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YOU HAVE $1 MILLION-PLUS FOR RETIREMENT

How can you make the most of it?

Let's assume you have (or plan on having) $1 million or more for your retirement. What should you do to live the lifestyle you want, while making sure your money lasts as long as you need it to?

1. START WITH A PLAN

You may think that $1 million is more than enough for retirement and that you don't really need to watch your money anymore. But people are living longer, which means they need their retirement savings to last longer. On average, Canadians can now expect to live another two decades after age 65, according to Statistics Canada. So while $1 million is indeed a lot of money, it doesn't necessarily mean you can live the "lifestyles of the rich and famous."

If you don't have a retirement plan yet, start there. Or, if you do have one, make sure it's up to date. A retirement plan can help you determine how much you need to save if you're still working towards your first million, when you can retire if that's still in the future, how much income you can withdraw from your savings and, most importantly, how to make it last as long as you need it to.

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How to Build a $1 Million RRSP

- Contribute as early as possible before the deadline, which is Monday, March 3, 2014 for your 2013 RRSP contribution.
- Always contribute the maximum, which is 18% of your 2012 earned income, up to a maximum of $23,820 for 2013.
- Get a head start – the limit is rising to $24,270 for your 2014 RRSP contribution.

To learn more, ask us for a complimentary copy of RRSP Quick Tips.

2. Reduce Any Outstanding Debt

Ideally, by the time you're 10 years or so away from retirement, you are debt-free, with clear title on your principal residence. If you're not quite there, it will probably make sense to put some of your $1 million towards debt reduction or elimination. Start with the "bad debt" like higher-interest credit card debt. Then move onto the lower-interest, longer-term debts, like your mortgage. If you're keeping certain debts, consider consolidating and refinancing at a lower interest rate where possible.

3. Consider Your Retirement Lifestyle

Ask yourself some key questions, like:

- Where do you want to retire?
- What will you do during retirement?
- Do you want to downsize your home?
- Will you need to renovate your home?
- Do you want to travel extensively?
- Will you live out of the country for part of the year?

The answers to all these questions should be taken into consideration when creating your retirement plan.

4. Maximize Your RRSP/RRIF

Perhaps the single best way to save for retirement is your Registered Retirement Savings Plan (RRSP). Contributions are tax deductible, plus they grow within the plan on a tax-deferred basis.

- **If you still have an RRSP:** Catch up on any unused RRSP contribution room in order to benefit from the tax deductions and tax-deferred growth sooner rather than later. Once you've caught up, stay caught up.

  And keep your RRSP open as long as possible to continue benefiting from tax-deferred growth.

- **If you are about to convert your RRSP:** If possible, wait until the deadline to convert your RRSP, which is December 31 of the year you turn 71. This gives you that much longer to benefit from tax-deferred growth. Before you convert your RRSP, remember to make any final RRSP contributions.

  Also, take some time to consider how you will convert your RRSP. The most popular option, a Registered Retirement Income Fund (RRIF) is in some ways an extension of your RRSP. You can invest within your RRIF the same way you do within your RRSP, and enjoy tax-deferred growth. The only differences are, you can no longer make contributions, and you have to make minimum withdrawals, which increase with your age.

  Other popular options are annuities and segregated funds, which provide guaranteed lifetime income and a possible death benefit for your estate. Since deposits to an annuity are irrevocable, and you lock in at a certain interest rate, it usually makes sense for some but not all of your retirement savings. Deposits to segregated funds are redeemable, however, these options should only be used to cover a fixed portion of your expenses.

- **If you have already closed your RRSP:** Even if you're past age 71, you may still be able to contribute to a spousal RRSP if you have a younger spouse. If you are still earning income, you will be able to

How to Invest Your $1 Million Portfolio

1. Determine your optimum asset mix between stocks, bonds and cash based on your life stage and risk tolerance.
2. Diversify between different investments, asset classes, geographic areas and industry sectors to reduce risk.
3. Regularly rebalance your portfolio to maintain your ideal asset mix based on your current life stage and market conditions.

For our current outlook for stock, bond, currency and commodity markets, ask us for the latest edition of Global Insight.

use the tax deduction. If you have converted your RRSP to a RRIF, consider taking the minimum required annual RRIF payment to leave more in your RRIF to grow tax-deferred.

5. Top Up Your TFSA

While it's hard to beat the tax advantages offered by your RRSP, a Tax-Free Savings Account (TFSA) comes in a close second. Like an RRSP, your contributions grow on a tax-free basis. Unlike an RRSP, you don't get a tax deduction for your contribution. But also unlike an RRSP (in a good way), you can make tax-free withdrawals, any time for any reason, and the amount you withdraw is added back to your available contribution room the following year.

6. Invest Through Tax-Exempt Life Insurance

With tax-exempt insurance, you pay the usual insurance premium and gain life insurance coverage. However, you can make additional deposits to the policy, invest them, and the investment income accumulates tax-free, just like your RRSP or TFSA. If you need access to the funds during retirement, one way you can access them is to take out tax-free bank loans using the policy as collateral. Upon your death, the insurance policy proceeds are used to pay back the loans, and the remainder goes to your beneficiaries, tax-free.

7. Invest in a Diversified, Risk-Lowering Portfolio

So how do you invest the money, whether it's in your RRSP/RRIF, TFSA, or a regular, non-registered account? First, make sure you get professional advice to determine what investments are suitable for you. For most investors, it makes sense to diversify your investment portfolio between equities, fixed-income and cash based on your life stage and comfort level with risk.

- **Equities.** Generally, the further you are from retirement, the higher the percentage of equities you can hold in your portfolio. Equities such as stocks historically provide greater long-term growth potential, but fluctuate more in value. The further away you are from retirement, the more time you have to let the ups and downs smooth out. But even in retirement, it usually makes sense to keep some equities in your portfolio for the long-term growth, given increased life expectancies.
- **Fixed income.** The closer you are to retirement, the higher the percentage of fixed-income investments such as government bonds and GICs you should hold in your portfolio. Because they offer guaranteed income and principal repayment at maturity, they're ideal for retirees. However, interest rates remain at historic lows, making it difficult to get a satisfying income from regular GICs and government bonds. As a result, you may want to diversify with other income-producing investments, such as corporate bonds, insured annuities, segregated funds and dividend-paying stocks.
- **Cash or cash equivalents.** Whether or not you are retired, it can make sense to keep some of your portfolio in cash to provide liquidity and have on hand for new investment opportunities.

8. Be Tax-Smart

Next, consider strategies to minimize your taxes. First, consider how your investment is taxed outside your registered plans:

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How to Protect Your $1 Million Estate

- Ensure you have adequate life, disability, critical illness and long term care insurance.
- Consider insurance strategies to maximize the after-tax value of your estate.
- Consult with your legal advisor to maintain up-to-date Wills and Powers of Attorney.

For insights on estate planning, ask us for a complimentary copy of our latest issue of Perspectives *magazine.*

- Interest income is fully taxable at your marginal tax rate.
- Eligible Canadian-source dividends receive a Dividend Tax Credit.
- Only half of your net capital gains are taxable.

Within your registered RRSP/RRIF, however, all income is treated equally – it's not taxed until you withdraw it, and then it's taxed at your marginal income tax rate. As a result, it may make sense to consider allocating more of your tax-efficient investments, which produce capital gains and dividends, to your non-registered accounts, and more of your fully taxable investments, which pay interest, to your registered accounts, where they can grow tax-free until you withdraw them.

In addition, consider income-splitting strategies, which may reduce your family's overall taxes by essentially transferring the tax liability on income from higher- to lower-income family members, who are taxed at a lower rate. You can split eligible pension income, such as RRIF income, with your spouse on your income tax returns. You can also split your future retirement income with your spouse by contributing to a spousal RRSP in advance.

Another way to split income is by setting up a family trust for family members who earn little or no income. When properly structured, the income earned within the trust is taxable at their lower tax rate.

9. Protect Your Family's Financial Security

Should the unexpected happen, it's important to have adequate life insurance. You should also make sure you have sufficient disability, critical illness and long term care insurance, which can provide funds for your care that might otherwise have to come from your savings. In addition, speak with your lawyer to ensure your Powers of Attorney, Wills and other key estate documents are in place and current.

10. Maximize Your Legacy

If you still have anything left over from your $1 million, you may want to give some of it to family or charity. First, decide who you want to help, then determine the best way to do it. Here are a few ideas:

- Help your children or grand-children get a good education by contributing to a Registered Education Savings Plan (RESP) or funding a family trust.
- Donate stocks that have appreciated in value "in kind" to increase the after-tax value of your gift.
- Establish a donor-advised fund, which is managed by a public foundation on your behalf, and makes regular donations to your favourite recommended charities.
- Make a deposit into a tax-exempt life insurance policy, so it can grow tax free, then go your beneficiaries tax free.

For more information about making the most of your retirement savings, please contact us.

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