AWC RRIF

Registered Retirement Income Fund Information

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WHAT IS A RRIF?

Pronounced "Riff," this product operates similarly to the RRSP, providing your investments with several strategic advantages. Just as with the RRSP, you can defer paying tax on a variety of investments while they compound in your RRIF.

The RRIF gives you the flexibility to liquidate some of your funds if you need extra cash, while still allowing you to compound your investments and postpone your tax bill. It is possible to have more than one RRIF, and you can withdraw more than the minimum amount if you need it (although doing this will deplete your RRIF more quickly).

WHEN SHOULD I OPEN A RRIF?

The CRA requires Canadians to convert their RRSPs into RRIFs by the 31st of December in the year they turn 71. However, you may consider converting your RRSP sooner. Many people believe they cannot open a RRIF until the age of 71, but you could open one at 30 if it aligns with your financial situation and goals. If you plan on retiring early, taking a sabbatical or if you must take a break from work due to a family emergency, then it may be beneficial to convert your RRSP into a RRIF. However, you should carefully consider if this is the right decision for you, as you cannot revert back to an RRSP account.

RRIFs require minimum annual withdrawals based on your age. The payments commence the year after you open your account.

SETTING UP A RRIF:

You set up a registered retirement income fund (RRIF) account through a financial institution such as a bank, credit union, trust or insurance company. If you already have an RRSP account with Olympia Trust Company, the account will automatically be converted into a RRIF. Olympia Trust Company will notify you that your RRSP will be converted into a RRIF. Should you need any help with these forms, feel free to contact Investor Relations and we will be happy to assist you.

HOW DOES A RRIF WORK?

RRIF's differ from RRSP's significantly when it comes to withdrawals. The tax bill on your retirement savings has been deferred – **not eliminated**. This is done first through your RRSP and then your RRIF. A RRIF requires minimum annual withdrawals based on your age (starting the year after you open your account). These withdrawals are considered taxable income. You must continue making these minimum withdrawals until there are no funds remaining. The financial institution you have established your RRIF with will calculate your minimum withdrawal dollar amount every year. As you gradually draw down your savings, the balance can remain and grow tax-free in your RRIF.

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It is possible to have more than one RRIF and to hold an account at different institutions.

Once the RRIF is established, there can be no more contributions made to the plan, nor can the plan be terminated except through death or full withdrawal.

Note: If your spouse or common-law partner is younger than you, you can make your RRIF last longer by basing your withdrawals on your spouse's age rather than yours. If you choose this option, you'll need to register this information when you first open your RRIF account.

WHAT IF I DO NOT NEED THE MONEY IMMEDIATELY?

As per the CRA requirements, you are obligated to annually withdraw the designated minimum amount. You will be taxed whenever you withdraw money from your RRIF. However, if you don't need the cash immediately, there are several ways to capitalize on the minimum withdrawals. For example, you could deposit the money into a tax-free savings account (TFSA), as long as you have the contribution room available. This would allow your savings to compound, free of tax. You could also deposit your withdrawals into non-registered investments. However, you will pay tax on the investment growth.

THE GREATEST BENEFITS OF THE RRIF:

RRIFs make it possible for your spouse to inherit your retirement savings tax-free, easing some of the financial pressure your absence may cause.

1. RRIFs can hold a variety of assets, so you can keep your investments diversified.
2. While investing in your RRIF, your money can continue to grow tax-free, enabling you to keep your savings working for you throughout your retirement.

WHAT HAPPENS TO MY RRIF WHEN I PASS AWAY?

Depending on your needs and your own personal circumstances, this may be an important factor to consider. You should consult your accountant and seek advice for your individual situation.

It is important to name a beneficiary for your RRIF. This may permit your dependents to avoid probate fees on your estate. This is because your RRIF is not included in the value of your estate if your beneficiary is your spouse or a financially dependent child/ grandchild.

Some general tips and rules are outlined on the next page.

General Rule: Deceased Annuitant

When the annuitant of a RRIF dies, the CRA reviews what the annuitant receives immediately before death. This totals to an amount equal to the fair market value of all the property held in the RRIF at the time of death. Essentially, the annuitant will be taxed on the amount they received that year from the RRIF as well as on the total value of the RRIF at the time of death. The amount and all other amounts the annuitant received from the RRIF in that year must be reposted on the annuitant's income tax and benefit return for the year of death.

A beneficiary will not have to pay tax on any amount paid out of the RRIF if it can reasonably be regarded as having been included in the deceased annuitant's income.

- If you do not name a beneficiary then your RRIF will be included in the calculation of probate fees on your estate. The value of your RRIF will also be included as income on your final tax return. That means the beneficiaries of your estate may inherit less money after the final payment of income taxes and probate fees.

- For your RRSP/ RRIF you must name a qualified beneficiary. The following are the individuals which the CRA recognizes as qualified beneficiaries.
    - Your spouse.
    - A financially dependent child or grandchild who is under 18.
    - A financially dependent child or grandchild of any age who is infirm.

- If you name as your beneficiary, someone other than those listed above, then the RRSP/RRIF will be deregistered, and the full market value will be transferred to the named individual. However, your estate will be responsible for paying the taxes on the RRSP/RRIF. This could reduce the amount of your estate value which other beneficiaries will receive under your Will.

- If you do name a qualified beneficiary from the list above, then, your RRIF will not be included in the calculation of probate fees on your estate. Furthermore, your estate will not have to include the RRIF's value on your final tax return or pay income tax.

IF THE BENEFICIARY IS YOUR SPOUSE?

The rules are dependent upon whether you name your spouse as the successor annuitant of your RRIF.

1. **If your spouse is the successor annuitant:** They inherit your RRIF and will automatically receive your RRIF payments. They will not have to make any alterations to your RRIF investments or incur any fees.

2. **If your spouse is not the successor annuitant:** Your RRIF will be collapsed and the investments sold. As the beneficiary, your spouse can collect the money from your RRIF, as it will be transferred to their RRSP or their RRIF. There may be some disadvantages to this course of action, such as:
    - It may not be an optimal time to sell investments; markets may be down.
    - There may be selling costs.
    - This could contribute a great deal of paperwork and stress for your spouse during an already difficult time for them.

IF YOUR BENEFICIARY IS A FINANCIALLY DEPENDENT CHILD OR GRANDCHILD:

They must meet the following qualifications for a financial dependent:

- They must have lived with and depended upon you prior to your death.
- Their net annual income the year before your death must have been less than the basic personal exemption taxed to the child or grandchild. However your beneficiary can:

- Purchase a term annuity and pay tax on the payments they receive.
- Transfer it tax-free to their RRSP.
- Transfer it tax-free to their RDSP if they have a mental or physical disability. The amount rolled over from a RRIF to an RDSP cannot be greater than the available contribution room or exceed the $200,000-lifetime maximum contribution limit.

Please seek individual tax and/ or estate planning advice from someone qualified to access your personal financial situation such as your accountant/lawyer. Alta West Capital is not a professional accounting or legal firm and cannot give estate advice.

Should you need any help or have any questions regarding the conversion of a RRIF to your RRSP, please do not hesitate to contact investor relations at investor.relations@awcapital.ca and we will be happy to assist you.
