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RSP MATURITY OPTIONS

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THE OPTIONS FOR MATURING YOUR RSP

Current Canadian tax rules require that your RSP must be wound up by the end of the calendar year in which you reach age 69. However, you can utilize any of the following RSP maturity options before age 69 as well. At the time you choose to mature your RSP, you have several choices:

- Close out your RSP by deregistering your plan and receive the value of the plan in cash or in securities
- Purchase an annuity
- Transfer your RSP to a RIF

However, before considering your options, it is important that we look at the possible timing of winding up your RSP.

WHEN SHOULD YOU CHOOSE AN RSP MATURITY OPTION?

If you are fortunate enough to have an adequate income from investments, pensions or other employment when you retire, then your best strategy may be to continue your RSP until you must wind it up at age 69.

Even where you may require a small lump sum of cash from time to time (i.e. to fix the roof or go on a vacation), it may still be advantageous to make a lump sum RSP deregistration than to convert the RSP to a RIF. The reason is that after the year in which a RIF is established, an annual minimum amount must be paid from the RIF whether you need the funds or not.

Since interest rates have an effect upon your annuity or RIF payments, it may be to your advantage to attempt to select a maturity date for your RSP when rates are high.

You can also decide to transfer only part of your RSP funds before the end of the calendar year in which you turn 69, and invest these funds in a maturity option.

An example of this may be a person wishing to receive a regular income stream from their RSP. The process of receiving income from an RSP requires deregistering a lump sum amount from the RSP each time. This can be very cumbersome if regular income is required. A much easier way is to convert the RSP to a RIF where you can simply specify the amount and frequency of the payments on the application form. Another example may be a person who is age 65 or older and is not receiving an employer pension. In this case, they may convert a portion of their RSP to a RIF to take advantage of the $1,000 pension income tax credit. Note that if you do convert all or part of an RSP to a RIF before age 69, you are not committed to the RIF forever. That is, if you are age 69 or under, you can switch from the RIF back to the RSP.

It is possible—and sometimes advisable—to own both an RSP and an RSP maturity option simultaneously, up to age 69.

This publication will examine each of the three RSP maturity options in greater detail.

CHOOSING YOUR RSP MATURITY OPTIONS

Finally, once you have an understanding of the RSP maturity options available, it is important that you establish some of your basic priorities before selecting from the available options.

CLOSING OUT YOUR RSP (DEREGISTRATION)

The most obvious maturity option is simply to "cash in" or "deregister" your RSP. You can choose this option at any time before the end of the calendar year in which you turn 69.

Alternatively, the Canada Customs and Revenue Agency (CCRA—formerly known as Revenue Canada) will also deem you to have deregistered your RSP for any portion of your RSP that has not been converted to an annuity or RIF (as described in later sections) by the end of the year in which you turned age 69.

When your plan is deregistered, the full value of the RSP is included in your taxable income for that year. Given the fact that Canada has a progressive tax system, you will probably be taxed at the highest marginal tax rate on at least a portion of the amount deregistered.

The CCRA (and Revenue Quebec for Quebec residents) applies a withholding tax on your RSP funds at the time of deregistration as shown in **Figure 1**.

This withholding tax is not an additional tax on your RSP funds. Rather, it represents funds that are withheld by your RSP Trustee, similar to the way income tax is withheld on a paycheque.

When you file your tax return, the withholding tax is used as a credit towards any taxes due.

Closing out all or a portion of your RSP in most cases is not usually a viable option because:

- It is a one-time decision that cannot be reversed
- By deregistering your RSP, you will forego the opportunity to shelter your investments in a tax-deferred environment
- The tax consequences can be very expensive

FIGURE 1

Withholding Tax At The Time Of Deregistration

Amount	CDN Residents except Quebec	Quebec Residents
$5,000 or less	10%	21%
$5,001 to $15,000	20%	30%
Over $15,000	30%	35%

ANNUITIES‡

This option involves several different choices, which can be broken down as follows:

- Life Annuities
- Joint and Survivor Annuities
- Term Certain to Age 90 Annuities
- Indexed Life Annuities
- Integrated Annuities
- Deferred Annuities
- Impaired Annuities

LIFE ANNUITIES

A life annuity pays you equal periodic amounts for as long as you live. In simple terms, you deposit amounts with the insurance company. In exchange, they agree to pay you regular payments for as long as you live. Typically, these payments are made on a monthly basis, although these could be made quarterly or annually.

You may choose to have a guaranteed period for your annuity and these periods are usually five, 10 or 15 years long. However, you can choose any number of years to a maximum of 90 less your current age.

If you die before the guaranteed period has expired, the amount of the periodic payments you were receiving will continue to be paid to your beneficiary to the end of the guaranteed term, or it can be paid out to the beneficiary in one discounted lump sum payment. Typically, your beneficiary can choose the payment option that is most advantageous to them.

It is important not to be confused about the guarantee on life annuities. These guarantees do not mean all of your RSP funds will be paid out over the five, 10 or 15 years.

The annuity payments will be made for the guaranteed period or your lifetime, whichever is longer. You cannot outlive a life annuity.

The monthly income from an annuity is related to three major factors—your age, your sex, and the current rate of interest at the time of purchase.

‡ Please see back cover for more information.

✓ RSP MATURITY OPTION TIP

An annuity may provide a hedge against longevity. You cannot outlive the income provided by a life annuity.

JOINT AND SURVIVOR ANNUITIES

A joint and survivor annuity will pay you and your spouse an amount for as long as either of you are living. On your death, income will continue to be paid to your spouse until they pass away.

You may also choose to have a guarantee period for your joint and survivor life annuity. If you choose this and if both you and your spouse die before the end of the guarantee period, your beneficiaries will have the choice of accepting a discounted lump sum payment for the commuted value, or receiving the periodic payments for the balance of the guarantee period. However, if the joint and survivor annuity is purchased as an RSP settlement option, the only option for the beneficiary is the discounted lump sum payment.

The income from a joint and survivor life annuity can remain constant for both lifetimes. However, you can choose to have the annuity payments reduced by a specified amount on the death of one of the annuitants. This will have the effect of increasing the initial payments (before the first death) to a higher level than if the annuity payments were non-reducing. This might well coincide with the reduced living costs of the surviving spouse.

TERM CERTAIN TO AGE 90 ANNUITIES

This type of annuity provides you with a pension which pays out equal amounts annually until you reach age 90. Should you continue to live beyond age 90 you will receive no further payments.

While it is possible to use the age of a younger spouse, the initial annuity payments will be lower and there is still the long-term problem of the annuity payments ending prior to the death of both parties.

Generally speaking, term certain to age 90 annuities are not suitable except in very specific circumstances.

INDEXED LIFE ANNUITIES

Under this option, your payments may be indexed each year to the cost of living, or to a fixed percentage (up to 4% for annuities purchased with RSP funds). This option is available for life annuities, as well as any other guarantee period annuity option. If you choose this option, the initial income will be considerably less than a fixed benefit annuity.

INTEGRATED ANNUITIES

You may integrate your annuity payment with your Old Age Security (OAS) payment or Canada Pension Plan (CPP)/Quebec Pension Plan (QPP) benefit to provide yourself with a higher income level before age 65. At the age of 65 your annuity payment is reduced when your OAS and/or CPP/QPP begins.

DEFERRED ANNUITIES

With a deferred annuity you purchase an annuity now, which will start to pay at some future date. If your annuity income is deferred for a year, for example, a competitive rate of interest is credited to you during the accumulation period.

This means the resulting annuity payment is increased correspondingly. Credit for the competitive rate of interest is spread throughout the life of the annuity. Income from a deferred annuity purchased with RSP funds must commence no later than the calendar year following the annuitant's 69th birthday. It is also generally possible to make withdrawals during the accumulation period, if desired.

✓ RSP MATURITY OPTION TIP

Annuity options are more appropriate when there is a scarcity of capital and a lifetime need for income. Generally speaking, the decision to annuitize is a permanent decision and cannot be reversed. Therefore, it must be carefully considered. On the other hand, you no longer have to make investment decisions on an ongoing basis, and you cannot outlive your retirement fund.

IMPAIRED ANNUITIES

If you have a serious health problem (one which could significantly reduce life expectancy), you are probably aware that your premiums for life insurance are higher than normal.

Quite likely, the amount of insurance you could obtain was also restricted, and possibly you could not obtain insurance at all.

Those same health problems that worked to your disadvantage with life insurance may work to your advantage when purchasing an annuity in that the life insurance companies will often be willing to treat you as if you were older than you really are, thus increasing your monthly payments.

However, the responsibility to prove impairment lies with the applicant.

INCOME AND TAX CONSIDERATIONS OF ANNUITIES

The amount of income you receive from life, 100% joint and survivor, and impaired annuities will depend on a number of factors—age, sex, current interest rate, and the length of any guarantee period. Generally, the older the annuitant, the higher the income received. Higher payments are also made to male annuitants as a result of their shorter life expectancy. Since the prevailing interest rates at the time the annuity is acquired will impact the amount of income you receive, you may want to defer or accelerate your annuity purchase decision in a period of rising or falling interest rates.

Payments from annuities purchased with RSP funds are generally not subject to withholding tax at the time these are received (unless specifically requested by the annuitant). However, all payments received in a calendar year must be reported as income and are fully taxable.

Following the death of the annuitant of a life annuity purchased with RSP funds, the annuitant must include as income all payments received up to the time of death. If the spouse or financially dependent child or grandchild of the annuitant is named as beneficiary of the life annuity, and the guarantee period has not expired, subsequent payments will be made to the spouse or financially dependent child or grandchild, and will be taxed as income of the recipient. If anyone other than the surviving spouse or financially dependent child or grandchild is named as the beneficiary of a life annuity where the guarantee period has not expired at the time of the annuitant's death, the annuitant must also include in income in the year of death, any lump sum amount paid to the beneficiary.

In the case of a joint and survivor annuity, the primary annuitant (the person whose RSP funds were used to purchase the annuity) must report all payments received up to the date of death, and the surviving spouse will be liable for tax on any subsequent payments. If the guarantee period (if any) has not expired upon the death of the surviving spouse, then any lump sum payments to the beneficiary will be taxed in the surviving spouse's final tax return, unless the beneficiary is a financially dependent child or grandchild. In this case, the lump sum payment will be included as income of the financially dependent child or grandchild.

RETIREMENT INCOME FUNDS (RIF)

DISADVANTAGES ASSOCIATED WITH ANNUITIES

The disadvantages generally associated with annuities are:

- Once an annuity has been purchased, the decision cannot be reversed
- The purchase of an annuity can result in reduced liquidity since a single large lump-sum amount is exchanged for smaller monthly payments
- Annuities may leave little or no estate to the beneficiaries and
- Income from annuities may be unattractive in a low interest rate environment

A Retirement Income Fund (RIF) is basically an extension of an RSP except that it is intended to provide an ongoing flow of income. Choosing this option will allow you all the same flexibility provided by the RSP, such as a wide range of investment choices and access to funds. Unlike an RSP, a RIF does require the receipt of at least a minimum annual payment. The RIF option provides the maximum flexibility of the available maturity options, allowing you control over the management of your assets, flexibility of annual income and potential tax minimization.

Note: When converting to a RIF, the investments held in your RSP can be transferred directly into the RIF account. Your RSP investments are not required to mature or to be liquidated prior to transfer to the RIF.

RIF PAYMENTS

Upon conversion to a RIF, you will be required to receive at least a minimum payment from the plan each year based on your age and the RIF value at the end of the previous year. It is important to note that you are not required to begin receiving the minimum payment amount until the calendar year following the year of conversion to the RIF.

There is no withholding tax on minimum RIF withdrawals. The withholding tax rate on RIF withdrawals above the minimum payment amount are identical to the withholding tax rates for RSP withdrawals indicated in **Figure 1.**

If the RIF holder has a younger spouse, the younger spouse's age can be used in the minimum payment calculation, which will result in lower annual minimum payments. The minimum payment percentages are discussed on the following page.

Example:
Mr. Jones turned 69 in 2003 and will convert his $100,000 RSP to a RIF by the end of the year. Mrs. Jones' age at the end of 2003 is 65. Neither Mr. or Mrs. Jones require additional income at this time and therefore would like to minimize the amount withdrawn from the RIF.

In 2004, Mr. Jones is required to receive $4,760 (4.76%) of his December 31, 2003, balance of $100,000. However, if upon the conversion to a RIF Mr. Jones elects to use his wife's age in calculating minimum payments, he will reduce the minimum payment received. By electing to use his wife's age of 65, the minimum payment percentage will instead be 4.00% or $4,000. Using Mrs. Jones' age allows both the tax deferral of approximately $760 of income, and further tax-deferred growth on this amount.

RIFs ESTABLISHED PRIOR TO JANUARY 1, 1993

RIFs established before January 1, 1993 are subject to a different minimum annual payment percentage as compared to RIFs established after this date. The legislation in effect prior to 1993 required that the RIF be fully paid to the individual by the end of the year in which they turn age 90. Effective January 1, 1993, new minimum payment rules were introduced allowing the RIF to continue for the individual's lifetime. For RIFs established prior to 1993, a transitional provision allows for the old payment rules to be applied up until the RIF holder's 78th year and the new payment percentages after that point (see **Figure 2** next page).

Note: Combining a RIF account set up under the old minimum payment formula with an account set-up under the new rules will result in the combined RIF being subject to the new payment percentages.

MINIMUM RIF PAYMENT FORMULA

If an individual decides to transfer money from an RSP to a RIF, the minimum payment for the year (after the RIF is established and only for those age 70 or less at the end of the prior year) would be calculated based on the following formula:

$$\text{RIF Market Value on December 31 of prior year} \times \frac{1}{90 - \text{age on December 31 of prior year}}$$

✓ RSP MATURITY OPTION TIP

- If you require income from your RSP on a temporary basis, consider converting to a RIF to minimize withholding tax (except for withdrawals in the year of conversion). You can always switch back to an RSP at a later date if you are under age 69.
- Your advisor can provide you with projections of your RSP's future value, as well as projections of RIF payments available under varied payment options.

After age 70, the minimum RIF payment for post-1992 RIFs are not based on the formula. The appropriate rates are indicated in **Figure 2** next page. Note that there is a large increase in the minimum RIF payment from age 70 (5.0%) to age 71 (7.38%) for post-1992 RIFs.

TYPES OF RIFs

There are two basic types of RIFs. One is Self-Directed, which means you determine the individual investments, subject to certain eligibility criteria determined by the CCRA.

If you previously had a Self-Directed RSP, you will find the eligibility criteria for RIFs to be the same. However, you should keep in mind that you will have to ensure that your Self-Directed RIF is structured so as to satisfy the minimum payment requirements. Otherwise, you may have to sell assets to generate cash to satisfy the minimum payments.

The other alternative is to have a RIF with a financial institution, such as a life insurance company, trust company, bank, mutual fund company or credit union. With this type of RIF, the institution controls the investments for you. They will also structure the plan to satisfy the required payment.

FIGURE 2

RIF Minimum Payment Percentages For Current Year

Age on December 31 of prior year	Pre-1993 RIF %	Post-1992 RIF %
69	4.76%	4.76%
70	5.00	5.00
71	5.26	7.38
72	5.56	7.48
73	5.88	7.59
74	6.25	7.71
75	6.67	7.85
76	7.14	7.99
77	7.69	8.15
78	8.33	8.33
79	8.53	8.53
80	8.75	8.75
81	8.99	8.99
82	9.27	9.27
83	9.58	9.58
84	9.93	9.93
85	10.33	10.33
86	10.79	10.79
87	11.33	11.33
88	11.96	11.96
89	12.71	12.71
90	13.62	13.62
91	14.73	14.73
92	16.12	16.12
93	17.92	17.92
94+	20.00	20.00

INCOME AND TAX CONSIDERATIONS OF RIFS

As stated previously, a RIF is required to make an annual minimum payment. This payment may be received on a monthly, quarterly, semi-annual, or annual basis, depending on your income requirement. If you do not require income, you can elect to receive the annual minimum payment at the end of the year to maximize the tax deferral benefit of a RIF.

On the other hand, you can also elect to receive on a periodic or lump sum basis, an amount in excess of the minimum payment. However, as previously mentioned, withholding taxes will apply to any amount exceeding the annual minimum payment at the rate shown in **Figure 1**.

All payments received by a RIF annuitant must be included as income in the annuitant's tax return. On the subsequent death of the annuitant, the RIF must be collapsed and the remaining value of the RIF must be included in the annuitant's income in the year of death. This can result in a potentially large tax bill. Fortunately, a tax-deferred rollover may be available where the annuitant's spouse, common-law partner or a financially dependent child or grandchild is the beneficiary of the RIF assets.

Where a spouse is the beneficiary, the value of the remaining RIF may be transferred to the spouse's RSP (if the spouse is age 69 or under) or RIF, resulting in no further tax consequences to the annuitant's estate. The spouse or the spouse's estate will be responsible for any subsequent tax liability arising from the transferred RIF.

If a financially dependent child or grandchild is the named beneficiary, the proceeds from the RIF will be transferred to the child or grandchild and taxed in the hands of the child or grandchild. In certain circumstances, the transfer can occur on a tax-deferred basis. Where the child or grandchild is under 18 and not physically or mentally infirm, the proceeds can be used to acquire an annuity with a term not exceeding 18 minus the age of the child or grandchild at the time the annuity is acquired. The annual annuity payments are then taxed in the hands of the child or grandchild. In the case where the dependent child or grandchild is mentally or physically infirm (there is no age limit), the RIF proceeds may be transferred to that child or grandchild's RSP, RIF, or an annuity on a tax-deferred basis.

The flexible nature of RIFs in terms of permitted investments and income streams, and the continuing tax deferral opportunities to the surviving spouse or financially dependent child or grandchild, makes this vehicle a popular choice for those who must mature their RSPs.

✓ RSP MATURITY OPTION TIP

Consider naming your spouse as the "successor annuitant" of your RIF. This designation allows RIF payments to continue to the surviving spouse without interruption and minimizes administration to the estate.

MATURITY OPTIONS FOR LOCKED-IN RSPS

Locked-in RSPs have different maturity options compared to regular RSPs.

LOCKED-IN RSPS

A Locked-in RSP is created upon the transfer of the commuted (lump sum) value of a Registered Pension Plan (RPP) to an RSP. The funds from a Locked-in RSP, also known as a Locked-in Retirement Account (LIRA) in some provinces, can only be transferred to a life annuity or to a LIF. A third option known as a Locked-in Retirement Income Fund (LRIF) is available in Alberta, Saskatchewan, Manitoba, Ontario and Newfoundland and Labrador. Locked-in funds generally cannot be transferred to a RIF.

LIFE INCOME FUNDS (LIF)

The Life Income Fund (LIF) is very similar to a Retirement Income Fund (RIF) in that it is also an extension of an RSP. However, in this case the registered funds are derived from a Locked-in RSP (or LIRA).

The LIF represents an alternative maturity option to the life annuity which, until recently, was the only option available to access these locked-in funds. The LIF is perhaps more appropriately defined as a deferral option for locked-in funds since all funds remaining in the LIF must be transferred to a life annuity by the end of the year in which the planholder turns 80 years of age (except for Manitoba, Quebec, Nova Scotia and New Brunswick plans), unless the annuitant has the option of utilizing an LRIF.

For many individuals, the LIF option will provide greater flexibility in terms of the timing of their conversion to a life annuity. The options for individuals with Locked-in RSPs/LIRAs are as follows:

- Purchase a life annuity prior to or in the year they reach age 69
- Transfer the funds to a LIF prior to or in the year they reach age 69

- In Alberta, Saskatchewan, Manitoba, Ontario, and Newfoundland and Labrador, transfer the funds to an LRIF prior to or in the year they reach age 69

As in the case of the RIF, an individual must receive at least the annual minimum payment from a LIF starting in the year after the year in which the LIF is established. The minimum LIF payment calculation is identical to the RIF calculation for plans established after December 31, 1992.

The LIF differs from a RIF in two significant areas:

- Withdrawals from a LIF are restricted to a maximum payment based on the individual's age at the end of the prior year, versus withdrawals from a RIF, which have no maximum
- The LIF requires conversion to a life annuity by the end of the year in which the individual turns age 80 (except for Manitoba, Quebec, Nova Scotia and New Brunswick plans), versus the RIF, which can continue throughout the individual's lifetime

LOCKED-IN RETIREMENT INCOME FUNDS (LRIF)

Available in Alberta, Saskatchewan, Manitoba, Ontario and Newfoundland and Labrador

An LRIF is similar to a LIF in that both allow the individual access to their locked-in funds within defined minimum and maximum levels.

Note that the RIF, LIF and LRIF minimum calculations are identical for plans established after 1992.

The two main differences between a LIF and an LRIF are:

- The LRIF can continue throughout the individual's lifetime (i.e. there is no requirement to convert the remaining funds to a life annuity at age 80 as required in a LIF)
- The annual LRIF maximum calculation generally equals the growth in the LRIF in the previous year (the LIF maximum calculation is based on government tables)

An individual using the LRIF can convert to a life annuity at any time. Note an individual cannot convert from the life annuity option to either of the other options.

Since you will ultimately be faced with the decision of whether or not you should purchase an annuity or a LIF (or even an LRIF in the eligible provinces), it is important to maintain your flexibility as circumstances are always changing. You will want to ensure that you can take advantage of opportunities as they arise.

For more information on LIRAs, LIFs and LRIFs, please speak to your advisor

COMBINING RSP MATURITY OPTIONS

It is quite possible—and often preferable—to "mix and match" different options to tailor a personal retirement program for your individual circumstances.

For example, part of your RSP funds can be put into an annuity and part into a RIF, the exact proportion depending on your specific needs. Remember, you can always move from a RIF to an annuity later, but not the reverse.

You might decide at age 69 that you will put $50,000 of your RSP into an annuity, and the balance into a RIF. At ages 74 and 77, you then might move another $50,000 from the RIF to the annuity. At age 80 you could then move the balance remaining in your RIF to an annuity.

Another example may be to use an annuity or RIF to provide regular monthly income while using another RIF to provide quarterly payments to assist with tax installment payments.

Note that these examples are not recommendations of a particular strategy, but are used to illustrate some of the many possibilities.

CRITERIA TO CONSIDER WHEN SELECTING YOUR RSP MATURITY OPTIONS

In simple terms, the decision you have to make is whether you want income today or in the future, or if your objective is to maximize your estate for your heirs.

To select the RSP maturity option that's best for you, you should consider a variety of personal and financial criteria and match these criteria with the maturity options available. Consider the following factors:

1. Your personal income needs
2. Your family's income needs
3. Your estate objectives
4. Rate of return and inflation
5. Your desire for flexibility
6. Flexibility versus guarantees
7. Your wish to minimize income taxes

Let's look carefully at each of these criteria.

1. YOUR PERSONAL INCOME NEEDS

The first issue you should consider is whether your sources of retirement income (eg. company pension, CPP/QPP, OAS, investment income, etc.) will be sufficient to maintain your lifestyle in retirement. If you will require little or no additional income from your RSPs, at least in the near future, then the RIF option will provide you with the maximum amount of income deferral.

2. YOUR FAMILY'S INCOME NEEDS

You must also consider how long you want your income to continue, for yourself and for your spouse.

While your parents or grandparents may have had a limited lifespan, medical advances and statistics predict that many of those who are 55 to 65 years of age today can expect to live well past age 90.

> ✓ **RSP MATURITY OPTION TIP**
>
> Determining the relative importance of each of the seven criteria will assist you in choosing the RSP maturity option that is right for you.

While we can predict our medical and social service environment within the next few years, the environment in 20 years may well require funding beyond our current expectations.

A study commissioned by the Life Insurance Marketing and Research Association points to a number of interesting projections.

For example, a Canadian is as likely to survive to age 75 today as a person in 1900 was to survive to age 55. Health surveys indicate that individuals in their 60s are in increasingly better health than similar groups of individuals only a few decades ago.

Figure 3 illustrates recent data published by the Canadian Institute of Actuaries.

The purchase of an annuity can provide for an ongoing source of income for as long as you live. Details of the types of annuities available are discussed earlier in this publication.

FIGURE 3

Present Age	Probability of Surviving Beyond Age 90	
	Males	Females
60	12 in 100	28 in 100
65	13 in 100	29 in 100
70	15 in 100	31 in 100
75	19 in 100	35 in 100
80	26 in 100	42 in 100

3. YOUR ESTATE OBJECTIVES

How important is it to you to leave an estate for your heirs? If this is important you should consider the relative importance of your RSP to your overall estate plan.

If you wish to preserve your RSP assets for your estate, then a RIF is your best option.

A RIF allows you to continue to accumulate your matured RSP assets on a tax deferred basis while you enjoy the benefits of a retirement income.

At your death, the assets remaining in your RIF may form part of your estate.

4. RATE OF RETURN AND INFLATION

By purchasing an annuity, you are locking in a fixed interest rate for life. This has worked well for those who purchased annuities in the eighties when interest rates were high. However, given today's low interest rate environment, you may want to consider the various investment alternatives offered by a RIF to achieve a higher rate of return. This is especially important when considering the effect of inflation on your purchasing power.

A level income arrangement may seem ideal for some, but an average inflationary trend could easily erode that income.

For example, **Figure 4** shows that at 4% inflation, $1,000 per month today would mean only $676 per month in purchasing power in 10 years and $456 in 20 years—a time when your medical costs could start to increase.

FIGURE 3

Purchasing Power of $1,000 in the future with inflation at:

Years	2%	4%	6%
1	$980	$962	$943
10	$820	$676	$558
20	$673	$456	$312

5. YOUR DESIRE FOR FLEXIBILITY

Let's look at the "flexibility" factor of the RSP maturity options discussed so far. You cannot "cash in" a life annuity once it has been purchased. It is essentially a one-time decision. In that sense, annuities are relatively inflexible.

RIFs, on the other hand, provide you with the ability to vary the annual payments you receive, as long as the minimum payment requirements are met. RIFs also allow you to convert to a life annuity at any time in the future. This option is advantageous if interest rates increase in the future, and you no longer desire to manage your own RIF assets.

You may also choose from a wide range of investments for your RIF, and a RIF is the only RSP maturity option that can be transferred between trustees after payments have commenced. For this reason, you maintain control of your matured RSP assets with a RIF. The overriding consideration is to maintain flexibility in case your circumstances change.

6. FLEXIBILITY VERSUS GUARANTEES

What do you want to use your RSP funds for? Is it for extras, such as trips or home improvements? Will it be your primary source of income or do you intend to leave a large estate to your children?

Your answer to these questions will dictate the degree of flexibility you'll need in your income plan —is the more structured guaranteed income of an annuity best for you, or alternatively, a more flexible arrangement, such as a RIF?

7. YOUR WISH TO MINIMIZE INCOME TAXES

All the income you receive from an RSP maturity option is taxable in the year received. However, you are allowed a pension income tax credit (16% of the first $1,000 of pension income plus a provincial credit) if you were at least age 65 at the end of the year. Thus, choosing a RIF or annuity helps to minimize your personal income tax.

A single individual or widow with little taxable income and a large RIF holding may be concerned about paying tax on a substantial portion of their RIF at the highest marginal tax rate at death. He or she may try to avoid this by accelerating the depletion of the RIF through higher annual RIF payments to take advantage of lower marginal tax rates. However, this strategy does result in a pre-payment of tax so this needs to be considered.

The RIF provides an additional tax shelter in that the amount paid out of a RIF can be changed from year to year. This means you can further adjust your RIF income to complement your other sources of income, allowing you the potential to minimize tax and the potential to minimize the clawbacks of amounts such as the Old Age Security (OAS).

CONCLUSION

Your answers to the earlier questions will give you a general idea of which option best suits your needs. In determining the relative importance to you of the selection criteria previously discussed, you and your advisor can determine the right maturity option(s) for you. It is very important to emphasize that choosing the right RSP maturity option(s) involves taking into account a variety of factors.

We hope you have found the information in this publication to be helpful. Your advisor will be pleased to help you with the issues discussed in this publication.

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