Manulife Investments

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Final RRSP contributions at age 71

TRS | TAX & RETIREMENT SERVICES

TAX MANAGED STRATEGY 4

The clawback of government benefits can have a significant impact on your retirement income. Some careful RRSP planning as age 71 approaches, however, can help reduce taxable earnings in retirement – and reduce the clawback of government benefits.

The tax deductibility of contributions is one of the most valuable features of an RRSP. If you are approaching age 71 and closing out your RRSPs, however, the tax benefits associated with RRSP contributions can gain even greater importance.

Because RRSP tax deductions can be carried forward indefinitely – long after your RRSPs have closed – a final year RRSP contribution can be an important tool for lowering earned income in retirement and reducing the impact of any clawbacks on income-tested government benefits such as Old Age Security (OAS).

AN IN-DEPTH LOOK AT THE ISSUE... AND THE OPPORTUNITIES

If you are turning 71, there are two situations in which you can make allowable RRSP contributions before you close your RRSPs by December 31st of that year:

1. You have not maximized your RRSP contributions in previous years and have unused contribution room that has been carried forward.
2. You have earned income in your final RRSP year that generates RRSP contribution room for the following year.

In general, you should take advantage of every contribution opportunity available to you before closing your RRSPs.

By reducing taxable earnings, you can reduce the clawback on income-tested government benefits.

THE IMPACT OF THIS CLAWBACK CAN BE SIGNIFICANT

The clawback of Old Age Security benefits is 15¢ for each dollar of income in excess of a certain threshold (approximately $67,000)[1].

MAKING IT WORK

THE FINAL YEAR RRSP CONTRIBUTION STRATEGY

If you have not maximized your RRSP contributions in previous years and have unused RRSP room, you can make a lump sum contribution before closing your RRSP. The resulting tax deduction does not have to be used on that year's tax return. Instead, deductions can be used at any time in the future, whenever they are the most beneficial for you in reducing taxable earnings.

HOW IT STACKS UP

In this example, Ruth is making a $50,000 deposit, and has an annual income of $70,000:

Additional RRIF payment ($3,690) after tax @ 32% (RRIF minimum at age 71 = 7.38%)	**$2,509**
Tax savings at $5,000 for 10 years	**$1,600**
Additional OAS benefit	**$197**
	$4,306

The extra $4,306 in additional income and tax benefits is equivalent to a GIC return of 12.6% on Ruth's $50,000 investment.

For illustration purposes only

[1] For the current annual rate, visit www.servicecanada.gc.ca/eng/isp/oas/oasrates.shtml

THE OVER-CONTRIBUTION STRATEGY FOR THOSE TURNING 71 IN THE CURRENT YEAR

Even if you have no carry-forward RRSP contribution room, but have current year earned income that will generate RRSP contribution room in the following year, you should consider a final December over-contribution before closing your RRSP.

To take advantage of the contribution room, you can make a contribution during December, before the RRSP is officially closed.

Since the contribution is being made in December and the current year's RRSP room has been maximized, an over-contribution penalty of 1% per month applies on any amounts in excess of $2,000.

TIP

RRSP contributions must be made by December 31st of the year you turn 71. However, RRSP deductions can be carried forward indefinitely, and can be spread out over several years in order to reduce taxable earnings in retirement.

HOW IT STACKS UP

In this example, assume an income of $50,000 with a 32% marginal tax rate (with no penalty on the first $2,000):

$50,000 x 18% = $9,000 contribution room created for the following year

$9,000 = additional after-tax RRIF income at Jan 1 of the following year (RRIF minimum at age 71 = 7.38%)	**$452**
Tax savings on the $9,000 deduction, at 32% marginal tax rate	**$2,880**
Less 1% penalty for the month of December [($9,000-$2,000) x 0.01]	**($70)**
	$3,262

The after-tax benefit of the over-contribution is $3,262 in the first year, and approximately $450 in additional RRIF income in the second year (RRIF minimum at age 72 = 7.48%).

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IDEAL CANDIDATES

- Those who are approaching age 71 with unused RRSP contribution room
- Those who have earned income in the year they turn age 71 that generates RRSP contribution room in the following year
- Those for whom a tax deduction in retirement will either increase their eligibility for tax credits or reduce the impact on their income-tested government benefits subject to a clawback

TAKE ACTION

If you are getting ready to transfer your RRSPs to a RRIF, you should consider:

- The amount of earned income you have for the year
- Any unused RRSP room

Your final contribution or over-contribution can make a significant difference.

INVESTMENT OPTIONS WITH MANULIFE INVESTMENTS

Manulife and its subsidiaries provide a range of investments and services for retired investors:

Manulife Mutual Funds provides "best-in-class" portfolio management expertise for our family of funds. Manulife utilizes experienced fund management firms with proven track records for building wealth while managing volatility in varying market conditions. Our broad selection of mutual fund options provide the ability to build fully diversified portfolios to suit a range of investors' needs.

Manulife Segregated Fund Contracts combine the growth potential offered by a broad range of investment funds, with the unique wealth protection features of an insurance contract. Through Manulife segregated fund contracts, investors can minimize their exposure to risk through income, death and maturity guarantees, potential creditor protection features, and estate planning benefits – all from a single product or insurance contract.

The Manulife Investments Guaranteed Interest Contract (GIC) offers competitive rates plus investment options that include Basic, Escalating Rate and Laddered GIC Accounts. Investors benefit from a guarantee on their principal investment and from several different investment options that can diversify and add flexibility to their portfolio. Manulife Investments GICs can be an ideal solution for conservative investors looking to help grow their wealth, but who are also concerned about minimizing risk.

FOR MORE INFORMATION CONTACT YOUR ADVISOR OR VISIT MANULIFE.CA/INVESTMENTS

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