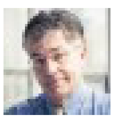
Can an RRSP get too large?


Posted by Jonathan Chevreau,
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My latest *Financial Post* column can be found online now by clicking on this headline: [Confronting the 'wonderful' problem of the too-large RRSP].

It describes what one source describes as a "nice problem to have." That's having accumulated so much money in a Registered Retirement Savings Plan (RRSP) that it presents a lucrative source of tax revenue for the federal Government once you reach age 71 and have to start making forced annual — and taxable — withdrawals from a Registered Retirement Income Fund or RRIF.


Doug Dahmer

This is a huge tipping point: moving from Wealth Accumulation to De-Accumulation, or what this site calls Decumulation. Suddenly, you're confronted with the flipside of what CIBC Wealth's Jamie Golombek has famously dubbed "being blinded by the refund," a reference to the juicy tax deductions we enjoy by making regular RRSP contributions during our high-earning high-taxed working years.

The article quotes regular Hub contributor Doug Dahmer – president of Burlington, Ont.-based Emeritus Retirement Income Specialists, and pictured here – who says baby boomers have a huge looming tax problem ahead with their 6-figure RRSPs once it comes time to start withdrawing money or securities from them. The FP piece references Dahmer's Hub blog earlier this year: Better Retirement Choices: An elegantly simple solution.

The case for early RRSP withdrawals and delaying Government benefits

As Dahmer has related here and elsewhere, he does believe RRSPs can get too large (at least if you're averse to generating large amounts of taxable income down the road), so he is an advocate of drawing down RRSPs during the low-taxed years that many semi-retirees may experience somewhere between corporate life (typically early 60s) until it's RRIF time in your early 70s.


CFP Ed Rempel

The column also quotes certified financial planner Ed Rempel (pictured left), who tackled aspects of this same issue in this Hub blog: Delay CPP & OAS until 70? Some Case Studies. Rempel says the combined impact of tax and OAS clawbacks can result in effective tax rates in retirement as high as 58% (43% income tax on incomes between $86,000 and $120,000 plus 15% OAS clawback equals 58%). It can be worse – 70% — for low-income earners who qualify for the Guaranteed Income Supplement (GIS), but we'll assume our readers are too wealthy for the GIS.


Adrian Mastracci

The case for making RRSPs as large as possible

The piece also talks to another regular Hub contributor, Vancouver adviser Adrian Mastracci, who is the source who says a large RRSP is a nice problem to have, and is all in favour of making it as large a problem as possible. After all, we may all live a long time and in a world of variable investment returns, no one can reliably predict the future.

If commenced at 65, OAS pays out only about $580 a month, or almost $800 a month if you wait until 70 to start drawing benefits. And remember, in 2017, the threshold annual income to even *start* losing OAS benefits is a fairly hefty $74,800 a year per individual. Furthermore, you have to generate $119,800 in combined retirement income before you completely forfeit *all* your OAS benefits.

If your RRSP, pension and other income sources are that substantial you can probably get by without the $580 or even $800 a month, which is after all, also taxable. If you're one half of a two-income retired couple, that means each spouse can earn almost $75,000 – for a combined family income of $150,000 a year – before OAS even STARTS to get clawed back. As Mastracci says, a nice problem to have!

Everyone has their own priorities. Mastracci suggests families need to ask themselves: "Is receiving retirement income from any source more beneficial in the early or later years?" Before or after age 75, for instance? "I vote for the later years," Mastracci says, "A balance may have to be reached for some." Mastracci's latest Hub blog is this one: Reverse engineering your Retirement. It's found at http://findependencehub.com/reverse-engineering-retirement/