

INVESTMENT PLANNING COUNSEL'S *Special* Report



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A Retirement Savings Update

On November 27, 2008, Canada's Finance Minister Jim Flaherty presented the government's Economic and Fiscal Statement. This Special Report introduces new measures relating to Canadians' retirement savings.

Temporary reduction of RRIF minimum payouts

There is a requirement that a RRIF owner, starting in the second calendar year of the RRIF, must receive a minimum annual amount as determined under the Income Tax Act.

The Government has proposed that, for 2008 only, the normal minimum payment be reduced by 25%. This will apply to RRIF owners of all ages.

If, in 2008, a RRIF owner withdraws an amount from the RRIF that exceeds the reduced 2008 minimum, the RRIF owner will be permitted to re-contribute this "excess" amount to the RRIF. The repayment can also be made to an RRSP if the owner is less than 71 years of age as of the end of 2008. The owner will have to report the entire RRIF payment as income on their 2008 income tax return, but they will be able to claim a deduction equal to the repayment.

This repayment of the "excess" RRIF amount must be made by the later of:

- March 1, 2009; or
- 30 days after this proposal has been enacted.

These provisions will also apply to "variable benefits" paid from a defined contribution registered pension plan (DC-RPP). A number of provinces permit retired members of DC-RPPs to receive periodic payments directly from the plan rather than through a life annuity. These payments are referred to as "variable benefits". The Income Tax Act requires that the minimum annual "variable benefit" payment be the same as under a RRIF. Thus, the standard minimum variable benefit from a DC-RPP for 2008 is reduced by 25%, the same as applicable under a RRIF.

Pension Plan Solvency

As the funded status of defined benefit pension plans has been adversely affected by the recent declines in equity markets, the Government has proposed that federally-regulated pension plans be allowed to extend their solvency funding schedules from 5 years to ten years, with respect to solvency deficiencies as of December 31, 2008. This extension will be allowed either where both the active plan members and retired plan members agree to the extended schedule, or where the difference in the 5 and ten year payment schedule is secured by a letter of credit. The letter of credit or the agreement of the plan members would have to be secured by December 31, 2009 to allow for the extension to occur.

If you have any questions pertaining to the above report, please contact our office to schedule an appointment.



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