

## The Value of Advice: COVID-19 and the Reduction of Registered Retirement Income Fund (RRIF) Minimum Amounts

Proactive financial advisors add tremendous value for their clients. This is demonstrated in so many ways everyday but perhaps it is best demonstrated when markets are turbulent. A turbulent market gives advisors an opportunity to demonstrate proactive ingenuity and client dedication.

### **Covid-19 and the reduction of RRIF minimum amounts**

A case in point are some of the strategies employed by advisors around the change to RRIF minimums announced as part of the federal economic response to the COVID-19 pandemic. Canada's federal government reduced the mandatory RRIF withdrawal by 25%. The reduction applies only for 2020 and to all types of RRIFs including locked in plans. If an individual has already taken the original minimum payment from their plan, they are not allowed to recontribute it. Here are four strategies used by proactive advisors to take advantage of that change in legislation.

#### **(a) Segmenting their RRIF client base**

Some clients take their annual RRIF minimum payment as one withdrawal in December. For some clients, leaving this payment frequency as is is advantageous as it gives the market time to recover and allows the assets to remain invested. Proactive advisors can identify clients who might benefit from this strategy and highlight potential advantages.

A second segment of clients are those who take their payments on a monthly or quarterly basis, but do not need the money. For these clients, a 25% reduction may be convenient because it allows for an ongoing tax-deferral and reduces taxable income for the year. For clients subject to higher tax brackets, this benefit can be valuable. Proactive advisors, in discussing this with this segment, can counsel on the effect the reduction will have on their taxes, reduced exposure to the Old Age Security (OAS) clawback and the benefits of staying invested to maximize the effect of a market recovery. The result might be clients agreeing to skip their next few monthly payments or deferring their monthly payments until December, providing maximum time for markets to recover before withdrawing the required minimum amount.

#### **(b) Reviewing the investments held in the RRIF to maximize market recovery**

Often RRIF accounts hold multiple funds and required minimum payments are taken proportionately from the funds. This may not be in the best interest of the client as not all funds are affected equally by market corrections (i.e., some funds are more likely to recover quicker than others in a growing market). In meeting with their clients, proactive advisors can discuss taking RRIF withdrawals in a less proportionate manner to better position their funds for an eventual market recovery.

#### **(c) Reinvestment into an open account**

Another strategy for the proactive advisor centres on taking the annual RRIF payment now, before the markets recover. The funds withdrawn from the RRIF would then be reinvested, subject to the client's KYC, in a non-registered account with the same or similar funds. The client will hold the same investments but in a non-registered account where, depending on the type of investment held, future growth will be taxed more efficiently as a capital gain as opposed to fully taxable RRIF income. Naturally, the client should keep in mind that the withdrawal from the RRIF may create a tax obligation for the year of withdrawal and should be prepared for that liability.

#### **(d) In kind transfers from a RRIF to a TFSA**

Where a client has contribution room in their TFSA and does not require the funds withdrawn from their RRIF, an advisor may be able to utilize a strategy aimed at both ensuring the client takes the RRIF minimum payment but remains invested in the market by transferring the funds withdrawn from the RRIF directly to the client's TFSA. With this strategy, the client has met the minimum withdrawal requirement (which is taxable), but has also ensured their investment will be positioned to benefit from a market recovery and grow on a tax-efficient basis within the TFSA going forward.

### (e) Trigger capital losses

Although not related to the new RRIF minimums, before leaving the proactive advisor a word about capital loss planning.

Capital losses must first be used to offset capital gains in the current year. If capital losses exceed capital gains in a given year (2020 for example), the net capital losses can be carried back to any of the three previous years (2019, 2018, 2017), resulting in retroactive tax refunds for those years. Net capital losses can also be carried forward indefinitely for use in future years.

Typically, these losses are re-adjusted against gains in the earliest year (eg. 2017). However, it may be that in one of the other years, 2018 or 2019 the taxpayer was in a higher tax bracket, and the loss would be better utilized against capital gains in that year's tax return.

Working with the client's tax preparer, the advisor is delivering value by assisting in determining the best year(s) against which to apply the losses.

It might also be possible for the client to realize losses while remaining invested for future growth. For instance, it may be that a mutual fund has losses which can be realized, but another fund has a similar mandate and holds similar or identical holdings. The advisor can realize the loss in the first fund and invest in the second fund without triggering superficial loss rules which negate capital losses triggered when an identical property is purchased within 30 days. The result is that the client can make use of his/her capital loss while remaining fully invested in a similar property for purposes of future market growth.

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2 Queen Street East, Twentieth Floor, Toronto, Ontario M5C 3G7 | [www.ci.com](http://www.ci.com)

**Head Office / Toronto**  
416-364-1145  
1-800-268-9374

**Calgary**  
403-205-4396  
1-800-776-9027

**Montreal**  
514-875-0090  
1-800-268-1602

**Vancouver**  
604-681-3346  
1-800-665-6994

**Client Services**  
1-800-792-9355

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