eBook

Mastering Retirement

A comprehensive guide to preparing for your golden years.

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CHAPTER 1

What is Retirement Planning?

At its most basic, retirement planning is determining your desired retirement lifestyle and implementing an organized strategy to ensure you have the necessary income. This entails identifying your sources of income, estimating your expenses, and creating a savings strategy.

Your retirement plan will depend on your goals. Whether you envision downsizing and pursuing hobbies or investing in a summer retreat and winter travel, your financial aims will vary accordingly.

Your envisioned retirement lifestyle directly impacts your income requirements, savings targets, and anticipated retirement timeline.

Five Common Misconceptions About Retirement Planning

Creating a plan specific to your circumstances and goals is crucial to making the most of your retirement years and ensuring your money lasts throughout your lifetime.

One key benefit of working with a financial advisor to create your retirement plan is that they can help dispel the common misconceptions about retirement planning that can hinder your ability to make informed financial decisions.

- **Retirement Planning is Only for the Wealthy**

The truth is that retirement planning is crucial for everyone, regardless of income. Whether you're making a six-figure salary or living paycheck to paycheck, planning for retirement ensures financial security in your golden years.

- **You Can Rely Solely on Government Benefits for Retirement**

While Canada offers valuable benefits like Canada Pension Plan (CPP) and Old Age Security (OAS), they may not be sufficient to maintain your desired lifestyle in retirement. That's why it's crucial to supplement these benefits with personal savings and investments.

- **You Can Start Retirement Planning Later in Life**

Delaying retirement planning can significantly impact your financial security in the long run. Starting early allows you to build a larger nest egg and weather market fluctuations more effectively.

- **You Can 'Catch Up' on Retirement Savings Later**

While it's tempting to procrastinate on retirement savings, relying on catching up later may not be a reliable strategy.

Life's unexpected expenses and market fluctuations can derail your plans. The key to a secure retirement is starting early and being consistent with your savings habits.

The average retirement age in Canada to start receiving OAS benefits and CPP contributions is 65. However, you can retire early (with reduced monthly CPP payments) or later (with increased monthly CPP payments).

Retiring early sounds great. But, if that’s your choice, your retirement savings will need to last longer, so you must factor that into your plan to ensure you can fund your full retirement.

- **You'll Spend Less in Retirement**

Your retirement expenses may not decrease as much as you think. They could even rise with increased healthcare costs and leisure activities.

It's crucial to carefully assess all expected costs and establish a practical budget to ensure your retirement savings remain sufficient throughout your retired years. Additionally, your overall financial circumstances should be considered as you approach retirement.

Factors such as existing debt, financial support for adult children's education, or transitioning to a single income due to divorce can directly affect your post-retirement disposable income.

Longer life expectancy also has financial implications. With a longer lifespan, your financial resources must stretch further, and you're more likely to encounter health-related expenses. You'll want to account for these things in your retirement plan.

CHAPTER 2

Financial Planning for Retirement

When you start retirement planning, two key considerations are your current financial situation and your retirement goals. These will determine how to create the best retirement plan for you.

Your plan will consider factors such as your income sources in retirement, budgeting, debt management, and longevity risk.

Funding Your Retirement

- ✓ Government benefits

Timing is crucial for maximizing your government benefits. Many people decide to take their CPP and OAS benefits as soon as they are eligible, but there are benefits to delaying them if you can. Talk to your advisor about what's right for you.

The Canada Pension Plan (CPP) is a taxable monthly benefit designed to supplement your income during retirement. Eligibility requires reaching at least 60 years of age and having made contributions to CPP throughout your working years.

Your CPP payout is determined by your cumulative contributions, emphasizing the importance of contributing consistently throughout your career to maximize this benefit.

The Old Age Security (OAS) benefit provides a monthly payment to eligible Canadians. To qualify, individuals must be at least 65 years old, legal residents or citizens of Canada, and have resided in Canada for at least 10 years after turning 18. For those residing outside of Canada, citizenship or legal residency is required before the move, with at least 20 years of residence in Canada after turning 18.

To maximize OAS, you must live in Canada for at least 40 years after you turn 18. Keep in mind, though, that if you make over a certain dollar figure annually, you will face an OAS clawback rather than a higher pension amount.

✓ Registered investments

Government benefits alone cannot fund your retirement. Various savings and investment strategies exist to bolster your retirement income. Diversifying contributions across these accounts throughout your career is key to ensuring financial stability in retirement.

One prevalent option is the Registered Retirement Savings Plan (RRSP), widely used for retirement savings. Contributions can be made to your RRSP until December 31 of the year you turn 71. Upon reaching this age, you're required to close your RRSP and transfer investments to a Registered Retirement Income Fund (RRIF).

Typically, you'll convert the account when you need funds for retirement income. However, if alternative income sources can support your retirement, delaying conversion until age 71 allows your investments more time to grow, potentially reducing taxes when drawing retirement income from tax-efficient sources rather than RRIF withdrawals.

Additionally, a Tax-Free Savings Account (TFSA) is an excellent retirement savings tool. Investments within a TFSA grow tax-free, and withdrawals are tax-exempt, making it an attractive option for building retirement funds.

✓ Employer Pension

Throughout your working years, you contribute to an employer-sponsored pension plan. You may receive pension benefits from multiple jobs if you work more than one job.

There are two main types of employer pension plans.

A defined benefit (DB) plan pays you a set monthly income based on your salary, age, and tenure with the company. This type of plan is becoming less popular with employers because they are responsible for fully funding the plan to pay your pension when you retire.

In a defined contribution (DC) plan, your and your employer's contributions go into an account in your name, usually an annuity or a locked-in RRSP or RRIF. You choose where to invest the money. When you retire, you will generate income by withdrawing assets from the account, much like other investment accounts, depending on the investments' performance.

✓ Other Investments

Other investments that can contribute to your retirement income include mutual funds, stocks and bonds, government savings bonds, GICs, real estate rental property, employee stock savings plans, and equity in a business.

Generally, non-registered accounts do not have contribution limits or withdrawal penalties, so they can offer more flexibility within your retirement plan.

Managing Debt

Debt can significantly influence both your approach to retirement savings and your retirement income. Prior to retirement, debt obligations may diminish the amount you can allocate to savings, while post-retirement debt payments can further decrease your retirement income.

To optimize your retirement savings, eliminate high-interest debt, such as credit card balances, first. Once these accounts are settled, you can shift your focus to managing low-interest debt and investing in your retirement savings accounts.

- ✓ Common sources of debt among retirees include credit card debt, medical debt, and mortgage debt.
- ✓ To create a retirement budget, determine your monthly retirement income from all sources. Then, add up all your anticipated monthly expenses. If you have more income than expenses, your budget is on track. If it's the other way around, you must adjust your retirement plan to meet your goals.

Planning for Longevity

While extended life expectancy is undoubtedly positive, it does raise the possibility of outliving your savings.

Managing longevity risk is a crucial aspect of your retirement planning, and your financial advisor will address this when crafting your retirement strategy.

They will ensure that the time horizon of your plan adequately considers longer life spans so your savings will last throughout your lifetime.

Moreover, your plan should factor in the likelihood of developing illnesses, which increases with age.

To mitigate potential longevity risk, your plan should consider:

- Optimal timing for initiating CPP and OAS benefits.
- Implementation of tax-efficient strategies.
- Ensuring that your retirement investments remain effective.
- Determining the optimal retirement age.

You'll also want to start saving as early as possible to maximize compounding returns.

If your savings and other retirement income sources aren't enough to ensure income for the rest of your life, you may need to postpone retirement or reduce your lifestyle expenses to help bridge the income gap.

CHAPTER 3

Health Care in Retirement

Despite access to universal health care, most Canadians will need post-retirement health insurance to cover dental and health-related procedures and medication costs not covered by the federal program.

When you are creating your retirement plan, you'll need to consider things like private health insurance, critical illness insurance, and long-term care insurance.

Health Care Costs to Plan For

Provincial coverage varies widely for medications, so you should assume that there will be drug costs that are not covered.

Other out-of-pocket expenses can include specialized treatments, dental services, glasses, hearing aids, wheelchairs and other mobility devices, home renovations for increased accessibility, and private nursing or specialized care.

You may be eligible for government subsidies for some paramedical services and medical equipment. Still, you should account for these services in your plan and consider getting private health insurance to cover those costs.

Critical Illness Insurance

A typical policy covers a range of illnesses outlined in your contract. Upon diagnosis of a covered condition, the policy disburses a tax-free lump sum benefit following a predetermined waiting period. Having critical illness insurance ensures that, if you do fall ill, your medical concerns will not be compounded by financial ones.

Long-term Care Insurance

The longer we live, the greater the possibility of losing our independence and requiring long-term care. Private care can be extremely costly, both for in-home and out-of-home services.

One way to safeguard against this financial risk is to purchase long-term care insurance. Only one insurance provider, Sun Life, offers traditional Long-Term Care insurance in Canada.

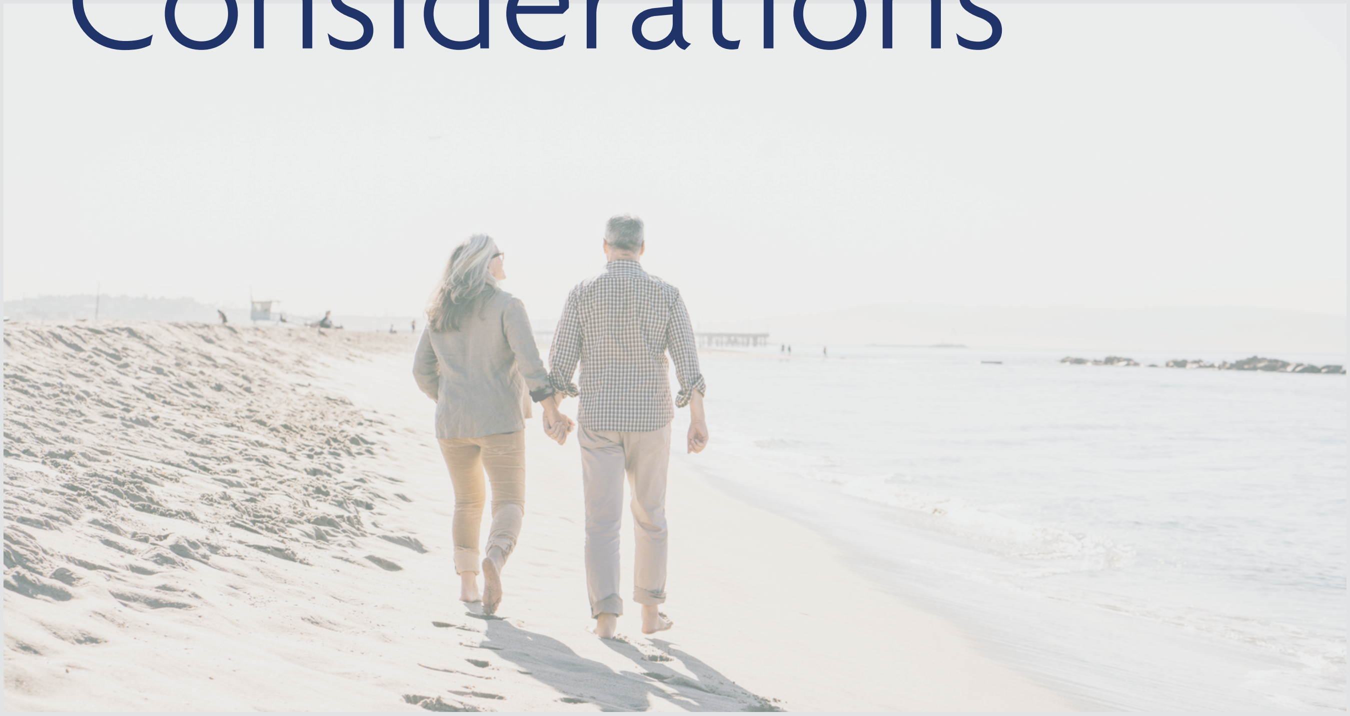
Another option is to self-insure by contributing to a savings or investment account over time to cover potential healthcare costs in retirement. A TFSA can be ideal for these savings because your investments grow tax-free and withdrawals are tax-free.

Workplace health and dental coverage typically end when you retire. However, some employers may continue to offer benefits or you may have the option to continue coverage at your own expense. Make sure you know what is available to you.

Should you require long-term care at any point in your retirement years, you'll have funds available to help meet the costs. If you're fortunate enough to stay relatively healthy and remain independent, your TFSA funds can then become assets for your heirs.

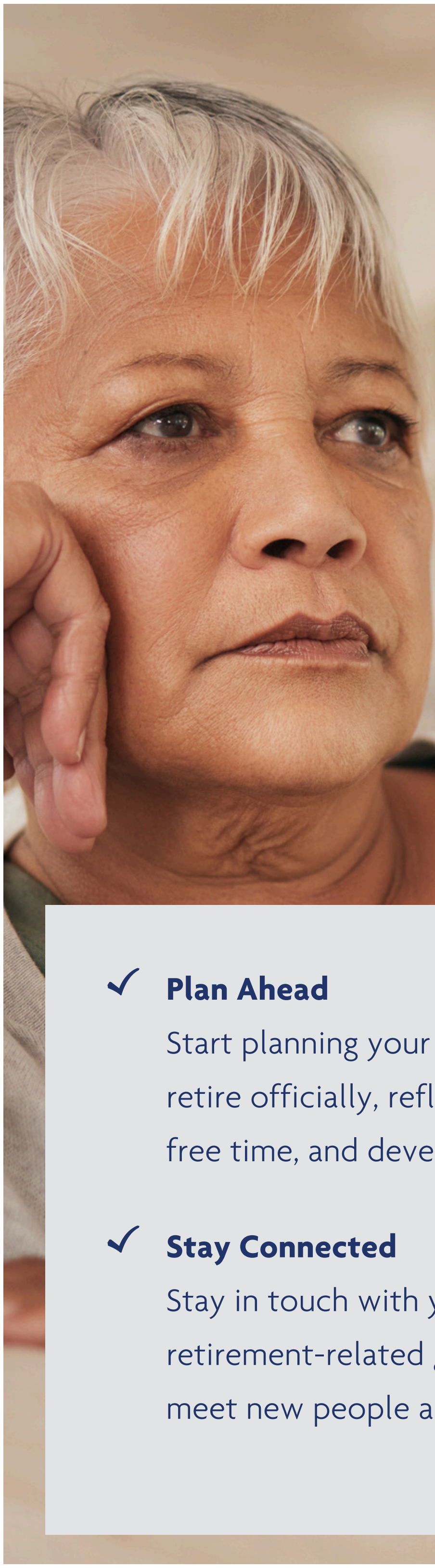
CHAPTER 4

Non-Financial Considerations



Retirement can be liberating and exciting but can also require some significant emotional and mental adjustments.

Big changes, even positive ones, can cause stress and anxiety that you may not be expecting.



Common Challenges for Recent Retirees and How to Adjust

- Challenges in shifting from work to relaxation mode
- Anxiety over having increased leisure time but reduced finances.
- Engaging in meaningful activities to occupy extra hours.
- Experiencing feelings of depression and isolation.
- Struggling with a loss of identity.
- Feelings of inadequacy.
- Adjusting to decreased independence when spending more time at home with a spouse.

✓ **Plan Ahead**

Start planning your retirement a few years before you intend to retire officially, reflect on how you want to spend your newfound free time, and develop a plan for making it happen.

✓ **Stay Connected**

Stay in touch with your friends and family, and consider joining retirement-related groups and activities in your community to meet new people and share your experiences.

- **Keep Busy**

  Take up a hobby or take classes to keep you active and engaged. Consider talking to your friends and family who have retired and find out what they do to keep busy.

  This can be especially important for retirees from care jobs like doctors, nurses, social workers, and other professionals who are used to looking after people. Setting new goals will help you stay motivated and give your life after work a sense of purpose. Consider volunteering with a local organization where you can continue to be of service.

- **Take Care of Yourself**

  Make sure to get plenty of sleep, exercise regularly, and eat a healthy diet. Talk to your doctor if you're feeling anxious or stressed, and don't be afraid to ask for help if you need it.

- **Seek Support**

  After retirement, looking for new sources of meaning is important. Find activities that add joy and enrich your life. It can help to reframe your mindset that you're not just retiring from something, but to something as well—whether that's a fulfilling hobby, a volunteer position, or continuing education, for example.

CHAPTER 5

Estate Planning

You may consider retirement planning and estate planning separate things, but estate planning is a crucial part of your retirement plan.

Structuring your estate plan to be as tax-efficient as possible reduces the financial impact on your family. This includes maintaining up-to-date wills, powers of attorney, and beneficiary designations.

Wills and Executors

Having a will is crucial to ensuring that the assets you worked so hard for during your lifetime are distributed according to your wishes.

If you die without a valid will, the provincial government divides your estate using a formula under the intestate rules. This formula likely does not reflect how you would choose to distribute your assets and may not consider all your family members.

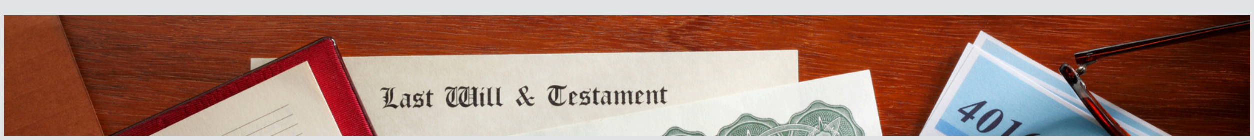
The executor is critical for completing your estate intentions. Choose well the person or people who will complete your final taxes and estate distribution. If you do not have a will, a court application will be necessary, increasing the cost and frustration for your family.

Power of Attorney

Electing a Power of Attorney early is important because:

- You need to act when you are sound of mind. You're not legally able to sign the document if you have a cognitive impairment, which is an increased risk the longer you delay the task.
- You could suffer a cognitive decline at any age from an illness, stroke, or injury.
- Your spouse can't simply take over your financial matters.

Without a valid power of attorney, your spouse or whoever will manage your money and property must apply to the courts to be approved as your representative, which can be a lengthy, stressful process.

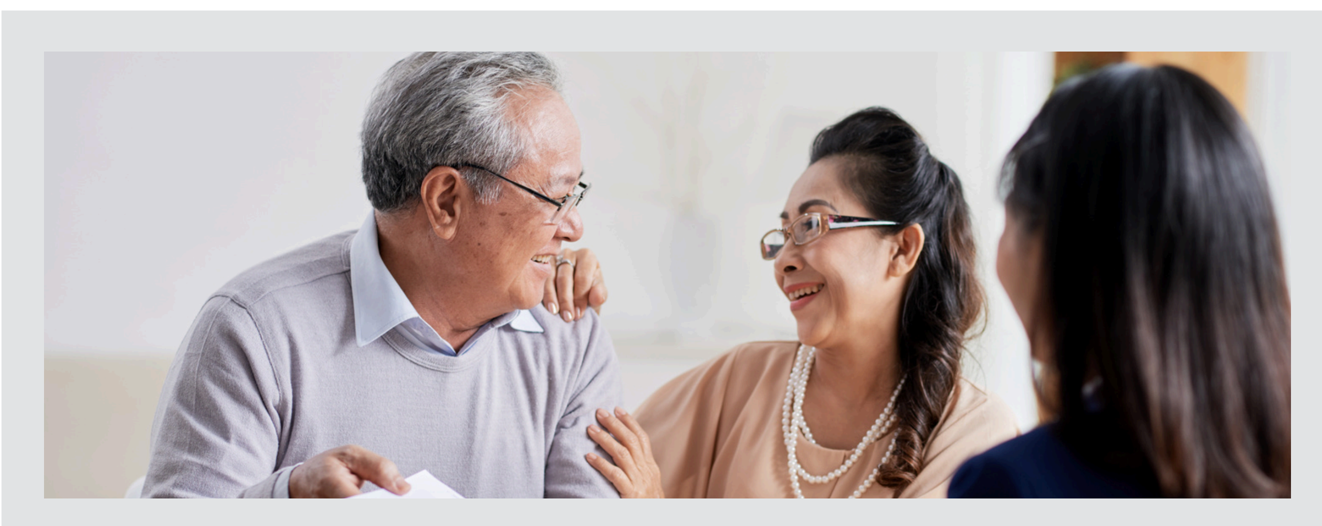


Inheritance Planning

Registered accounts, including RRSPs, RRIFs, TFSAs, life insurance policies, and many pensions, allow you to name a beneficiary, the person to whom the proceeds of the account or policy will go when you die. By naming a beneficiary, these proceeds bypass your estate and, therefore, are not controlled by the executor or the estate trustee, are excluded from the will, removing the need for probate and eliminating estate administration taxes. The proceeds are paid directly to the beneficiary.

Review and Update

Many of us make beneficiary designations when opening our accounts and then forget about it. If you cannot recall the beneficiary of each of your accounts and policies, that's a sign that a review is necessary. Any significant life event, such as marriage, separation, divorce, or the passing of a named beneficiary in your plans or will, should prompt a review. Additionally, relocating to another province necessitates understanding the applicable regulations and warrants a thorough reassessment of your estate plan.



CHAPTER 6

Minimizing Taxes in Retirement

Unfortunately, taxes don't stop when you stop working. On the contrary, if your retirement income is not structured efficiently, you can end up paying incredibly high tax bills every year, significantly depleting your retirement income.

Common Strategies to Pay Less Tax

The traditional rule of thumb is to withdraw from accounts that are not tax-deferred first, such as your non-registered investment accounts. This way you can avoid the highest tax rate and allow those investments to grow tax-deferred.

But your strategy really depends on how much you have and where those assets are held. Opting to withdraw from a blend of sources can optimize tax efficiency. The right strategy for you will depend on several factors your advisor will discuss with you.

Use your TFSA Wisely

TFSAs can be useful after retirement because money earned inside the account is not taxable—even when you withdraw it (unlike RRSPs and RRIFs). If you have retirement assets in non-registered accounts, they may be better off in a TFSA, where they can earn income tax-free.

Split Pension Income

Splitting income is a strategy that allows couples to reduce taxes by transferring pension income (for tax purposes) from the higher-income earner to the lower-income earner. The transferring spouse can give up to 50% of their eligible pension income to the receiving spouse.

Gifting Assets

Consider gifting assets to your beneficiaries during your lifetime. Canada has no gift tax, so you can gift assets tax-free. By reducing the size of your estate through strategic gifting, you can minimize the estate taxes that would have applied to those assets.

Spousal Rollover

Take advantage of the spousal rollover provision. When one spouse passes away, certain assets, like a principal residence and registered accounts (RRSPs, RRIFs), can be transferred to the surviving spouse without triggering immediate tax implications. This defers the tax until the surviving spouse disposes of the assets or dies.

Lifetime Capital Gain Exemption

Take advantage of the Lifetime Capital Gains Exemption (LCGE) for qualified small business shares and farm or fishing property. This exemption can help reduce or eliminate the capital gains tax on the disposition of eligible assets.

Charitable Giving

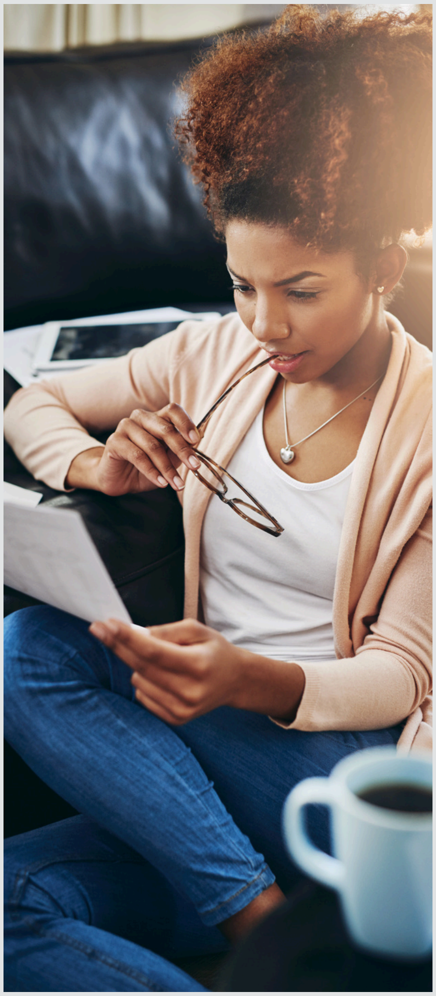
Consider leaving a portion of your estate to registered charities or setting up charitable foundations. Charitable donations are tax-deductible, and by directing some of your assets to charitable causes, you can reduce the overall taxable value of your estate.

Trusts

Establishing trusts can be an effective strategy for minimizing estate taxes. Properly structured trusts allow for the tax-deferred transfer of assets to beneficiaries.

Adjusting Your Plan Over Time

It’s important to inform your advisor if your retirement plans change – and they can change for various reasons.



Caring for an aging parent can affect when and where you retire. Maybe you want to turn one of your interests into a small business or move to another country.

In divorce cases, both spouses typically need to reassess their retirement plans. Similarly, remarriage prompts adjustments, as the new couple may have differing visions for their retirement lifestyle.

Any shifts in circumstances should prompt an update to your retirement plan to ensure it remains aligned with your current goals and circumstances.

Conclusion

Retirement planning takes a lot of work and organized strategy to ensure you have enough to enjoy your golden years to the fullest.

But if you put in the time and effort during your working years, it will absolutely be worth it knowing that your savings will last throughout your retirement years, that you've got a plan in place should you require medical or specialized care, and that your family will be taken care of after you're gone.

With hard work and planning, you can live the retirement lifestyle you dream of.

Our advisors offer comprehensive retirement and estate planning services.

Start planning for your golden years and book a meeting today.

I'M READY TO START MY PLAN

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