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# How advisors are helping clients tap into RRSPs tax efficiently amid COVID-19

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Advisors say withdrawing from an RRSP early is not something clients should panic about, but they should do this cautiously with other measures in place.

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As some Canadians looked to make ends meet during the pandemic, accessing extra funds may have meant tapping into savings – and for some, withdrawing from their registered retirement savings plans (RRSPs) earlier than expected was the solution.

A poll of Canadian investors that Ipsos conducted on behalf of the Ontario Securities Commission's Investor Office in the spring showed that while seven in 10 people would be able to pay for an unexpected expense of $5,000 with their current cash flow, 17 per cent said they would meet this expense by withdrawing funds from an investment account such as an RRSP, tax-free savings account (TFSA), locked-in retirement account, registered retirement income fund, non-registered investment account, or pension plan.

For advisors, that represents an opportunity to explore strategies to help clients withdraw money in a tax-effective manner and navigate options for rebuilding their retirement nest eggs.

Morgan Ulmer, a certified financial planner (CFP) with Caring for Clients in Calgary, says the pandemic has created a barbell situation in which the lack of spending opportunities has allowed some individuals' savings to accumulate while others have suffered from COVID-19-related job losses or lower business income and have had to dip into their savings to pay their expenses.

While most of her clients fit into the former category, that wasn't the case for everyone. For example, one self-employed client's income was affected so adversely during the pandemic that they had to withdraw from their RRSP. In situations like this, she says, the first step for her as an advisor was to ensure she removed any shame about having to withdraw from a registered plan.

"You can hear that from clients – that they know it's not right to be withdrawing from their RRSPs prior to retirement – but we really work hard with them to alleviate that guilt because no one could have seen this coming," she says.

RRSP withdrawals are not only considered taxable income but are also subject to a withholding tax of 10 per cent on amounts up to $5,000, 20 per cent for up to $15,000, and 30 per cent when withdrawals are more than $15,000.

At the same time, there's no rule of thumb when it comes to whether to withdraw from the registered plan if the client needs funds, Ms. Ulmer says. That depends on several factors.

"It really does merit looking at an individual's specific situation, including their tax situation, current earnings, future anticipated earnings, and then making a decision about the best way to fund their lifestyle," she says.

### How to withdraw funds in a tax-efficient manner

While there's not much individuals can do about withholding taxes, early RRSP withdrawal can be accomplished tax efficiently, depending on the circumstances, Ms. Ulmer says. In the case of the client who had to do so, she was going to be reporting a loss in the tax year, so it made sense to withdraw from the RRSP as she was in a low tax bracket.

Another strategy for individuals who have access to a line of credit, she says, is to withdraw some RRSP money in one calendar year, supplement it with money from a line of credit, as needed, and then take out additional funds early the following year, splitting the income into two taxation years.

Similarly, Marc Sabourin, investment advisor and CFP with Harbourfront Wealth Management Inc. in Winnipeg, says for clients who did experience a drop in income during the pandemic, RRSP withdrawals were often less of a last resort and more of a tax planning strategy.

"Even though they had that emergency fund they could rely on, it was still a good time to pull money out of RRSPs because they were in a lower tax bracket the last couple of years and probably in a lower tax bracket than they're going to be once they do fully retire," he says.

> We really work hard with [clients] to alleviate that guilt [of withdrawing assets from an RRSP early] because no one could have seen this coming.
>
> — Morgan Ulmer, Caring for Clients

Ngoc Day, financial advisor with Macdonald Shymko & Co. Ltd. in Vancouver, also had clients who withdrew from their RRSP during the pandemic – but it was part of a strategy to take advantage of the Home Buyers' Plan, which allows purchasers to withdraw up to $35,000 to purchase a home without tax being withheld. Individuals are given up to 15 years to repay the funds into their RRSP.

For individuals who have lost jobs, she stresses a cautionary approach to RRSP withdrawal.

"You might get your job back later in the year, and suddenly you may – including the RRSP – now be pushed up to a higher tax bracket," she says.

A strategy to mitigate this, Ms. Day says, is to withdraw in increments as needed.

"There's no penalty to take a smaller amount and then take another small amount next month or two months from now. Nobody stops you from doing that," she says.

## What to do if you withdraw early

Clients also need to be aware that withdrawal affects contribution room, she says. Unlike a TFSA, in which clents can withdraw funds and recontribute them again the next year, for those who take $10,000 out of their RRSP, that contribution room disappears forever.

Options for clients looking to recontribute, she says, either have to wait until the following year to build new contribution room or use the contribution room from previous years if they have not maximized past RRSP contributions.

As Mr. Sabourin notes, clients who have withdrawn from an RRSP early should also work with their advisor to update their retirement plan, which will provide guidance on how much they need to save and in which accounts, or whether other variables – including their timeline or retirement income level – may need to be adjusted.

Ultimately, an early RRSP withdrawal is not a cause for panic, Ms. Ulmer says. Advisors can layer these situations into the financial plan to gauge the consequences.

"People have lots of levers that they can use in their situations – such as work for longer, spend less, or defer certain expenses," she says.

"It's really about focusing with a client on what is in their control and hyper-focusing on those aspects so that they can feel like they're back in the driver's seat."