Canaccord Genuity Wealth Management

Financial Focus

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How to Drawdown your Portfolio in Retirement

By Clinton Orr

A common question I get asked is how to drawdown your portfolio in retirement. For years we work, save, invest, and build up a nest egg, then in retirement we need to start drawing down our investments. Do you drawdown the RRSP first? Your TFSA? What about the non-registered investments? Each account has different tax consequences, so a withdrawal plan can help you minimize the taxes.

The starting point of any withdrawal strategy is your needs. How much income do you need every month in retirement? Once the budget is sorted, we can determine the order in which to draw down your investment accounts.

Every situation is unique and requires a unique plan, however, we frequently suggest folks start by drawing down their registered accounts. RRSPs, RRIFs, LIRAs, LIFs, PRIFs, most of the alphabet soup of the financial world relates to registered accounts. When you withdraw money from a registered account it is usually treated as income, which means it is fully taxable! As well, when you pass away, most of these accounts can pass tax free to your spouse, however upon their passing any balance in these accounts is treated as income and is fully taxed. For example, if you and your spouse pass away and there is still $300,000 in the RRSP, all of it is treated as income on your final tax return, which means you will have to claim $300,000 of income, pushing you into the highest tax bracket. I say it jokingly, but there is a grain of truth, I often tell folks, "don't die with lots of money in your RRSP!" RRSPs, LIRAs, LIFs, withdrawals from these registered accounts are usually the most heavily taxed and can create a tax liability for your estate, so we typically suggest you draw them down first.

The second account to focus on for withdrawals is the non-registered investments. After you top up your TFSA and your RRSP, the additional funds are often invested in a non-registered account. Think of these accounts almost like a pay as you go system. Every year you will have to claim some of the gains in the portfolio on your tax return, which means when you withdraw from these accounts, some of the tax has already been paid.

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As well, you can access capital gains and dividends in non-registered accounts, which are more tax efficient sources of income. All these factors mean withdrawals from non-registered accounts are usually not as heavily taxed as withdrawals from RRSPs or registered accounts.

The last account we typically withdraw from is the TFSA. The Tax Free Savings Account is technically a registered account, however it differs from all those mentioned above because withdrawals are completely tax free. In addition, unlike the RRSP, the TFSA is not a tax liability for your estate. Any funds remaining in the TFSA when you pass away simply transfer to the beneficiary tax free. We typically suggest folks chip away at the accounts with larger tax consequences first and leave the TFSAs for last.

So, we know how much we need in retirement, we have the order of the withdrawals, the last piece of the puzzle is using the tax brackets to guide our withdrawals. For example, if you have withdrawn the amount you need, taking from the registered accounts first, and your total income for the year is $47,000, well, for Manitoba, in 2021, the top of that tax bracket is $49,020, so it might make sense to draw a little extra from your RRSP, or other registered accounts, to top up your bracket. The additional withdrawal helps you meltdown your RRSP faster, but since you are in the same tax bracket, your marginal income tax rate has not changed.

The above is a general guide on how to drawdown your portfolio in retirement. Contact your financial professionals to ensure you have a detailed withdrawal plan that helps minimize tax and meets your unique retirement needs.

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