Best way to invest RRIF money so it lasts

Step 1: Separate lifetime sources of income from investing sources of income

by Tom Feigs Aug 20, 2018

Q: I am writing in the hopes of getting some good financial advice on how to best invest my RRIF and also on the tax implications of drawing money out.

I am turning 71 this year and have to convert my $443,000 RRSP into a Registered Retirement Income Fund (RRIF). My husband just turned 62. When I retired five years ago I paid for some financial education and investment advice. I moved all our investments from a broker to a self-directed online investing account. However, I have become very apprehensive about a big market correction and I have been sitting in just money market funds for some time. I seem to need some help getting back into the market. I would like a simple couch potato portfolio that makes at least 4% with some stop loss so if the markets drop 10%, I can sell and get out.

I also have trouble understanding the real costs of various scenarios and tax implications. My husband is on a disability pension that will end when he turns 65. He only has $70,000 in his RRSP and will probably only get $100 per month in CPP.

We look poor on paper right now so I have been getting Guaranteed Income Supplement (GIS). We have been living on his disability and my government pensions. We live in Richmond, B.C. and own our townhouse. We each have $57,000 in TFSA accounts.

— *Alexis*

A: As we move through our stages in life, we adjust our values, reinvent our priorities and develop different skills. The same goes for our Financial Wellness stages. The biggest financial transition comes along when wealth generation peaks and working life ends. Understandably, Alexis is struggling with some aspects of her transition as it is also complicated by her age gap with her husband and her husband's disability.

Alexis faces investing decisions year by year. This feels daunting as there is no recourse to go back to work if something goes wrong. A good approach is to separate lifetime sources of income from investing sources of income.

Source of Income	**Lifetime**	**From Investing Assets**	**Before Age 65**	**After Age 65**	**% of Total Income**
Disability Pension	N	N	Y	N	
Husband CPP	Y	N	N	Y	Approx 45%
Alexis CPP	Y	N	N	Y	
Husband OAS	Y	N	N	Y	
Alexis OAS	Y	N	N	Y	
Alexis RRSP	N	Y	N	Y	Approx 55%
Alexis TFSA	N	Y	N	Y	
Husband RRSP	N	Y	N	Y	
Husband TFSA	N	Y	N	Y	

(N = No, Y = Yes)

This is an example income exercise that approximates Alexis' situation. It helps to see the lifetime income foundation you have before looking to the investing assets for added income.

The next exercise is to map out your spending desires. What does your essential/basic spending amount to? Do you have a purchase coming up such as a car? What are your discretionary/flexible spending desires? This should generate a picture of how your income sources match with your desired spending pattern.

Essential Spending	One-off Spending	Discretionary Spending
$	$	$

Purchasing a life annuity is a good way to top-up your lifetime income to match your level of essential spending. Let's say Alexis finds her essential spending to be 60% and the rest 40%. She could take a lump sum amount from her RRIF to formulate more lifetime income thereby closing this gap (up from 45%).

Now we have investment management positioned to be mostly associated with discretionary spending. An investment portfolio with a goal of 4% annual rate of return would have just under 50% equity (the volatile part). The rest would be low volatile income from bonds, money market, and interest-bearing securities. Alexis has now built up her low-volatile income to 80%. Her apprehension about a big market correction has an impact on the other 20% only.

Trying to time the next market correction is usually futile. Even if you get out at the market peak by a stroke of luck you then must time the market bottom to buy back in. It's best for Alexis to go back to a balanced portfolio and ride out the ups and downs. Regularly re-balance your asset mix once a year.

Withdrawals from RRSP/RRIF accounts are fully taxable income. The best way to manage this is to spread the withdrawals over the largest number of years at the smallest amount each year.

Alexis has a one-time opportunity to set her RRIF minimum withdrawal rate on her own age or her younger spouse's age. I suggest she elect to have her husband's age determine her minimum RRIF withdrawal rate. That would reduce the rate from 5.28% to 3.57%.

Income and spending during retirement require year by year modeling to the end of life. There are no amount of courses that can replace an engagement with a certified financial planner to put together a clear, comfortable retirement income outlook. I recommend that Alexis do this.

On a separate note: Alexis's husband's CPP disability pension was calculated based on his income earnings before becoming disabled **plus** a flat-rate amount. Your husband's CPP disability benefit will indeed end at age 65 and then converts to his CPP retirement benefit. You can calculate this age 65 benefit.

Let's run the numbers. Subtract the flat-rate portion ($485.20 in 2018) from your husband's CPP disability benefit and divide the result by 75%. *Example: A person receives $800 per month CPP disability benefit and is about to reach age 65.*

($800 – $485.20) / 75% = $419.73 per month or $5,036.80 per year.

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