

PORTFOLIO ADVISOR

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READY, SET, RETIRE

Get ready for a comfortable retirement, whether you're getting close to the finish line or you've crossed it already.

If you're like many Canadians, retirement has been on your mind for some time. But whether your retirement is on the horizon or you've recently retired, you want to do all you can to grow your savings

and build the income you'll need in retirement. Read on for some key income and wealth preservation ideas to discuss with your advisor as you get closer and closer to your retirement "finish line."



RBC Wealth Management
Dominion Securities



STAGE 1: YOU'RE 10-15 YEARS AWAY FROM RETIREMENT

With retirement at least 10 years away, you might be thinking about your plans for life after work – or you might just be busy with your career and other obligations. For most people, this is the time to build the income you'll need to draw on during your retirement. That means looking at different savings plans and investment options while you still have time to build your wealth.

- **Start with a financial plan.** If you have an existing financial plan that's due for an update, or if you've never had one created, this is the time. With a comprehensive financial plan, you'll have a better sense of the income you'll need in retirement and actionable strategies that can help bridge any gaps in your income.
- **Ride the RRSP bandwagon.** Canadians contributed over \$37 billion to their Registered Retirement Savings Plans (RRSPs) in 2013, according to Statistics Canada – and it isn't hard to see why: investment income in your RRSP is earned on a tax-deferred basis, so you don't pay any tax on it until you withdraw it. By that time, you'll be retired and likely in a lower tax bracket due to earning less income. The result? Greater potential investment growth compared to a regular taxable account.
- **Maximize your Tax-Free Savings Account (TFSA).** With a TFSA, you can make contributions that grow tax-free, and you can make withdrawals any time, for any reason, also tax-free. What's more, any amounts you withdraw are added back to your available contribution room the next year. In addition, TFSA income and withdrawals will not impact any federal income-tested benefits you may be entitled to, once retired, such as the Guaranteed Income Supplement (GIS) or Old Age

Security (OAS). If you haven't yet opened up a TFSA, you can "catch up" on previous years' contribution room – a total of \$46,500 for the years 2009-2016 – or gift funds to a lower-income spouse so they can maximize their own TFSA.

- **Consider an Individual Pension Plan (IPP).** An IPP is a defined benefit pension plan established by an incorporated business owner or professional that may enable you to make higher contributions compared to an RRSP, and enhance your retirement income. The contributions are tax-deductible to your corporation, making it ideal for self-incorporated professionals and owner-managers.
- **The Retirement Compensation Agreement (RCA).** RCAs enable high-income earners such as senior executives to receive retirement benefits equivalent to what you would have received if you had not been subject to the contribution limits on registered plans. Contributions are 100% tax-deductible by your employer and are not taxable to you until you receive the benefits, when you may be in a lower tax bracket.
- **Don't forget non-registered investments.** Even if you've contributed the maximum to your RRSP and TFSA, you might still need to save more to maintain your current lifestyle when you retire.

By diversifying the stocks, fixed-income and cash investments in your savings plans, you build in protection from the risk of losing income from poor investment performance in any one sector, region or company. Speak to us to help determine a suitable investment mix for the time you have to invest and your comfort level with risk.
- **Consider insurance to build wealth.** Instead of exposing your non-registered investments to a high tax rate, consider investing through a tax-exempt life insurance policy. The income generated by your assets accumulates tax-deferred, as in a registered plan. For retirement income, simply use the insurance policy as collateral to secure a tax-free loan. When your estate is settled, the loan is repaid with the insurance proceeds, and the remainder goes to your beneficiaries, also tax-free.
- **Plan for business succession.** If you own a business that you plan to sell, speak to your tax advisor early in the process about restructuring the business ownership to minimize taxes on sale.

STAGE 2: YOU'RE ABOUT TO RETIRE

A few years from retirement, it's time to look at what's next, including how you can maximize your sources of retirement income.

- **Determine your employer pension options.** Ask your employer about your pension options on retirement, including the option to transfer the value of your pension to a locked-in RRSP. Consider whether it is possible to split your pension payments with a lower income spouse.
- **Apply for Canada Pension Plan (CPP) or Quebec Pension Plan (QPP) benefits.** Avoid delays by filing for CPP or QPP benefits at least six months before you are eligible to receive them. If your spouse is also eligible, consider applying for CPP/QPP "sharing" to reduce your total tax burden.
- **Review your asset allocation.** Speak to us about tailoring your registered and non-registered investments to your retirement income needs. As you make the transition into retirement, you will probably want to move from a more growth-based investment approach to one that preserves your capital and enhances your income.
- **Convert your RRSP.** By the end of the year you turn 71, you are required to convert your RRSP to a Registered Retirement Income Fund (RRIF) annuity, or deregister the RRSP. Before you do this, consider making your final RRSP contribution payment in December of the same year to catch up on any remaining RRSP contribution room.

STAGE 3: YOU'RE RETIRED NOW, OR HAVE RETIRED RECENTLY

You've spent time building enough income to retire on, and are embarking on this new stage of your life. These considerations can help you maximize your retirement income and enjoy the fruits of your labour.

- **Order your sources of retirement income.** At the time you retire, your tax rate is generally higher than later in retirement when you have less taxable income. Generally, if you're in a higher tax bracket, it makes sense to begin withdrawing lesser-taxed assets before those that trigger greater taxes. For example, income drawn from your RRIF is fully taxable at your marginal rate, while capital gains and eligible dividends drawn from your regular non-registered account receive favourable tax treatment. As a result, it may make



sense to draw more income from your non-registered accounts first, and draw only the minimum required amount from your RRIF. That way, you allow more of your RRIF assets to continue growing on a tax-deferred basis, and you may be in a lower tax bracket when you eventually start making larger RRIF withdrawals (which are fully taxable at your marginal rate).

- **Make arrangements for RRIF income payments.** When you convert your RRSP to a RRIF, you must receive at least a minimum payment from the plan each year. But if you don't yet need this income, you can contribute it to your TFSA so that it can continue to grow tax-free. If you have a spouse younger than you, you may choose to base your minimum annual RRIF withdrawal on your spouse's age in order to minimize the amount of the annual withdrawal, thereby keeping more assets in your RRIF to grow tax-deferred.
- **Find your balance.** Whether it's to continue earning some extra money for retirement, or to simply ease in to the next stage of life, many people become semi-retirees before they become retirees. Think about whether you want to transition into retirement gradually instead of all at once, for example by consulting, working part-time or training your successor.
- **Think beyond the money.** Your financial well-being is important, but so is your mental and physical well-being. People who are active in their communities have higher self-esteem, a brighter outlook on life and better health, according to a 2008 Statistics Canada study. As you near retirement, think about what you'd like to accomplish with your time – perhaps volunteer at a local organization or on a Board of Directors, or support a charity that's close to your heart.



STAGE 4: YOU'RE ENJOYING YOUR RETIREMENT AND THINKING ABOUT YOUR LEGACY

You're in the midst of your retirement, and want to make sure that your assets are set to transfer to your family members without delays or undue taxation. At this stage, some of the following estate planning and wealth transfer strategies may be appropriate.

- **Review your Will and Power of Attorney.** Any changes in your personal circumstances, such as marriage or remarriage, a new child or grandchild or the sale or purchase of property, should be reflected in your Will and Power of Attorney documents.
- **Review and update your beneficiary designations.** If your province permits you to name a beneficiary directly on the RRSP or other registered plan, you should ensure that the designation is consistent with any designation you have made in your Will to avoid any conflict or delay.

Ask your legal or tax advisor for advice if you wish to name a disabled child as the direct beneficiary of your RRIF or RRSP assets, as receiving RRSP or RRIF assets directly may disentitle the child to provincial disability benefits.
- **Review your insurance policies.** If you're concerned about estate taxes on death, speak to us about whether insurance can be a low-cost solution to your tax bill.

- **Consider an insured annuity.** If you are over age 60 and would like a steady stream of retirement income, and also want to leave an estate to your beneficiaries, speak to us about whether an insured annuity may be appropriate.
- **Discuss trust options with your legal and tax advisors.** A family trust can help you pass assets to your beneficiaries and reduce your total family tax obligations through income splitting with lower-income family members. If you are in a second marriage or have disabled children, you may also wish to include a testamentary trust provision in your will. Speak to your legal and tax advisors to ensure that a trust is appropriate for you.
- **Make arrangements for surplus assets.** If you have significant non-registered assets that you'd like to be passed on to the next generation, consider an insurance-based solution for tax-free investment growth and for maximizing your estate value.

Talk to us today, and as your retirement plans evolve, to learn more about tailoring a retirement strategy appropriate for you.

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