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**Solving retirees' RRIF withdrawal woes**

By [Diana Cawfield](#) • Bankrate.com

If you're a retiree, forced to withdraw a percentage of taxable dollars from a [Registered Retirement Income Fund](#) (RRIF), you're probably ticked off these days.

Understandably so, especially if you're in a financial situation where you don't need the extra income or a bigger tax bill and when the markets have most likely erased a large chunk of your portfolio.

With that in mind, our experts came up with four tips on how to make the most of your RRIF withdrawals in tough economic times.

**Use cash**

If you're worried about having to sell investments when they're underperforming in order to reach your RRIF withdrawal minimum, there's a simple solution: don't.

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"If you're forced to sell investments while they're down, you're never going to be able to recover," says Marc Lamontagne, a Certified Financial Planner (CFP) at Ryan Lamontagne Inc., in Ottawa. "So the trick is to have two to three years' [worth of] withdrawals in cash so you're never forced to sell investments when they're down."

That said, if you're in a situation where you don't have that kind of

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cash cushion available and have to sell something, there is another strategy you might try -- making in-kind withdrawals.

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Clients are allowed to take investments out of a RRIF and hold them in a non-registered or Tax-Free Savings Account (TFSA). While this strategy doesn't save you any money on taxes, Lamontagne says the important aspect is that it keeps you from having to sell investments at a loss.

### Try a TFSA

Lamontagne says the new TFSAs are likely to become a big component of many retirees' portfolios, especially as time goes by and their contribution room increases. TFSAs allow individuals to invest as much as \$5,000 a year, and any investment growth or withdrawals are not taxed.

According to Lamontagne, while retirees can't escape paying tax on RRIF withdrawals, they can move some of that money into a TFSA so that any future growth on it is tax-free. Another advantage of TFSAs for retirees is that there is no upper age limit for making contributions to them, as there is for Registered Retirement Savings Plans (RRSPs).

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Flexibility of investment choices is another advantage to using a TFSA. The gamut of options for TFSAs are similar to those for an RRSP and include Guaranteed Investment Certificates (GICs), mutual funds, stocks and bonds.

An additional benefit, adds Peter Wouters, director of tax and estate planning and risk product marketing at Empire Life Insurance Company, in Burlington, Ont., is that income generated from a TFSA is not used to calculate one's net income for government benefits such as [Old Age Security](#) (OAS) and pension plans.

**Think about the short term**

For a short-term solution, Wouters points to Finance Minister Jim Flaherty's announcement in November 2007 that seniors would get a 25 percent reduction in the minimum amount of money they must withdraw from their RRIF for 2008.

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Based on the announcement, seniors who make a withdrawal can put 25 percent of that amount back into their RRIFs until March 2 of this year, or 30 days after the government's RRIF measure is passed as law.

**Use annuities**

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Along with considering the new tax changes, Wouters emphasizes diversifying your investment strategies, not just diversifying your investment holdings.

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"I think annuities -- whether with registered or non-registered money -- are very attractive for seniors, because only the interest portion of the annuity payment is reportable," he explains.

For example, if you put \$100,000 into an annuity and took out \$1,000 a month in income, only a portion of that annual \$12,000 is taxable as reportable income, says Wouters.

Choosing an annuity is not an all-or-nothing decision -- you can allocate your funds across a range of products. "The question that you've really got to ask yourself," says Wouters, "is to what extent am I going to put that money into one versus the other?"

The decision should be based on your age, needs, income tax bracket and risk tolerance as well as how often you want to make investment decisions as you get older. Some retirees appreciate having both a RRIF and a steady monthly payment from an annuity.

*Diana Cawfield is an award-winning freelance writer, specializing in finance, health sciences and corporate communications.*

-- Posted: Jan. 26, 2009



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