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RETIREMENT FUNDS--FOR SAVING AND GIVING

A registered retirement savings plan (RRSP) is one of the best ways to accumulate funds for retirement. Not only is the amount invested each year sheltered from taxation, but also earnings on assets in the fund are not subject to tax. Thus, it is advantageous to contribute as much as possible as early as possible each year to an RRSP.

Compare, for example, growth of funds in an RRSP with growth in a fully-taxable investment. The combined marginal tax rate is assumed to be 50 percent.

Investment	Year 1	Year 10	Year 20
$10,000 in RRSP	$10,000	$25,938	$67,274
$5,000 in taxable investment	5,000	8,144	13,266

(Half of the $10,000 would have been consumed by taxes.)

RRSP funds are taxable when withdrawn, but even if they were withdrawn in a lump sum at the end of twenty years and taxed at 50 percent, the after-tax dollars ($33,637) would still be considerably more than the accumulations in an investment where earnings have been taxed along the way.

Because the tax sheltering is so attractive and because sizeable contributions can be made (currently up to $24,270 in 2014 but scheduled to increase to $24,930 in 2015), billions of dollars are invested in RRSPs.

Some individuals start taking distributions from their pension plans immediately upon retirement. Others, not needing the money now, defer payments as long as possible. They like to continue taking advantage of the income tax deferral growth accorded such funds. Further, they may defer payments because they regard a pension account as a financial reserve, to be tapped only when needed.

Distributions, however, cannot be delayed beyond age 71. By that time you must elect either a retirement annuity or a RRIF (Registered Retirement Income Fund.) The annuity offers the advantages of guaranteed payments and freedom from worry about how funds should be invested. The RRIF, however, is more flexible. You can control how the money is invested, and you can withdraw any amount each year so long as you withdraw at least the minimum. Because of this flexibility more people convert their RRSPs to RRIFs than to retirement annuities.

Charitable Gifts With Retirement Funds

If a spouse survives you, s/he would ordinarily be the beneficiary of your retirement funds. If you had an RRSP, your surviving spouse could keep the funds in a tax-deferred plan. If you had already converted to a RRIF, your surviving spouse could continue to receive payments, and they would be taxed only as received. If you had opted for a joint-and-survivor annuity for you and your spouse, s/he will receive payments for the balance of his or her life. In the event underage children survive you, the retirement funds can be rolled tax-free into an annuity paying them installments until age 18. If the dependant is handicapped, a tax-free rollover to an RRSP, annuity or RRIF is permitted.

Possibly, however, you will not be survived by a spouse and have already made arrangements for the children. In that case, leftover retirement funds make an excellent charitable gift because the donation tax credit will offset the tax owing on distribution. Leaving the funds to a beneficiary, who is not a spouse or dependent child or grandchild, generally would cause the full value of the funds to be taxed in the year of your death, but with the charitable gift you preserve the funds intact for a charity whose work you want to support.

The recommended procedure is to designate the charity as beneficiary of all or a portion of your RRSP and RRIF funds.

<u>Example:</u> Barbara T, a single woman, dies at age 75 and leaves $30,000 of her RRIF funds to charity.

Tax on RRIF funds (49% combined rate)	*$14,700*
Tax credit (Combined credit is 49% of gift and entire bequest is creditable.)	*<u>14,700</u>*
Net tax on distribution	*0*

The tax credit will entirely offset the tax on the distributions. That is because the creditable amount of a charitable bequest is 100 percent of net income. Thus, if you choose to leave your leftover retirement funds for charity, no part of them will be consumed by taxation.

A charitable gift is one method of assuring that all or most of the funds you spent a lifetime accumulating are used for the purposes you choose.