Manulife

Tax, Retirement & Estate Planning Services

WEALTH TRANSFER STRATEGY 2

When to consider the RRIF successor annuitant or joint life option[1]

There are times when leaving an inheritance outright to a spouse[2] may not be the best choice. For example, you may want to ensure that children from a previous marriage receive an appropriate bequest after your spouse passes away. Or you may be faced with a situation in which your spouse is physically or mentally incapacitated — or financially irresponsible.

In these cases, enacting a straightforward strategy called the "Registered Retirement Income Fund (RRIF) successor annuitant or Joint Life option" allows you to retain greater control over how your RRIF is handled after your death.

How does it work?

When you name your spouse as your RRIF beneficiary, the RRIF can be transferred to your spouse on a taxdeferred basis on your death. With some contracts your spouse will assume complete control of the RRIF as the successor owner, and the contract will continue.

This means that your spouse will begin to receive an income stream and will be able to exercise their rights under the contact, including the right to change the beneficiaries, adjust the payment stream or cash in the investments.

[1] This strategy is available with locked-in funds where permitted by pension legislation. A successor annuitant can be named for contracts that do not hold the IncomePlus Series, Manulife RetirementPlus or Manulife PensionBuilder and the Joint Life option is available for contracts holding the IncomePlus Series, Manulife RetirementPlus or Manulife PensionBuilder. The successor annuitant or Joint Life must be the spouse or common-law partner (as defined by the Income Tax Act (Canada)) of the annuitant. Only one person can be named as the successor annuitant or Joint Life and the Joint Life may not be changed. Please refer to the applicable Information Folder, Contract and Fund Facts.

[2] Includes a spouse or common-law partner as defined by the Income Tax Act (Canada).

When you name your spouse as the successor annuitant or Joint Life, he or she also assumes control of the RRIF as the successor owner on a tax deferred basis. However, by designating irrevocable beneficiaries, who are not your spouse, you can preserve the tax deferral and give your irrevocable beneficiaries a say in the management of the assets that will ultimately pass to them.

Naming irrevocable beneficiaries effectively restricts your spouse's ownership rights, and your spouse will need the written permission of the irrevocable beneficiaries to change the beneficiaries, increase the income stream or cash in the investments. Meanwhile, if the successor annuitant or Joint Life (your spouse) predeceases you or no longer qualifies as your spouse at the time of your death, then the contract terminates and the death benefit will be paid directly to the irrevocable beneficiaries.

These features can make the RRIF successor annuitant or Joint Life option an attractive strategy in certain specific situations outlined in more detail below.

The opportunities

MARRIED WITH CHILDREN FROM A PREVIOUS MARRIAGE

You may want to provide an income stream to your spouse after your death, but at the same time ensure that children from a previous marriage receive any assets remaining in the RRIF upon your spouse's death. Naming your spouse as the successor annuitant or Joint Life and your children as irrevocable beneficiaries means your spouse will receive the periodic payments after your death, but will need the kids' consent to cash in the policy, increase the income stream or change the beneficiary designations – thereby protecting their residual interest.

SPOUSE IS INCOMPETENT

If your spouse is incompetent due to either physical or mental illness, your spouse will be unable to name a beneficiary when he or she assumes ownership of the RRIF. This means that the RRIF would pass through his or her estate and may be subject to probate[3] (and the resulting fees, delays and lack of confidentiality), challenges to the will and claims by estate creditors. If you name your spouse as the successor annuitant or Joint Life and designate beneficiaries (whether revocable or irrevocable), you can ensure that upon your spouse's death those funds will flow outside the estate and instead pass directly to the named beneficiaries.

SPOUSE IS FINANCIALLY IRRESPONSIBLE

Perhaps you are concerned that your spouse may cash in the entire policy and, as a result, fall short in meeting future living expenses.

Naming your spouse as the successor annuitant or Joint Life and designating irrevocable beneficiaries means that the irrevocable beneficiaries would have to authorize any withdrawals or changes in payments. The irrevocable beneficiaries can ensure that the income stream changes to match your spouse's needs, and that the investments aren't cashed in and spent.

[3] Probate does not apply in Quebec.

The Caveats

You must be sure that you won't want to change the irrevocable beneficiaries. Once named, the requirement for their consent to make changes to the RRIF contract applies immediately and restricts you, as the owner, as well as any successor owner, such as your spouse. For example, their approval is needed if you want to increase the income stream during your lifetime.

Furthermore, don't name minors as irrevocable beneficiaries as they are unable to give consent until attaining the age of majority resulting in the contract being essentially frozen until that time.

As with any RRIF, on the death of the surviving spouse a tax liability will be created in his or her estate. Depending on the amount of payments received by your spouse before death, the tax liability of his or her estate may be disproportionate to the benefit received by your spouse and no funds flow to your spouse's estate. If it is not your intention to have your spouse's estate pay these taxes, alternatives should be considered when the surviving spouse is named as the successor annuitant or Joint Life on the RRIF. While a number of choices are available for addressing the tax liability, life insurance is often a good option.

Note: This strategy is generally not available with RRIF contracts held in nominee name or 'on book'.[4]

IDEAL CANDIDATES

- You wish to provide income to your surviving spouse during his or her lifetime but give the remaining assets to your children
- Your spouse is or may become incompetent due to mental or physical illness
- You have concerns that your spouse may cash in the entire investment and fall short in meeting future expenses

TAKE ACTION

- Designate your spouse as the successor annuitant or Joint Life
- Designate beneficiaries, either revocably or irrevocably, where appropriate

This strategy is free and the paperwork is easy, but everything must be completed in the correct order.

Your advisor can help you decide if the RRIF successor annuitant or Joint Life option is right for you.

[4] This strategy may not be supported by dealers or may have additional restrictions or limitations. Furthermore, you won't be able to name an irrevocable beneficiary on the RRIF.

For more information, please speak with your advisor or visit manulife.ca/investments

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