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Group Retirement Solutions

Impacts of withdrawing from a retirement savings program

The COVID-19 pandemic has impacted our health and our economy forcing many Canadians to make difficult financial decisions. Canadians may be looking to their retirement savings plan as an option to access cash in the short term.

While this may seem like a simple solution, there are significant impacts. Take some time to consider the alternatives to cashing in your retirement savings assets:

- **Planning and budgeting -** In order to understand your financial shortfalls, you need to have a good understanding of your income and expenses. If you haven't created a budget, it's a good idea to put one in place. And to make it easier, there are a number of budgeting tools available online. The Financial Consumer Agency of Canada offers free software that's available on their site.
    - **Temporarily cut back on the wants:** Categorizing your expenses into *wants* versus *needs* is a good way to determine where you can find ways to save.
    - **Government financial aid:** Federal and provincial governments have created temporary financial aid programs and made enhancements to existing ones to help Canadians manage the economic impacts of COVID-19. Consider these programs in your budget. Visit the Retirement, savings and financial well-being section of our site, for links to resources and up-to-date information.
    - **Delayed payments**: Federal and provincial governments, along with many major banks are continually updating their programs in response to the crisis created by the COVID-19 pandemic. These programs include deferring payments of major household expenses including mortgages, utilities, and taxes. Visit our site for more information.
- **Other ways to save -** Your retirement savings are generally allocated to provide you with income when you retire. While these are challenging times, where possible, consider using savings from investment and savings plans that have a shorter-term objective like an emergency fund, tax-free savings account, or other liquid assets.

If you withdraw from your retirement savings plan be aware of these impacts:

- **Locking in a loss –** The COVID-19 virus created a severe drop in the global stock markets. If you cash out the investments from your retirement savings plan, you may be selling your investment at a low point (perhaps less than what you paid for them), and you won't be able to regain the value of the investment when the market recovers.
- **Lost opportunity for growth –** Cashing out your investments may prevent you from regaining the original value of your investments and you'll lose the opportunity to realize additional growth on those investments. For example, withdrawing $10,000 could end up costing more in the long run. At a 5% annual rate of return, $10,000 would have a value of $26,530 in 20 years.

- **Taxes –** A lump-sum tax is payable on all withdrawals made from a registered retirement plan such as a registered retirement savings plan (RRSP). When you file your personal income tax return, that withdrawal is considered income in the year in which you made the withdrawal. If your marginal tax rate is higher than the lump-sum tax paid, you'll owe additional taxes.
- **Withdrawal fees –** Your financial institution may charge fees for a withdrawal. Make sure you're aware of these costs before making a decision.
- **Plan rules –** Many workplace retirement programs have rules in place to ensure that you're using these assets during your retirement. In some cases a withdrawal may trigger a suspension of employer contributions. If you're considering making a withdrawal, review your plan member booklet for your specific plan rules. Your plan's service provider will also be able to answer questions relating to the rules of your plan.
- **Types of group savings plans:**
  - **Tax-free savings accounts (TFSA) –** Withdrawals from a TFSA aren't subject to taxes and you regain the contribution room on January 1 of the following year. If you're currently contributing to a TFSA, this is generally the plan you should consider for short-term withdrawals before you access your retirement savings.
  - **Registered retirement savings plans (RRSP) –** Any withdrawal from your RRSP will be subject to withholding taxes and the amount withdrawn will be treated as income. It's important to be aware that you won't be able to regain your RRSP contribution room as a result of a withdrawal.
  - **Deferred profit sharing plans (DPSP) –** DPSP assets are generally not available to you while you're employed. When available, a cash withdrawal is subject to withholding taxes.
  - **Defined contribution pension plans (DCPP) –** DCPPs are designed for retirement and you generally won't have access to these funds until retirement. Pension plans are legislated either federally or provincially and specific rules vary. Overall, these assets are locked in until your retirement, and are subject to age requirements and maximum annual withdrawal amounts when received. There are some instances such as shortened life expectancy and extreme financial hardship where you may have access to these funds sooner. These situations must be approved by the federal or provincial regulators. Please contact your plan's service provider to determine the rules governing your plan and the regulatory approval process.

Periodic review of your retirement program is important

- Revisit your risk profile. For additional information, visit the plan member section of your service provider's website
- Review your investment allocation to ensure you're properly diversified for the long term
- Complete or update your financial map (also known as a retirement planning tool) to get a better sense of your retirement financial future
- Discuss your current situation with your financial advisor

These are difficult times and at first, it may seem that a withdrawal from your retirement savings plan is an easy way to obtain cash, however, it could have a significant effect on your long-term savings goals and may not provide as much financial relief as you'd expect. Reach out to a financial advisor to help you create a plan for your specific situation.