

## Back to 71 for RRIFs

# Extending your portfolio's life

In his March 19 budget, Canada's Minister of Finance introduced changes to some of the rules concerning Registered Retirement Income Funds (RRIFs). The age limit for converting a Registered Retirement Savings Plan (RRSP) into a RRIF is once again 71 years. The reasons and consequences are discussed below. Please note that the draft budget law tabled on March 19, 2007 has not yet been passed.

On March 6, 1996, the federal budget changed the age limit for RRSPs to 69. This decision was motivated by increasingly early retirement and the state's need for additional income.

This time, the motivations for reverting to the 71-year age limit are not just related to the age factor and healthier public finances but also concern the future job market—a severe labour shortage is expected in the medium term.

### Life expectancy

Life expectancy at birth has been increasing rapidly in Canada over the past few decades. The latest data of 77.6 years for men and 82.7 years for women confirms this trend. What's more, for a person aged 65, life expectancy is 82.3 (for a male) or 85.9 (female). In all likelihood, increasingly greater numbers of Canadians will live 90 years or more. This trend clearly has a significant impact on the funds required for maintaining lifestyle throughout increasingly longer retirement periods.

However, longer retirement has an impact on people's desire to go on full retirement around at the time they turn 60. In fact, partial retirement is more and more common and so are partial returns to the workforce. The new budget also stipulates that the change is made *"to strengthen incentives for older Canadians to work and save, which becomes increasingly important with the aging of the population."*

With baby-boomers retiring in massive numbers, Canada will be facing a shortage of workers in about fifteen years. Already, the unemployment rate is the lowest in 30 years. The Finance Minister's aim is to provide an incentive to some categories of workers to keep working as long as possible.

### Impact on current plans

To avoid any problems, persons between 70 and 71 years do not need to reconvert their RRIFs into RRSPs. Instead, minimum withdrawals are simply suspended until the planholder (or the spouse, if the withdrawal calculation was based on the latter's age) turns 71. So withdrawals are suspended for 2007 for a client who is 71 years' old and for 2007 and 2008 for a client who is 70 in 2007. Similarly, contributions may be made to RRSPs during the same period.

In addition, persons aged 69 to 71 in 2007 and who had set up a systematic withdrawal plan must decide whether to maintain it or not as they are no longer required to do so.

### If you are 69 years old in 2007

For a client aged 69 in 2007 who already has a RRIF, there is no mandatory withdrawal in 2007 but the RRIF must be converted into an RRSP before the end of 2007 to avoid the minimum withdrawals for 2008 and 2009.

Last, note that the schedule of minimum withdrawal rates remains unchanged—indeed, no changes were made when the age limit was changed from 71 to 69 in 1996. The schedule is included for your information.

Schedule of mandatory minimum withdrawal rates

Age	%	Age	%	Age	%
Below 71	1 / (90 - age)	79	8.53	88	11.96
71	7.38	80	8.75	89	12.71
72	7.48	81	8.99	90	13.62
73	7.59	82	9.27	91	14.73
74	7.71	83	9.58	92	16.12
75	7.85	84	9.93	93	17.92
76	7.99	85	10.33	94 and over	20.00
77	8.15	86	10.79		
78	8.33	87	11.33		

Do you have any questions regarding the changes? Contact your advisor or a customer service representative, who will be pleased to help you.

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