Turning retirement savings into retirement income

There's a lot to consider when planning for your retirement income—from income and tax planning, to choosing income vehicles, to figuring out what you want to pass on to your family or dependents. Let's take a look at some of the questions most often top of mind.

How will I earn income?

Of all the options for turning savings into income, the most popular is to turn your Registered Retirement Savings Plan (RRSP) into a Registered Retirement Income Fund (RRIF).

A RRIF is the same as an RRSP in some ways (the money is only taxed upon withdrawal, and investment options are similar) but there's one crucial difference: you don't contribute to it. You withdraw, at a set amount per year, determined by when the RRIF was established, your age, and the value of the RRIF. You can convert your RRSP to a RRIF whenever you like, but you must do it by age 71.

Funds remaining in a RRIF after the death of the holder can be transferred to an RRSP or RRIF of a spouse, without tax penalties. **But, it's important to know that upon the death of the other spouse the remaining funds within the RRIF become taxable income paid to the estate.** Depending on how much is in the fund, this could result in a significant cost.

RRIFs aren't the only options, of course. You can use the money in your RRSP to purchase an annuity. Your money is guaranteed to pay out for the remainder of your life, but still, few people choose this option: with interest rates relatively low, in historical terms, it hasn't been a very desirable option. It is important to understand all your options, the benefits, and the risks, to balance a plan that will work best for you.

How do I know how much income I'll need?

This all depends on your lifestyle, your age, your health, and a variety of other factors, many of which can be uncertain. Still, it's a good rule of thumb to withdraw the minimum amount you need (still accommodating the lifestyle you want), while maximizing what remains available to you.

A good portfolio structure is as unique as you are. A financial expert can help you assess your risk tolerance, your ongoing savings goals, the lifestyle you want in retirement, and help to find a balance that will work for you.

What about taxes?

Some believe you should withdraw as little as possible for as long as possible, to avoid triggering tax, maximize investable assets, and ensure you still have a good cushion. But this may not be true for every person, in every situation—for example, if you retire before your pensions kick in, and need the income. Or, as noted previously, if your spouse has passed on, or if there is greater tax risk involved in keeping funds, due to the other spouse's death (the funds become taxable when transferred to the estate).

Another point to remember is that RRIFs qualify for the federal government's $2,000 pension income credit, so if you're over 65 and don't have a company pension plan, you may be able to withdraw up to $2,000 annually from your RRIF tax-free.