RBC Dominion Securities Inc.

PortfolioAdvisor

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Five Retirement Personalities

When it comes to planning your retirement, one size does not fit all. You have your own vision for retirement – your individual "retirement personality."

1. The Nervous Nelly

You always look both ways when crossing the road – twice. And when choosing investments for your retirement, your favourite word is "guaranteed." Does this sound like you? If so, you may be a Nervous Nelly (and that's OK). There's actually a little Nelly in almost everyone. Who wouldn't benefit (at least to some degree) from the following strategies?

- ***Diversify your retirement portfolio with lower-risk investments.*** You probably know all about Guaranteed Investment Certificates (GICs). But there are other lower-risk investment choices unlikely to disturb your peaceful slumber: government bonds, real return bonds indexed to inflation, Guaranteed Investment Annuities (GIAs) and annuities offering tax-efficient guaranteed income. If you're willing to live a little on the wild side, you might even consider investment-grade corporate bonds.

- ***Maximize your Canadian Deposit Insurance Corporation (CDIC) coverage.*** You may be aware that there's a $100,000 limit on CDIC coverage for GICs. However,

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it is possible to cover more than $100,000 of your GIC assets. How might one achieve this exceptional peace of mind, you might ask? Simply by diversifying your GICs among various GIC issuers that are members of the CDIC, and investing no more than $100,000 per GIC issuer. For example, say you have $270,000 in GIC assets. You invest $90,000 with three different issuers. And you don't need to go to three different financial institutions to do this – at RBC Dominion Securities, we can provide you with access to over 30 different GIC issuers.

- ***Insure your retirement.*** A special insurance product called Guaranteed Minimum Withdrawal Benefits (GMWB) can provide income you won't outlive. A GMWB is a "segregated fund" contract that guarantees the repayment of your principal with potential for capital growth over your lifetime. They're akin to mutual funds – being professionally managed portfolios of investments – but offer additional benefits associated with insurance contracts (like guarantees).

The GMWB isn't the only way a Nervous Nelly can calm their nerves with an insurance contract. GIAs, one of the GIC alternatives mentioned above, offer fixed interest rates over various terms, comparable to a GIC, but, as insurance contracts, offer other benefits, such as bypassing probate taxes. Insured annuities are another option. They combine an annuity with a life insurance contract to provide guaranteed income – often higher than a comparable GIC – and tax-free return of your initial capital to your estate (medical underwriting required).

2. The Penny Pincher

You spot an unclaimed loonie on the sidewalk – you've just increased your net worth (significantly). You obviously know the value of a dollar – or a penny, for that matter. That's why, when it comes to your retirement, you're a Penny Pincher. Following are some ways to stretch your retirement pennies:

- ***Maximize your GICs.*** If you limit yourself to just one GIC issuer, you may be limiting your return potential. We can help you source the best rates from over 30 different GIC issuers, including all the major Canadian banks.

Also, consider "laddering" your GIC maturity dates – for example, one-, two-, three-, four- and five-year GICs. As each GIC matures, re-invest in a new five-year GIC. Longer-term rates tend to be higher, so over time, this can enhance your income, while smoothing out year-to-year fluctuations. This strategy can work for your government bonds too.

- ***Coordinate your various sources of retirement income.*** First, make sure you're getting everything you're entitled to, such as registered savings (including pensions), non-registered savings and government benefits. Then consider ways you can coordinate them to make the most of what you're getting. For example:

- Consider waiting until the deadline (the year in which you turn 71) before converting your Registered Retirement Savings Plan (RRSP) into a Registered Retirement Income Fund (RRIF). This will enable you to continue making RRSP contributions, and receiving tax deductions if you still have earned income, as well as benefiting from continued tax-deferred compound growth.

- Once you convert your RRSP into a RRIF, consider withdrawing only the minimum required amount, and drawing income from other sources. That way, the assets within your RRIF can continue growing tax-deferred.

- Consider using your minimum RRIF withdrawals, if you don't need them right away, to make contributions to a Tax-Free Savings Account (TFSA) if you have available contribution room. Your TFSA contributions earn tax-free income, you can make tax-free withdrawals, and the amount you withdraw is added back to your available contribution room the following year.

- Look at ways to reduce the Old Age Security (OAS) clawback. You can allocate your pension income (such as RRIF income) to your spouse on your tax return, which can potentially reduce your taxable income, and reduce the OAS clawback. The OAS clawback rate is $0.15 for every $1 of net income above $70,954, and the full OAS is eliminated if your net income is $114,640 or higher.

- ***Get value for your fees.*** As a Penny Pincher, you're always looking for ways to save money, so it makes sense to pay attention to the fees you're paying. One way you can reduce your fees is through consolidation. Often, the more assets you hold in a single account, the lower the fee. By consolidating assets wherever possible, for example, combining two RRSPs into one RRSP, you can achieve this economy of scale.

3. The Family Person

Nothing matters more to you than your family. You feel largely responsible for their financial well-being. You've also put some serious thought into your legacy to your family. If this sounds like you, then you're a Family Person. You may be interested in learning more about:

- ***Protecting your family's financial security.*** As a Family Person, you may already have adequate life insurance in place, but it's a good idea to periodically reassess your coverage, especially when there are changes in your family situation.

In addition, you should also consider "living benefits" insurance, which helps if you, or your spouse, were to experience a disability or illness that might interfere with your ability to earn an income, or deplete your retirement savings. There are three main types of living benefits insurance: Critical Illness, Disability and Long Term Care. Each type can provide funds for you to use at your discretion – for day-to-day expenses, private care not covered by government health benefits or renovations to your home.

- ***Getting your children educated.*** You may be familiar with the Registered Education Savings Plan (RESP), which provides a tax-advantaged way to save for a family member's education. You can contribute a lifetime maximum of $50,000 per beneficiary, and the federal government provides the Canada Education Savings Grant (CESG) of 20% annual contributions to a maximum CESG of $500 for each beneficiary ($1,000 in CESG if there is unused grant room from previous years).

You can also save for a family member's education using a family trust. Depending on how the trust is structured, income earned on investments within the trust may be taxable in the hands of your beneficiaries, so long as it is paid or made payable to the beneficiaries and used for the benefit of the beneficiaries (e.g. extracurricular lessons, private school, post-secondary tuition, etc.). If your beneficiaries earn no other income, they can theoretically earn about $10,000 of interest, $20,000 of capital gains or $30,000-$50,000 of Canadian public company dividends tax-free every year every year within the trust (varies by province).

Making sure your younger family members get the education they need to fulfil their potential is important, and that extends beyond formal education. As a Family Person, raising your children to be financially responsible, successful and independent is a key priority. For some age-appropriate ideas on this, please ask us for a copy of our *Financial Literacy for Your Children* guidebook.

- ***Creating your legacy.*** During retirement, many people begin to think more about their legacy. On death, you are generally deemed to have disposed of all your assets at fair market value and are subject to tax on any gains deemed to be realized. A potentially cost-effective way to deal with these liabilities is with "tax protector" insurance. This insurance can provide your heirs with the funds they need to cover the tax bill.

There can be advantages to providing inheritances through a testamentary trust established by your Will, versus an outright gift. With a testamentary trust, you can specify certain conditions. For example, you may wish to leave your minor children just a portion of their inheritance when your estate is settled, deferring the rest to when they're older. In addition, income from a testamentary trust is taxed separately from a beneficiary's other income, so it won't bump them into a higher tax bracket.

4. The Philanthropist

For you, retirement is an opportunity to get more involved in the community, and give in more meaningful ways to causes important to you. (Even if that means buying more Girl Guide cookies from the neighbours' kids than you could ever possibly eat.)

Following are just a few ways you can maximize your charitable giving:

- ***Donate securities in kind.*** Rather than sell securities such as stocks that have gone up in value first, then donate the proceeds, considering donating them directly, in kind, to

your chosen charity. On in-kind donations of securities, the capital gains inclusion rate drops from the usual 50% to zero, which means you can significantly maximize your charitable gift.

- ***Set up a donor-advised fund.*** An alternative to a private foundation, a donor-advised fund enables you to create an enduring charitable legacy, without the time and funds required for a private foundation. You make an irrevocable gift of cash or other assets to a fund administered by a registered public foundation. You provide recommendations on how your donations are invested, and which charities receive grants from your fund.
- ***Create a charitable gift annuity.*** Designed for retirees, a charitable gift annuity enables you to give a lump sum to a charity other than a charitable foundation and receive periodic income in return, usually monthly.

5. The Jet Setter

You like to live large, travel the world, and enjoy the finer things in life. If this sounds like you, you're the Jet Setter. You want to worry less about managing your money, and more about spending it. But while you're living the sweet life, someone has to pay attention to the money.

A convenient choice for you, especially when you're out of the country for extended periods of time, is "discretionary investment management." With this approach, highly qualified money managers make all the day-to-day decisions about your investment portfolio within guidelines you set in advance, leaving you free to pursue more interesting things.

As a Jet Setter, you may also have cross-border issues, such as U.S. Estate Tax on U.S. property, and an insurance-based, asset-replacement strategy may be the most effective way to deal with this tax liability. Setting up trusts is another important consideration for a Jet Setter, especially if you have significant assets in multiple international jurisdictions. Trusts can be an effective way to simplify the management of your assets, while providing confidentiality, as well as important tax and estate planning benefits.

Resources to Help You Plan Your Retirement

Ask us for more information about:

- ***The Family Snapshot.*** Quickly find out what unique opportunities you and your family have to maximize your retirement plans, as well as reduce taxes and protect your financial security.
- ***Customized financial plan.*** Get a better handle on your overall financial situation, set achievable retirement goals, and develop a plan to reach them.
- ***Expert insights into retirement planning.*** Ask us for any of our educational guides, articles or reports on everything from maximizing your RRSP, to choosing your best RRSP maturity option, to making the most of your retirement income.

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