thestar.com

June 13, 2010

Roseman: How to make your retirement savings last

By Ellen Roseman

When you put money into a registered retirement savings plan, you can deduct your contribution from your taxable income and enjoy tax-free growth.

But an RRSP is only a tax deferral, not a permanent tax break. One day, you will pay tax on all the money you saved – or your estate will.

By the end of the year you turn 71, you have to decide what to do with your RRSP. Cashing in and paying tax on the proceeds is expensive, so it's not a popular choice.

You can use some or all of the money to buy an annuity that pays you an income for life. Or you can turn your RRSP into a registered retirement income fund, which works like an RRSP in reverse.

You can't contribute new money to a RRIF. You have to withdraw a minimum amount each year and pay tax on it.

You can also do a withdrawal "in kind," which means moving investments from a RRIF to a non-registered account without cashing them in. (But you still treat the investments as income and pay tax on them.)

Of course, you can take extra money out of your RRIF as needed, since there's no maximum withdrawal amount. (However, locked-in RRIFs have maximum withdrawals that are governed by provincial or federal pension laws, not the Income Tax Act.)

The first mandatory RRIF withdrawal is 7.38 per cent at age 72. It goes up each year, hitting 8.15 per cent at age 77, 10.33 per cent at age 85, 12.71 per cent at age 89 and 16.12 per cent at age 92.

If you live to 94, you have to remove 20 per cent of your RRIF value each year after that.

Here's the problem: You're taking a larger amount from the RRIF than you're making on your investments.

The federal government set the minimums back in 1992, when interest rates were higher. You could earn 8.7 per cent on long-term government of Canada bonds, instead of today's 3.8 per cent.

People didn't live as long in 1992, either. The average life expectancy for men at age 65 was 14.9 years and for women, 19.1 years.

Today, a 65-year-old man can expect to live another 18.1 years and a 65-year-old woman can expect to live 21.1 years. The gender gap is narrowing, says Statistics Canada.

It's time to adjust the RRIF minimums to accommodate lower investment returns and higher life expectancies. But that's unlikely to happen unless Canadians lobby harder than they have to date.

So, if you're retired, you can try to make your registered savings last by leaving them intact as long as possible. This means living on income from part-time jobs, pensions and old age security benefits.

Since you're taking out more than 7 per cent a year from your RRIF, you need to generate a good yield from GICs, bonds, real estate income trusts, preferred shares and dividend-paying stocks.

"Avoid volatility. Too many equity investments can destroy a RRIF's ability to generate income over the long term," says Rona Birenbaum, a certified financial planner.

You still have to withdraw from your RRIF when stock markets decline, locking in losses that cannot be recouped easily. (In 2008, Ottawa allowed taking out 25 per cent less than the minimum RRIF withdrawal to help recover from investment losses.)

Don't be greedy. Take profits from the equity part of the portfolio regularly to protect your gains and fund short-term income needs.

And don't speculate with a RRIF. If you must take a flyer, use non-registered funds since you can apply capital losses against capital gains. You can't offset losses inside a registered plan.

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