Wealth Management
Dominion Securities

Seven questions you need to ask about your retirement

Retirement isn't what it used to be

As a retiree today, you can expect to live much longer than previous generations – often as much as 20-30 years after the traditional retirement age of 65. That's a whole new life stage that's just beginning at age 65 – and one that requires a whole new approach to planning your retirement finances and lifestyle.

Today's retirees will live longer than previous generations – making it more important than ever to build lasting retirement income.

As a retiree today, you face different economic challenges, including lower interest rates on guaranteed investments, market volatility, continued high taxes and the uncertainty of government benefits.

1. How much money will you need so you don't outlive your retirement savings?

Some financial planners suggest you will need about 75% of your pre-retirement income every year, since expenses tend to go down during retirement (although there can be an initial spike in the first few years of retirement as you check off items on your "bucket list"). Others suggest a nice, round $1 million. In reality, most Canadian retirees get by on less by adjusting their lifestyle and relying on government benefits to augment their savings.

Ultimately, there's really only one way to find out how much is enough for you: do a financial plan. A financial plan will include projections showing how much you need to save to achieve a certain retirement income that is sufficient to meet your expected expenses for as long as you need. Depending on your lifestyle goals, your life expectancy, and other variables, you may or may not need to save a cool million.

2. What are the best ways to augment your RRSP/RRIF?

Your Registered Retirement Savings Plan (RRSP) or Registered Retirement Income Fund (RRIF) is a key part of your retirement savings. The reasons are clear: tax-deductible RRSP contributions that help you reduce your taxes now, greater tax-deferred RRSP/RRIF compound growth, and income splitting through a spousal RRSP to reduce your future taxes. However, your RRSP/RRIF isn't the only game in town when it comes to tax advantages.

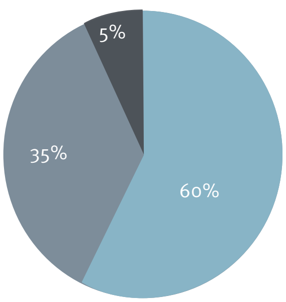
Tax-free investing

The Tax-Free Savings Account (TFSA), introduced in 2009, gives you an additional tax-smart way to invest for retirement. With a TFSA, you can contribute up to your contribution limit each year ($5,000 for years 2009-

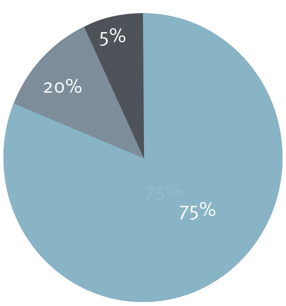
What you need to know: RRSP vs. TFSA

	RRSP	TFSA
Tax-deductible contributions	Yes	No
Annual contribution limit for 2018	18% of your earned income up to $26,230	$5,500
Tax-deferred compound growth	Yes	Yes
Tax-free withdrawals	No	Yes

Pre-retirement model asset mix (conservative)



Retirement model asset mix (very conservative)



Fixed income
Equities
Cash

Source: RBC Dominion Securities

2012, $5,500 for 2013-2014, $10,000 for 2015 and $5,500 for 2016-2018), earn tax-free investment income including interest, dividends and capital gains, and even make withdrawals – at any time, for any reason – without paying tax.

Tax-exempt insurance

Assets accumulate with tax-exempt life insurance free of annual accrual taxation. With tax-exempt life insurance, you are permitted to deposit amounts (within policy limits) in excess of policy costs with the ability to invest the difference. Generally, the investment income accumulates tax-free much like an RRSP or TFSA. Access to policy cash values remains available. Upon your death, proceeds of the policy are distributed to your beneficiaries on a tax-free basis, which may bypass associated costs within the estate.

3. How can you balance growth, safety and income?

The balance of safety and growth potential in your retirement portfolio is largely determined by your asset allocation between cash (which provides liquidity), fixed-income (which provides safety and income) and equities (which provide growth potential and income). It's important to maintain an appropriate asset allocation at each life stage. As you approach retirement, you should begin to shift your asset allocation towards safer fixed-income investments like GICs and bonds that protect the "core" of your savings.

Climbing a bond/GIC ladder

With a "ladder," you divide your bond or GIC holdings equally among evenly staggered maturity dates. For example, say you invest $20,000 each in one-, two-, three-, four- and five-year bonds. As each bond matures, you reinvest the proceeds in a new five-year bond. Over time, this can effectively smooth out your income, making it more predictable. In addition, because longer-term bonds and GICs historically pay more, you gradually enhance your income potential as well.

Diversifying pays dividends

Historically, stocks that pay consistent, increasing dividends tend to outperform stocks that don't pay them, or don't pay them consistently. At the same time, they also tend to be less volatile stocks. The dividends can be used to augment your income, or reinvested to augment total returns.

4. Should you guarantee a portion of your retirement income?

Life annuity and insured annuity

A life annuity may be purchased in return for a lump-sum payment, which provides you with a guaranteed, level income stream for your entire lifetime. This can be then be used to supplement your retirement income. A portion of that income is used to pay any applicable taxes on the annuity income. Once purchased, the funds used are no longer accessible to you. Outside of the annuity guarantee period there is no residual value upon death of the annuitant.

If you require capital preservation, consider purchasing an insured annuity, which is comprised of both a life annuity and a permanent life insurance policy. Some of the income generated from the annuity will fund the cost of insurance. Premiums on the insurance coverage ensure you maintain your original capital for your beneficiaries.

An insured annuity can significantly enhance your net income versus conventional fixed-income products like GICs.

Income segregated funds

Another guaranteed income choice is segregated funds. Income segregated funds pay a predictable, sustainable income that is guaranteed for life. Even if the value of the funds drop to zero, you will still receive a guaranteed

Ask us about living benefits insurance solutions such as critical illness, disability and long-term care insurance, which may be used to cover expenses such as private care or specialized medical procedures.

Enhanced after-tax income

In this example, the insured annuity earns $1,914 more in after-tax annual income, a 4.91% interest-equivalent and a 40% increase in income.

	Conventional 3.5% GIC	Insured annuity
Purchase amount	$250,000	$250,000
Annual income	$8,750	$13,112
Amount taxable	$8,750	$3,570
Tax payable	$3,990	$1,628
Insurance costs	None	$4,810
Net income	$4,760	$6,674*

Interest-equivalent income 4.91%*

*Figures are based on a jointly insured policy for a non-smoking, male and female, age 65 in a 45.6% tax bracket. Annuity rates shown are provided by Sun Life Financial. Insurance rates shown are provided by Industrial Alliance. Rates shown are as of July 26, 2018 and are subject to change without notice. Values shown are for illustrative purposes only, and are not guaranteed. Life insurance policies require medical underwriting and annuities are non-reversible and deposits are non-refundable. Annuity income includes interest and return of capital.

lifetime income. Additionally, you maintain full control of and access to the assets while staying invested in the market. The death benefit guarantee protects your invested principal for the benefit of your heirs in the event you pass away before taking a retirement income.

5. What will you do during retirement?

Just as important as the hard, financial aspects of retirement planning are the emotional and social aspects. Think about how you can keep your mind, body and spirit active, stay connected to your community and retain (or even surpass) the sense of purpose provided by your pre-retirement vocation. Ideally, you should think about this before you actually retire, and start developing the connections and activities that will become a greater part of your life after retirement. Consider easing into retirement, perhaps continuing to work part-time, moving into a consulting role or starting a “business of passion.” All of this can help reduce the shock of retirement and acclimatize you to a new pace.

6. How will you take care of your health care needs during retirement?

Retirees are living longer due to healthier lifestyles, improved health care, as well as medical breakthroughs that make it much more likely you will survive a serious medical condition. As a result, you may have greater health care needs than previous generations. Of course, it’s important to have the right support, whether it’s friends, family or professional caregivers, as well as convenient access to health-care facilities. You may also need health insurance to provide benefits that may have been previously provided through your

Please contact us for more information about tax-efficient retirement saving and income strategies that can complement your RRSP/RRIF.

employer. In addition, you should ask us about living benefits insurance such as critical illness, disability and long-term care insurance that may be used to cover expenses such as private care or specialized medical procedures. These products can help ensure your financial stability in the event of an injury or illness that may otherwise deplete your retirement savings.

7. Do you intend to pass along your retirement savings to your family?

You can transfer your RRSP/RRIF to your spouse on a tax-deferred basis at death. However, when you (or your surviving spouse) pass on your RRSP/RRIF to any beneficiaries other than financially dependent minor children/grandchildren or financially dependent disabled children/grandchildren, fair market value of your RRSP/RRIF is included as income on your, or your spouse's, final tax return and taxed at your/their marginal rate. If you wish to preserve the value of your estate, ask us about insurance solutions which may help to cover these taxes.

If you have any questions about your retirement, or would like more information about any of the ideas discussed here, please contact us.