Wealth Management

INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC FAMILY OFFICE SERVICES

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Retirement checklist

If you're getting close to retirement or you've just recently retired, there are many financial details that you need to address, such as applying for government benefits and converting your registered plans to provide you with pension income. This checklist includes a list of many financial considerations you may face when you're approaching retirement or have already retired. It also provides several items for you to consider when estate planning.

All references to a spouse in this article include a common-law partner.

Government benefits

- To avoid delays, ensure your applications for Canada Pension Plan (CPP) or Quebec Pension Plan (QPP) retirement benefits and old age security (OAS) are filed at least a few months before you intend to start receiving benefits.
- For an estimate of your CPP retirement benefit, contact Service Canada or access your My Service Canada Account. For an estimate of your QPP retirement benefit, contact Retraite Québec or access your My Account on the Retraite Québec website.
- Consider whether you're better off taking a reduced CPP/QPP as early as age 60 or deferring until as late as age 70 for CPP/age 72 for QPP for a higher benefit.
- If you take CPP before age 65 and continue to work, you and your employer are required to contribute to CPP until you are at least age 65. You will be entitled to a post-retirement benefit that will supplement your regular CPP retirement benefits.
- If you take CPP at age 65 and continue to work, you can voluntarily continue to contribute to CPP to earn post-retirement benefits.
- Consider applying for CPP/QPP sharing with a lower-income spouse to reduce the family tax burden. CPP/QPP sharing is only available when your spouse is also eligible to collect CPP/QPP.
- If you stayed at home caring for children during your working years, you may be eligible for the child-rearing drop-out provision, which may increase your CPP/QPP benefit.
- At age 65, you may be eligible for OAS if you lived in Canada for at least 10 years. You could receive a higher amount of OAS by deferring the receipt of your OAS after age 65, up to age 70.

- Consider income splitting or income deferral strategies to keep your income below the OAS recovery tax (clawback) threshold.
- Lower-income earners receiving OAS may also be entitled to the Guaranteed Income Supplement (GIS). If you're receiving OAS and GIS, your spouse may be eligible to receive an allowance if they're between 60 and 64 years of age. Apply to Service Canada for the allowance.
- If you've lived or worked in another country, you may be eligible for social security benefits from that country, from Canada or from both countries. Contact International Operations at Service Canada at 1-800-454-8731 for more information.

Employer pension and benefits

- Determine what options you have with respect to receiving your employer pension. You may be able to receive the pension as an annuity or transfer the commuted value to a locked-in plan. Your RBC advisor can help you analyze which option may be best for you.
- If you're able to transfer the commuted value of your pension to a locked-in plan, some of the lump sum may be immediately taxable. Speak to your pension administrator to determine if a portion of the commuted value is taxable.
- If you transfer the commuted value out of your pension plan, ask your employer if you're eligible for a pension adjustment reversal (PAR). If you're entitled to a PAR, your employer will issue you a tax slip, indicating your PAR amount. A PAR increases your unused RRSP deduction room.
- Determine what post-retirement health benefits (such as drug and dental) are available, if any, through your employer. Keep in mind that the decision you make regarding your pension option may affect the level of post-retirement health benefits you receive.
- If you leave your pension with your employer, ensure you've designated your desired beneficiary. In many cases, your spouse is automatically entitled to spousal benefits on your death. If you do not have a spouse, you may want to name a beneficiary on the plan.
- Most employer pension plans are required by pension legislation to offer a 60% survivor benefit to your spouse. Some plans allow you to elect an amount that's greater or lesser than 60%. Consider your situation carefully when choosing your option, as your decision cannot be changed after the pension begins to pay you.
- Consider splitting up to 50% of your employer pension income with your spouse to balance your taxable incomes, which may reduce the family tax bill. Additionally, this may allow both you and your spouse to take advantage of the $2,000 federal pension tax credit.

Lower-income earners receiving OAS may also be entitled to the Guaranteed Income Supplement (GIS). If you're receiving OAS and GIS, your spouse may be eligible to receive an allowance if they're between 60 and 64 years of age. Apply to Service Canada for the allowance.

Please note that in Quebec, you must be at least age 65 in order to split qualifying pension income with your spouse.

RRSPs, RRIFs, locked-in plans and TFSAs

- Consider naming a beneficiary on your registered plans. Doing so may allow you to reduce probate fees. In Quebec, there is a flat probate or court verification fee for non-notarial Wills, regardless of the size of the estate, and beneficiaries need to be named in your Will not on the plans.
- Ensure that any beneficiaries named in your Will do not conflict with beneficiaries named on your registered plans. This may help you avoid unnecessary legal expenses and conflicts.
- If you're naming a disabled child as the direct beneficiary of a registered plan, you should be aware that the direct receipt of RRSP/RRIF funds by a disabled child may potentially disentitle them to provincial disability benefits. Speak to your legal or tax advisor for strategies to deal with this issue.
- To avoid a full deregistration of your registered assets, you must convert your RRSP and locked-in RRSP/LIRA to an income vehicle (such as a RRIF, LIF, LRIF, RLIF, PRIF or annuity) before the end of the year in which you turn age 71.
- At age 65, withdrawals from a RRIF, LIF, LRIF, RLIF, PRIF or annuity may entitle you to the $2,000 federal pension tax credit. This tax credit is worth about $300 in annual federal tax savings and there may be additional savings at the provincial tax level.
- Speak to your RBC advisor about possible unlocking provisions that may provide access to funds in your locked-in plans, in excess of the regular annual maximum amount.
- If you have a RRIF, LIF, LRIF, RLIF or PRIF, consider basing the minimum withdrawals on the younger spouse's age to minimize taxable withdrawals and maximize tax deferral.
- If you or your spouse is at least age 65, pension income splitting may help reduce your family tax bill. The higher-income earner may want to split up to 50% of their income from a RRIF, LIF, LRIF, RLIF, PRIF or annuity to equalize your incomes. Additionally, if both of you

are at least age 65, the split income may help you and your spouse qualify for the $2,000 federal pension income tax credit.

- Speak to your RBC advisor about the appropriate asset allocation of your registered accounts in retirement. Consider the liquidity of your investments and the different ways various types of income are taxed.
- If you're turning age 71 this year and have earned income, consider making your next year's RRSP contribution by overcontributing in December of this year. The amount of tax you can save is usually greater than the amount of penalty you'd pay for one month. This final RRSP contribution is sometimes called the "forgotten RRSP contribution."
- If you have a foreign retirement plan, and you intend to retire in Canada, you may be able to collapse the foreign pension plan and contribute the funds into your RRSP/RRIF without affecting your RRSP contribution room limit. Speak to your RBC advisor for more details.
- Consider investing in a tax-free savings account (TFSA). Investment earnings in a TFSA and funds withdrawn from the plan are tax-exempt, and withdrawals or income earned in a TFSA have no impact on the federal income-tested benefits and credits you may be entitled to (e.g. GIS, OAS, GST/HST credit).
- Consider how to maximize your after-tax retirement income. For some, withdrawing from your non-registered accounts before your registered accounts will maximize the tax deferral. Consider whether making tax-free withdrawals from your TFSA rather than drawing from taxable income sources can help you defer tax longer. If, instead, your income is low, you may be better off making early withdrawals from taxable income sources, such as an RRSP, to minimize your future tax bill.
- If you're concerned about your estate having a large tax liability related to your remaining RRSP/RRIF assets at death, life insurance may be an option to consider. Speak with an insurance representative to determine whether obtaining life insurance coverage makes sense in your circumstances.

Non-registered assets

- Speak to your RBC advisor about the appropriate asset allocation for your non-registered assets as you near retirement or during retirement.
- Based on your risk tolerance, consider investments that earn tax-effective income such as capital gains and Canadian dividends.
- Consider setting up a prescribed rate loan where the prescribed rate is well below the expected rate of return on your investments. This may even out the income between your family members from your non-registered assets, which may lower your overall family tax bill.

If you have a foreign retirement plan, and you intend to retire in Canada, you may be able to collapse the foreign pension plan and contribute the funds into your RRSP/RRIF without affecting your RRSP contribution room limit. Speak to your RBC advisor for more details.

- If you're over age 60, would like more after-tax retirement income than what GICs offer, and also want to leave an estate, speak to a qualified insurance representative about the concept of an insured annuity.

Estate planning

- Ensure that your Will and power of attorney are up to date.
- If you're in a second marriage, have disabled children and/or have significant assets, speak to a qualified legal advisor about having a testamentary trust provision in your Will to help ensure the assets are managed according to your wishes after your death.
- If you or your spouse is at least age 65, consider speaking with a qualified legal advisor about whether setting up an alter ego or joint partner trust makes sense for your family.
- Speak to a life licensed advisor about getting an insurance needs analysis for estate preservation to ensure your beneficiaries will have adequate income and assets to meet their needs after your death.
- If you're a U.S. person or you own U.S. situs assets, you may have a U.S. estate tax liability on death. Speak to your RBC advisor for information on U.S. estate tax and strategies to minimize that exposure.
- Consider pre-arranging your funeral to reduce the burden on family members.
- If advantageous from a cost/benefit standpoint, take appropriate steps to minimize probate fees depending on your province or territory of residence. Some common strategies include making lifetime gifts and putting assets in living trusts.

General points

- Speak to your RBC 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 the administration of your investments and simplify your estate settlement.

- If you're 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're under age 65.
- If you're concerned about rising health care costs for your parents or yourself, speak to a qualified insurance representative about the benefits of critical illness insurance and long-term care insurance. Consider private health insurance to 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, 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, consider whether a reverse mortgage is appropriate for you.
- If you have been named as an executor (estate trustee in Ontario or liquidator in Quebec) of an estate, consider professional agent for executor services to help you with the complexities of estate administration.
- Ensure you have appropriate travel insurance when you're travelling in retirement.
- Ensure you have an adequate emergency fund. A line of credit can also serve as part of your emergency fund.
- If you make annual donations, consider donating investments in-kind, instead of selling the investments and donating the cash. You may be able to eliminate the tax on the accrued gain of the donated investments in certain circumstances.
- If you have children or grandchildren age 17 or younger, consider making a registered education savings plan (RESP) contribution; they may be entitled to government grants that can significantly boost their education savings.

Conclusion

This checklist outlines many considerations as you enter the retirement phase of your life. Speak to your RBC advisor or qualified tax/legal advisor for more information about any of the points highlighted in this checklist.

This article may contain strategies, not all of which will apply to your particular financial circumstances. The information in this article is not intended to provide legal, tax or insurance 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, legal and/or insurance advisor before acting on any of the information in this article.

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NAV0312 (05/2024)