



## It's Time to Rethink RRIF Rules

**U**SED AS DIRECTED, THE RRIF rules help you outlive your money. Not your plan? Time to let Finance Minister Joe Oliver know because this spring's budget may be the last time we have enough surplus for him to consider dropping those rules.

RRSPs are intended to help us save for retirement – we get a tax deduction on our contributions, which can be invested tax-free. Deferring taxes on investment income lets savings grow at a much faster pace, giving you a better chance of having enough to live on in retirement.

Theoretically, you would withdraw funds only when needed and pay tax on it. The longer you kept the money in, the more it would grow, and you'd have a tidy sum to cover your needs. Apparently, this was too idyllic for the taxman who could stand to forego tax revenues only for so long – especially now that we are living longer (good for us but not apparently for the Fisc).

At age 71, your RRSPs are converted to RRIFs, which must be drawn down at prescribed rates until age 92, by which time little is left in the RRIF. That money doesn't disappear, but first it's taxed and what's left can be reinvested – but under less favourable conditions: investment returns are taxable, and there's much less to invest after paying taxes.

The impact is serious: doubling the withdrawal rates in 1992 meant that RRIF funds were depleted to a 10th of their value by about age 92. The likelihood of 71-year-olds living to 91 has more than doubled since 1992. And this is not for the rich – the average

RRSP of those 65 to 69 today is about \$40,000. They will need every penny.

Not surprisingly, these rules have been a sore point for people having to liquidate their investments at exactly the wrong time (although some investments can be withdrawn in-kind), lose the tax deferral room and, just in case this wasn't aggravating enough, pay taxes on it. And because of the government deficit in 1992, the withdrawal rates were increased. Show me the public policy imperative to get this revenue from retirees! Taxpayers complained, the rules shifted, moving the conversion age from 69 to 71, and Tax-Free Savings Accounts were introduced to restore a bit of tax deferral room.

The 2008 market crash brought the perniciousness of the RRIF rules into high relief. Withdrawal amounts are based on fund value on Jan. 1, and most withdrawals are made at year-end to maximize the tax deferral. Bad idea in 2008. Share values plunged by half in many cases. Even the best-managed investment funds took the same hit but they could wait for the eventual rebound. Not RRIF holders who had to make their withdrawals and if they had no other cash to pay the taxes, these shares had to be liquidated. What's more, they had to take out twice as many devalued shares to make up the prescribed amount.

CARP caught up to our members and other retirees already kicking down the doors of their MPs and spearheaded a campaign during the 2008 election to demand a morator-

ium on the RRIF rules. The only election promise to survive the turbulent post-election and dreaded Liberal-NDP-Bloc coalition was to reduce the RRIF withdrawal rates by 25 per cent for 2008 only. Regulations to implement this change didn't arrive until spring, so people who had already withdrawn the full amount had to re-deposit that 25 per cent – all during tax season! Yay!

For people who watched their retirement savings disappear right before their eyes, this discount was certainly better than nothing but didn't go far enough.

Make no mistake: we're happy with living longer. The Fisc will get our taxes eventually. Meanwhile, let us

*“Eliminate mandated RRIF withdrawals”*

manage our own savings to make the best of those extra years. It's an election year. Good time to eliminate mandated RRIF withdrawals!

If you agree, please contact your MP and/or the finance minister and opposition finance critics. Finance minister: Honorable Joe Oliver: [Joe.Oliver@parl.gc.ca](mailto:Joe.Oliver@parl.gc.ca); critics: Nathan Cullen (NDP): [nathan.cullen@parl.gc.ca](mailto:nathan.cullen@parl.gc.ca); Scott Brison (Liberal): [scott.brison@parl.gc.ca](mailto:scott.brison@parl.gc.ca); Louis Plamondon (Bloc Quebecois): [louis.plamondon@parl.gc.ca](mailto:louis.plamondon@parl.gc.ca) [✉](#)

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