Education Members Need to Think Twice About Generic Advice:

When it comes to the pension-income tax credit

You probably know that you can contribute to your Registered Retirement Savings Plan *(RRSP)* up to age 71 *(if you're still earning income to deduct against it).* And you also may already know that in the year you turn 71, you must close your RRSP, in which case you may choose to convert it to a Registered Retirement Income Fund *(RRIF).*

However, as an education member, there is one important detail you might not know that could cost you if you're not getting educator-specific advice revolving around the pension-income tax credit.

Educators Financial Planner Karen Hubbard *(CFP)* explains as follows, "I've heard from my clients that some banks have been offering pension-income tax credit advice to education members who are retired, or are starting to think about retirement. Specifically they are being told to switch their RRSPs to RRIFs at age 65, as this will allow them to withdraw $2,000 in annual pension income from their RRIFs to take advantage of pension-income tax credits," says Karen.

Why this bank advice might not be the right approach for you? Educators often retire in their 50s.

Karen continues, "Although the tax credit does not apply for RRIF income until **after age 65**, it can be used on income from a pension plan **after age 55**. With the majority of educators retiring well before 65 – some as early as 55, they are already making full use of the tax credit. Since most banks aren't aware of this, the advice they're giving would in fact increase your taxable income by $2,000."

Tax credit for pension income: the $2,000 factor.

Once you have a RRIF, you have to withdraw a minimum percentage each year. The larger your RRIF is, the larger that amount. However, after you turn 65, there are tax credits for pension income from a RRIF, but only to the first $2,000, so the amount you convert each year between 65 and 71 is an important factor in planning.

Even if you have a pension and an RRSP, there may be reasons to convert, or even withdraw early.

For example, Educators Financial Planner Dan Martonfi *(CFP)* says, "if you convert to a RRIF before 71, you may be able to have the tax benefits of income-splitting with your spouse, as long as you are 65 or older. That's something you can't do with an RRSP, unless it's an annuity."

Karen adds, "You may withdraw from your RRSP early to avoid potentially being placed in a higher tax bracket at age 72 when you have to take that first RRIF withdrawal."

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But Dan and Karen both urge caution. “For many people,” Dan says, “converting to a RRIF and withdrawing early will only increase the amount they are taxed. That’s why it’s important to always consult a tax specialist regarding tax advice.”

Everyone’s circumstances are different — particularly if you’re an education member.

Because we’re familiar with your world, including the details of your pension plan, our knowledgeable financial specialists will be able to consider your individual situation and make recommendations suited to your specific needs and goals.

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