RBC Wealth Management Services

The Navigator

2014 Financial Planning Checklist for Seniors

If you are 65 or older, the following is a checklist of key financial planning considerations that may help you preserve and grow your wealth. Please note that while this checklist covers the most common situations, it is not meant to be an exhaustive list.

This article outlines several strategies, not all of which will apply to your particular financial circumstances. The information is not intended to provide legal or tax advice. To ensure that your own circumstances have been properly considered and that action is taken based on the latest information available, you should obtain professional advice from a qualified tax advisor before acting on any of the information in this article.

- **Pension Income Splitting:** If your spouse has a lower marginal tax rate, consider splitting eligible pension income with your spouse to reduce your family's overall tax bill. Examples of eligible pension income when you are 65 years of age or older include withdrawals from RRIF and LIF accounts. Using this strategy may allow you to have up to 50% of your eligible pension income taxed at your spouse's lower marginal tax rate.
- **Forgotten RRSP Contribution:** If you are 71 this year and are still earning RRSP contribution room, consider making a final RRSP contribution by December 31 of this year (based on your earned income for the year) before converting to a RRIF. Although you will be subject to a 1% over-contribution penalty, the tax savings from this RRSP contribution may be substantially greater. This is often known as making your "forgotten RRSP contribution".
- **Spousal RRSP Contribution:** If you are 72 or older, have remaining RRSP contribution room and have a spouse who is 71 years of age or younger, consider making a contribution to a spousal RRSP to obtain a tax deduction on your tax return and to maximize your family's retirement savings.
- **Using Your Spouse's Age for RRIF Minimum Payments:** By the end of the calendar year in which you turn 71 years of age, you are required to convert your RRSP into a RRIF. However, if you have a younger spouse and you will not require the mandatory annual minimum RRIF payments, consider using your spouse's age when setting up the RRIF to minimize the taxable RRIF withdrawals.
- **Tax Free Savings Account (TFSA) Contribution:** Consider contributing the annual maximum ($5,500 in 2014) to your TFSA. All TFSA investment growth, income and withdrawals are tax-free and do not affect your eligibility for federal government income-tested benefits such as Old Age Security, the Guaranteed Income Supplement and tax credits (e.g. the age amount). The TFSA can also be used as a tax shelter for money you may not currently need. For example, consider contributing any portion

If you are 72 or older, have remaining RRSP contribution room and have a spouse who is 71 years of age or younger, consider making a contribution to a spousal RRSP to obtain a tax deduction on your tax return and to maximize your family's retirement savings.

from your after-tax mandatory minimum RRIF payment that you do not require to fund your expenses to your TFSA account (subject to your TFSA contribution room). If you've never contributed to a TFSA before, your contribution room could be as high as $31,000 in 2014.

- **Old Age Security (OAS):** OAS benefits are available to anyone who meets the eligibility requirements and is aged 65 years of age or older. The maximum benefit for January to March, 2014 is $551.54 per month. This income tested benefit is clawed back at a rate of $0.15 for every $1 of net income over $71,592 and is fully clawed back once net income reaches $115,716.

  If your OAS is expected to be clawed back this year due to a unique one-time taxable transaction (e.g., a large severance payment or a large capital gain from selling your business or real estate property) and your net income will be substantially lower next year, consider requesting a waiver by filing the Canada Revenue Agency (CRA) Form T1213 (OAS) — Request to Reduce Old Age Security Recovery Tax at Source. If approved by the CRA, Service Canada will reduce the amount of tax withheld from your monthly OAS payments in the following year.

- **Canada Pension Plan (CPP)/ Quebec Pension Plan (QPP):** If you worked in Canada, you may be eligible to receive CPP or QPP payments. Unlike OAS benefits, CPP/QPP payments are not income-tested benefits and are not clawed back. To equalize or income split with your spouse and possibly reduce your family tax bill, consider sharing this government pension with your spouse.

- **Pension Income Tax Credit:** You may be entitled to receive a federal non-refundable pension tax credit on the first $2,000 of eligible pension income you receive in the year. Eligible pension income includes company pension plan payments, RRIF and LIF payments, but excludes OAS, CPP and QPP payments. You may also be eligible to claim a corresponding provincial or territorial credit. Since this is a non-refundable tax credit, please note that it can only be used to offset any taxes payable in the current year. If you have no taxes payable, this credit will be lost.

- **Inter-vivos Trusts:** Consider the benefits of an inter-vivos trust such as avoiding probate tax (please note that this does not apply if you have a notarial Will in place in the province of Quebec) and income-splitting possibilities with your children or grandchildren.

  An alter-ego trust or joint partner trust (for married couples and common-law partners) may provide you with additional tax and estate planning opportunities. Ask your RBC advisor for the article titled *"Alter Ego and Joint Partner Trusts."*

- **Testamentary Trust:** Consider creating a testamentary trust in your Will. As this trust is taxed as a separate taxpayer and is subject to the graduated tax rates, significant tax savings may be available using this trust, if beneficiaries are in high tax brackets. Testamentary trusts can also provide you with the ability to control the timing of your estate distributions.

  It is important to note that in the 2013 Federal Budget, the government announced its intention to introduce possible

Consider purchasing an insured annuity as a tax-efficient method to increase your retirement income.

measures that will eliminate the tax benefits that arise from taxing testamentary trusts at graduated tax rates. You should consult with a qualified tax advisor to discuss the merits of creating a testamentary trust in your Will.

- **Gifting Assets:** A simple method of avoiding probate or achieving income splitting is to gift assets to your children or grandchildren during your lifetime. For tax purposes, such gifts are deemed to be dispositions and you may be subject to taxes on any capital gains realized on the transfer. Also, beware of attribution rules that could result in dividend and interest income being attributed back to you if gifts are made to minors.
- **In-kind Gift of Publicly Traded Securities:** If you have philanthropic intentions, consider gifting your publicly traded securities directly to a qualified registered charity. Any accrued capital gains in these securities will be exempt from tax; and you will also receive a donation tax credit equivalent to the fair market value of your in-kind security donation, which will reduce your overall tax bill.
- **Age Amount Tax Credit:** You may be able to claim a federal non-refundable tax credit of $1,037 (i.e. 15% of the age amount – $6,916 for 2014) on your tax return. The age amount tax credit is reduced by 15% for every dollar above net income of $34,873, and is completely eliminated when net income is $80,979 or higher. You may also be eligible to claim a corresponding provincial or territorial credit.
- **Insured Annuity:** Consider purchasing an insured annuity as a tax-efficient method to increase your retirement income.
- **Charitable Remainder Trust:** Consider establishing a charitable remainder trust to get the tax benefits of the charitable donation tax credit now for making a charitable donation upon death.
- **U.S. Estate Tax:** If you own any U.S. situs assets (which includes real estate in the U.S. and U.S. securities, both in your non-registered and registered accounts), it is important to examine your potential U.S. estate tax exposure and consider strategies to minimize or eliminate your potential U.S. estate tax liability. Ask your RBC advisor for the article titled "U.S. Estate tax for Canadians" and speak to your qualified tax advisor for more details.
- **Estate Planning:** Ensure that your Will, Power of Attorney for Property and Power of Attorney for Personal Care documents (Mandate in Quebec) are valid, up-to-date and still reflect your wishes.

Please contact us for more information about the topics discussed in this article.

NAV0002-EN (01/2014)