (referred to by the CRA as "the annuitant"), the balance of the RRIF may be transferred to a qualified beneficiary for their own RRSP or RRIF, or for the beneficiary to purchase an eligible annuity. There are no tax consequences as long as the appropriate CRA forms are completed indicating a direct transfer of the funds by the financial institution managing the RRIF for the deceased. Transfers to an RRSP are only allowed if the qualified beneficiary is 71 years of age or under. If the beneficiary is older than 71, the transfer must be made to a RRIF or annuity.

7. Your RRIF may be self-directed if you are not interested in having investment advisors handle your funds. The RRIF must be held at a bank, credit union, trust, or insurance company that will register the plan with the CRA, administer the distribution, and handle the transactions of buying and selling investments. You cannot hold RRIF investments in your own name.

Continued Tax-Free Savings

Of the amount withdrawn from the RRIF, $5,500 can be moved into a Tax-Free Savings Account (TFSA) annually where it is once again sheltered from income tax. Funds can be withdrawn from a TFSA account without paying income tax.

Review Sources of Income Before Retirement

No one can determine how long they will live, the income they will need for retirement or the rate of return on investment over the long term. On the other hand, no one wants to outlive their money. To get some idea of reasonable expectations in these areas:

- review your RRIF portfolio at least annually;
- determine the minimum withdrawal level required each year;
- estimate the rate of return based on the last five years of your RRSP;
- establish other sources of income; and
- discuss the income tax impact with your financial advisor.

Once the capital gains and near-term rate-of-return prospects have been estimated, your financial advisor will be able to assist you in defining the funds that will be available to meet living expenses. Evaluating the available funds and calculating living expenses will tell you whether you will need to continue to earn income in your retirement years.

This'n That at Logan Katz

On February 3rd, Logan Katz hosted a Super Bowl Bash at Dooly's. The event was a huge success with donations made to the Ottawa Regional Cancer Foundation. Thanks to everyone who attended!

Logan Katz in the Community

David Logan participated as a judge at the 2012-2013 Prizes in Entrepreneurship and Innovation Student Competitions, an engineering and computer science competition involving undergraduate and graduate students from the University of Ottawa's Faculty of Engineering.

Chantal Bergeron, Daniel Duval and Joshua Schram participated at the BDC Entrepreneur's Funspiel curling event.

Speaking Engagements

David Logan, Jason Valente and Trevor Kennedy spoke to a group of individuals at Invest Ottawa's Business Accelerator Program on Scientific Research & Experimental Development Tax Credits.

Jason Valente and Yusuf Abdi spoke to a group of individuals at Invest Ottawa on preparing income tax returns for self-employed people. The seminar covered the basics of preparing a tax return for sole proprietorships and partnerships.

January On-Line Poll

The Logan Katz January on-line poll asked "What do you think about the elimination of the Canadian penny?". Our non-scientific results were: 64% All things will be rounded finally! I think it makes cent$ and 36% Against it. Those extra pennies will add up. Visit our website to participate in our monthly polls.