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Retirement Checklist

Making Sure You Don't Leave Any Stone Unturned in Retirement

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If you are nearing retirement or are recently retired there are a number of financial planning "To Do's" that you need to check off in order to ensure your retirement years are happy and prosperous. The typical Canadian may encounter many retirement income challenges such as longer life expectancy, high standard of living expectations, rising health care costs, low interest rates, inflation, etc. This article provides a handy retirement checklist that you can go through to make sure that you have considered common strategies and tips for maximizing your retirement income and maximizing your estate for your family.

The following is a checklist (not exhaustive) that you can go through if you expect to retire within the next 10 years or are already retired. Some of the items below may not be applicable to you depending on your age and your situation.

Government Benefits

- ❑ To avoid any delays, ensure that your application for CPP/QPP retirement benefits and Old Age Security (OAS) is made at least six months before the eligibility date.

- ❑ For an estimate of your CPP retirement benefit contact 1-800-277-9914. For an estimate of your QPP retirement benefit contact 1-800-463-5185.

- ❑ Speak to your advisor whether you are better off taking a reduced CPP/QPP as early as age 60 or waiting until age 65 (or later) for a higher benefit.

- ❑ Consider splitting your CPP/QPP with a lower income spouse to reduce the family tax burden. CPP/QPP splitting is only available when the younger spouse is eligible to collect CPP/QPP.

- ❑ If you stayed at home caring for children under the age of seven during your working years, ensure that you apply for the Child Rearing Drop-Out provision so that you can increase your CPP/QPP benefit

- ❑ If you are at least age 65 and you expect your annual net income after 65 will be greater than $60,806 in today's dollars (i.e. 2005 value) then strategies such as income splitting or deferring income may help to minimize your OAS clawback.

- ❑ If your family income is low and you are at least age 65, you or your spouse may be eligible for the Guaranteed Income Supplement (GIS) or the OAS Spouse's Allowance.

Employer Pension and Benefits

- ❑ Determine what options you have to receive your employer pension. You may be able to receive the pension as an annuity or transfer the commuted value to a locked-in RSP. Your advisor can analyze which option may be best for you.

- ❑ If you are able to transfer the commuted value of your pension to a locked-in RSP, some of the lump sum may be immediately taxable. Speak to your employer to determine if a portion of the commuted value is taxable on transfer.

- ❑ If you transfer out the commuted value of your pension plan, ask your employer if you are eligible for a Pension Adjustment Reversal (PAR). A PAR increases your unused RSP deduction room.

- ❑ Determine what post-retirement health benefits (drug, dental, etc) are available, if any, through your employer. Note that the decision you make regarding your pension option may affect the level of post-retirement health benefits you receive, so keep this in mind.

- ❑ If you leave your pension with your employer, ensure that you have designated your desired beneficiary. In many cases, you may be required by legislation to designate your spouse as the beneficiary.

- ❑ If you leave your pension with your employer, you may be required to choose the % of your pension that you want payable to your spouse after your death. Depending on your situation it may be better for you to choose a % that is more or less than the default 50-66%.

- ❑ If you leave your pension with your employer and you are under 65, is there is an option to receive a higher pension before age 65 and a lower pension after 65 (i.e. bridge)? If you are in your early fifties or younger and don't expect long life expectancy you may be better off taking the higher pension before age 65.

RSPs, RIFs and Locked-in Accounts

- ❑ Ensure that the named beneficiary on your registered plan (RSP, RIF, or locked in account) is correct. Probate tax (negligible in Alberta and Quebec) can be avoided by naming a beneficiary on the plan.

- ❑ If your Will states who should receive the assets in your registered plan, then ensure this designation is consistent with your beneficiary named directly on the plan to avoid any confusion.

- ❑ Be careful of naming a disabled child as the direct beneficiary on the plan. The receipt of RSP/RIF funds directly by a disabled child may potentially disentitle them to provincial disability benefits. Speak to your legal or tax advisor for strategies to avoid this clawback.

- ❑ To avoid a full deregistration of your registered assets, you must convert your RSPs and locked-in RSPs to income vehicles (RIF, LIF, LRIF, PRIF, annuity) before the end of the year you turn age 69.

- ❑ If you are at least 65, then you may be entitled to a $1,000 pension income non-refundable tax credit on withdrawals from a RIF. This tax credit is worth about $200 of annual tax savings.

- ❑ If you are a U.S. citizen living in Canada, then ensure you file IRS Form 8891 related to your Canadian registered plans.

- ❑ If you have a RIF, LIF, LRIF or PRIF then consider basing the minimum withdrawals on the younger spouse's age to minimize taxable withdrawals and maximize tax deferral.
- ❑ Speak to your advisor about the appropriate asset allocation of your registered accounts in retirement. In general from a tax-planning standpoint, your fixed income investments should be held in your registered plans and your equity investments in your non-registered plans.
- ❑ If you have a locked-in RSP and have to make a decision regarding whether to convert to a LIF or an LRIF then speak to your advisor to determine what is best for you.
- ❑ If you are turning age 69 this year and have earned income this year then consider making your next year's RSP contribution in December of this year. This final RSP contribution is sometimes called the "forgotten RSP contribution".
- ❑ A rule of thumb is to withdraw from your non-registered accounts before your registered accounts in order to maximize tax deferral. However, if your income is low, in some cases, you may be better off making early withdrawals from your RSP/RIF to minimize your future tax bill.
- ❑ If you have earned income then consider making spousal RSP contributions to equalize both spouse's retirement income to minimize the family tax burden.
- ❑ If you are concerned about your estate having a large tax liability related to your remaining RSP/RIF assets at death, then speak to your advisor about using insurance as a low cost solution to pay for this tax bill.
- ❑ If you have a foreign retirement plan (e.g. U.S. IRA or 401(k)) then you may be eligible to contribute those assets into your RSP without affecting your unused RSP deduction room. Speak to your advisor for more details.

Non-Registered Assets

- ❑ Speak to your advisor about the appropriate asset allocation for your non-registered assets as you near retirement or are in retirement. Ensure you have an adequate equity component given the possibility of long life expectancy.
- ❑ Based on your risk tolerance and asset allocation consider quality investments that earn tax-effective income such as capital gains, Canadian dividends and return of capital.
- ❑ If you have a low income spouse then consider setting up a prescribed rate loan for income splitting purposes.
- ❑ If you have a testamentary trust provision in your Will then having assets held in JTWROS (not applicable in Quebec) may not be appropriate.
- ❑ If you are an affluent U.S. citizen, then having assets held in JTWROS (not applicable in Quebec) may not be appropriate for U.S. Estate Tax purposes.
- ❑ If you have significant non-registered assets, consider gifting or loaning surplus assets directly or through a trust to low-income children/grandchildren for income splitting benefits.
- ❑ If you have surplus assets you intend on passing on to the next generation, consider purchasing life insurance for tax-free investment growth and for maximizing your estate value.

Estate Planning

- ❑ Ensure that your Will and Power of Attorney are up to date. If you own shares of a private company then speak to your lawyer about having a second Will in order to minimize probate taxes.
- ❑ If you are in a second marriage, have disabled children and/or have significant assets then speak to your lawyer about having a testamentary trust provision in your Will for control and income splitting benefits.
- ❑ If you or your spouse are at least age 65, then speak to your lawyer about the benefits of rolling your non-registered assets into an alter-ego or joint partner trust for probate avoidance and privacy of affairs.
- ❑ Speak to your advisor about getting an insurance needs analysis for estate preservation and to ensure that your survivors will have adequate income and assets to meet their needs after your death.
- ❑ Consider pre-arranging your funeral to reduce the burden on family members.
- ❑ If you have U.S. stock or U.S. real estate and your worldwide estate is greater than $1,500,000 US then speak to your tax advisor regarding strategies to minimize your U.S. estate tax exposure.
- ❑ If advantageous from a cost/benefit standpoint, take appropriate steps to minimize probate fees (negligible in Alberta and Quebec). Assets held in JTWROS (not applicable in Quebec), living trusts and lifetime gifts are common strategies.

General Points

- ❑ Speak to your advisor about having a financial plan prepared or updated to determine if you have enough assets and income to meet your expected expenses in retirement. Be careful not to underestimate your life expectancy.
- ❑ Consider consolidating your retirement and investment assets in order to reduce fees, simplify your administration and simplify your estate settlement.
- ❑ If you are retired you may now be eligible for discounts related to your home or auto insurance premiums, so contact your insurance company. The retiree discount may apply even if you are under age 65.
- ❑ If you are concerned about rising health care costs, then speak to your advisor about the benefits of Critical Illness insurance and Long Term Care insurance to avoid depleting your assets to pay for major health care costs.
- ❑ Ensure you have adequate prescription drug and dental coverage in retirement.
- ❑ If you own your own business and plan on selling the business in the next few years then speak to your tax advisor about restructuring the ownership of the business to minimize tax on the future sale.
- ❑ If you have significant equity in your home and you require additional retirement income then consider a reverse mortgage.

- ❑ If you are a snowbird in the U.S., speak to your advisor about RBC U.S. Banking packages. Also speak to your tax advisor about your U.S. tax filing obligations.
- ❑ Ensure you have appropriate travel insurance when you are travelling in retirement.
- ❑ Ensure you have an adequate emergency fund equal to 3-6 months of your living expenses. A line of credit can also serve as part of your emergency fund.
- ❑ If you make annual donations, then consider donating shares in-kind instead of selling the shares and donating the cash in order to minimize tax on the capital gain.
- ❑ If you have grandchildren age 17 or younger, consider making an RESP contribution.

Note: The above information is based on the current and proposed tax law in effect as of the date of this article. The article is for information purposes only and should not be construed as offering tax or legal advice. Individuals should consult with qualified tax and/or legal advisors before taking any action based upon the information contained in this article.