

# Money Matters

## RRIF's good vehicle for retirement income

By BRIAN SLESSOR

People who are turning 71 must make an important decision about how to convert their Registered Retirement Savings Plan (RRSP) into a source of income. The choice they make is crucial because the result will likely be their primary source of income during retirement.

Traditionally, investors have had two options: either withdraw all their money in cash, or convert their RRSP into a life or fixed term annuity. Withdrawing was less attractive because most people would be taxed heavily. So, the majority of people choose annuities, "life" plans that guaranteed them a regular income for the rest of their life. Some annuities also offered guarantees for a fixed period so that if the investor died, payments would continue to be made to his/her estate.

However, most annuities don't protect against inflation. The buying power of people who convert their RRSPs into annuities shrinks each year.

Since 1986, the situation regarding retirement income options has improved dramatically with Registered Retirement Income Funds (RRIFs) emerging as one of the best vehicles to handle investors' retirement income needs.

A RRIF is a contract that provides periodic payments to the investor from the starting date until the investor reaches age 90. For many years, RRIFs were unpopular because their rules were inflexible. Then, after the federal government loosened the rules, many people began converting their RRSPs into RRIFs instead of annuities.

Under the new rules, investors can own more than one RRIF. As well, there is no limit on the amount investors may receive

**Brian Slessor**  
Dollars and Sense



from their RRIF each year. However, they must withdraw a minimum amount calculated by their current age subtracted from age 90 (see below). Another RRIF advantage is that investors can begin receiving payments from the RRIF immediately after purchasing it rather than being obliged to wait until the next calendar year. Also, a RRIF continues to allow investors to accumulate funds tax-free until they are withdrawn.

Here is how RRIF payments work. Each payment investors received is a fraction of the value of the investor's capital at the start of the year. This fraction is equal to one divided by the difference between your age and 90. So, if you have a plan valued at \$300,000 and you are 70 years old, the payment you will receive is 1/20th of the fund or \$15,000. This is the minimum annual payment in that year. It can be higher if you wish, but withdrawing too much money too soon can deplete your funds and the excess is subject to a withholding tax.

As you get older, the fractional amounts increase so that when you are 71, you will receive 1/19th; when you are 72, 1/18th, when you are 73, 1/17th and so on. When you become 89, you will receive 1/1, that is 100 per cent of the remainder.

While a disadvantage of a

RRIF is that investors must exhaust all the funds' money by the time they turn 90, the advantages of a RRIF can make it far more attractive than an annuity.

Consider two of them. First, a RRIF offers a wide and varied range of investment choices. Unlike an annuity, which is based on fixed income returns, a RRIF can be invested in growth or balanced investments, such as mutual funds.

Second, a RRIF with growth producing investments will surpass annuities in generating income and compensating for inflation. Suppose at 60 you bought a \$100,000 annuity invested at 12 per cent over 30 years. You would receive \$12,414 each year until you reached 90 and your cumulative total would be \$372,000.

On the other hand, if you had bought a RRIF with the same principal investment of \$100,000, also invested at 12 per cent, you would receive \$3,333 in the first year. Since less money is withdrawn in the early years of the RRIF, more money is left to compound and grow tax-free in the following years. By the 10th year, you would receive \$9,610. By the 20th year, \$32,057 and by the 30th year, over \$135,000. Over 30 years, you would receive a total of \$963,000, 2.6 times as much as the annuity.

Now, let's assume that inflation remains at five per cent during the next 30 years. That means the final \$12,414 annual annuity payment would actually be worth only \$2,870 in 1989 dollars. By comparison, the RRIF's final payment of approximately \$135,000 would be worth \$31,200 in constant dollars.

With this in mind, think what would have happened if you had invested your RRIF in a mutual fund that has the potential of yielding an average of 15 per cent a year. During 30 years, you

## Shopping states-side for bargains

By DIANNE MALEY  
Business Analyst

Thomson News Service  
Do you shop in the States, eh? Don't you think that's unpatriotic?

"I could care less," said Jennifer Peterson of Thunder Bay in a recent interview with the Globe and Mail. "It's cheaper in the U.S., the staff are friendlier and there's a better selection," she said, echoing hundreds of thousands of other Canadians.

Price, service and selection will drive Canadians to spend \$2 billion south of the border this year on such basic things as food, gasoline and clothing, a Toronto retail analyst estimates. People in Thunder Bay go farther out of their way than most, making a seven-hour round trip to Duluth, Minn. They will spend 40 per cent more this year than they did last, a local group predicts. As far as the defectors are concerned, it serves retailers right.

"Retailers in Thunder Bay have ripped us off for so damn long and now it's catching up to them," Susan Botchar told The Globe. "My brother saved \$700 on a refrigerator. At these prices, I can't afford to be loyal to Canada."

High Canadian prices are not solely the fault of retailers. Canadian companies don't have the same economies of scale as their American counterparts. They also have higher taxes and transportation costs. From this point of view, it seems unfair to buy American while enjoying Canadian social benefits.

Indeed, Finance Minister Michael Wilson could stop this fast by doing what everyone wants him to do: ease on up interest rates and let the dollar fall. This would make it more expensive for people to buy American goods.

But price is not the only reason many Canadians prefer to shop in the United States. Service and selection are just as important for some. Surly sales clerks and limited selection make shopping a tough slog even in a city the size of Toronto. With retailers facing hard times, the prospects for improvement seem limited.

Is it really unpatriotic to shop outside the country?

Arguing for it is the whole wave of propaganda about competition and the global marketplace. Workers are told they must work harder, companies that they must be more competitive. Retailers are no exception. Now that Canadians feel they have a choice, they will force local retailers to pull up their socks.

It is also an international phenomenon. It is no different from North Americans buying Japanese-made cars. The Japanese make them better so we buy them. All over the world, the consumers is cracking the whip.

### ELUSIVE END

From the perspective of political theory, though, a world driven by man as consumer is a disconcerting thing. It disrupts national policy at least as much as do global money and currency markets. It changes man from citizen to shopper, debasing him in the process.

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