



# Incoming!

How to turn your retirement savings into a retirement income

You've spent a lifetime preparing for your retirement. You've saved. You've invested. And you've built a nice little nest egg. Now that you're about to retire, the big question becomes, "what should I do with the money?"

- Should you turn the money into a regular stream of income?
- Should you continue to manage the money through a registered retirement income fund (RRIF), a life income fund (LIF), or a locked-in retirement income fund (LRIF)? or
- Should you take the money as a cash lump sum – subject, of course, to taxes?

Depending on where your money is sitting now, you can use any combination of these three strategies to meet your retirement needs.

It's your choice – and not one that should be taken lightly. What you choose to do with your retirement savings – and when you choose to do it – can have a dramatic impact on your financial situation down the road.

## Option 1: Annuities

For many people approaching retirement – particularly those on the conservative side of the fence – annuities are an attractive option. After all, these products provide a guaranteed income for a defined period. No investment management by you. No ongoing investment risk.

An annuity is simply a contract you sign with a life insurance company. Under the terms of this contract, you make a lump-sum cash payment to the insurer – whether it's from your defined contribution pension plan, registered retirement savings plan (RRSP), registered retirement income fund (RRIF), life income fund (LIF), locked-in retirement income fund (LRIF), deferred profit sharing plan (DPSP) or non-registered savings.

In return for this one-time payment, you receive a guaranteed income stream (like a pension) payable for a specified period or as long as you live.

Depending on the type of annuity you choose, the payments may continue to your spouse or other beneficiary after your death.

The actual monthly income you receive from your annuity will depend on a number of factors, including:

- The amount of money used to purchase the annuity – All things being equal, the more money you convert, the larger your income will be. For example, \$500,000 will buy you a much larger annuity than \$100,000.
- Your age – Generally speaking, the older you are when you start to receive your annuity, the higher your annuity income will be. Younger retirees receive less annuity income each month because they are expected to live longer.
- The type of annuity you purchase – Different annuities offer different features. Some features are quite valuable and, in exchange, result in a lower monthly income. The different types of annuities are described in "The annuity advantage" on page 18.

There is one other important factor that will have a material impact on the size of your monthly annuity payments: the interest rates in effect at the time you annuitize (i.e. convert) your savings. Generally speaking, the interest rate used at the time of conversion is fixed for the lifetime of your annuity payments.

If you purchase your annuity when interest rates are very low, your income will be lower than you might hope. If interest rates are high when you make the purchase the annuity income will be higher. Unlike when you get a mortgage or car loan, it's one of those times when high interest rates work in your favour. Once the annuity is purchased the payments are fixed and usually the contract cannot be canceled or amended.

Interest rates shouldn't necessarily be a factor in determining if you should buy an annuity, but they may be a factor in determining when you should buy an annuity.

Payments from annuities purchased with funds from a registered plan are 100 per cent taxable while only a portion of the payments from an annuity purchased with non-registered funds are taxable.

## Option 2: RRIFs, LIFs and LRIFs

Despite the different acronyms, RRIFs, LIFs and LRIFs all work in much the same way. All three products were designed to help you convert your retirement savings to retirement income.

In addition, all three products give you an opportunity to choose to manage the investment of your remaining assets – and to bear the risk of your investment performance – during your retirement years.

The product you choose will depend primarily on where your savings are coming from – whether it's a defined contribution pension plan, a personal or group RRSP, a deferred profit sharing plan (DPSP), or a locked-in retirement account (LIRA) – and your province of residence.

## Registered retirement income fund (RRIF)

A registered retirement income fund is a way of turning the accumulated value of a registered savings plan – typically, a registered retirement savings plan (RRSP) – into a retirement income.

You can transfer your RRSP savings to a RRIF on a tax-free basis at any time up to the end of the calendar year in which you turn 71. Put another way, you must transfer your RRSP savings by December 31 of the year in which you turn 71. You must begin receiving that retirement income no later than the end of the following calendar year.

You won't pay any taxes at the time you transfer your money from your RRSP to a RRIF because you're not immediately withdrawing the money in cash. The income paid from the RRIF, however, is taxable in the year you receive it.