Retiring in Canada

Strategies and solutions for those already in or approaching retirement

RBC Wealth Management

There's Wealth in Our Approach.™

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Retiring in Canada

Comfort. Security. Leisure. These are three common words often noted in discussions about ideal perceptions of retirement. While many individuals associate these words with what they are aiming for when they retire, the question is, are Canadians thinking about and planning for retirement in the most effective ways? The goals individuals have for retirement understandably vary, from travel to spending more time with family to buying a vacation property, but there are definite trends in how Canadians both view and prepare for retirement. To illustrate, consider the top results when searching "retiring in Canada" online: what are the best places to retire, how much will it cost to retire, and how much will CPP pay? While these are valid questions, they aren't necessarily the most relevant and significant ones Canadians should be asking in order to successfully plan and achieve the retirement lifestyle they want.

In this report, we explore key aspects including planning, financial preparedness, and the fiscal and socio-economic factors that shape people's concepts of a desirable retirement. In addition, we address important considerations pertaining to goals, timelines, unexpected factors and circumstances, strategies and solutions, and appropriate steps to help bridge the gap between expectations and actual experience. Recent RBC poll data is also used to illustrate where Canadians (the younger generation, pre-retirees, and retirees) currently are with their thinking processes around the topic of retirement and what it entails. Through this discussion, and with the use of extrapolated information from the RBC poll findings, the aim is to highlight how defining a clear retirement vision and then using specific strategies and solutions to customize a financial plan will help Canadians realize their ultimate retirement goals.

Retirement income – projections versus reality

The 2015 RBC Financial Independence in Retirement Poll (RBC Retirement Poll) found that 37% of "Boomers" (respondents aged 50–69) who had estimated how much they'd need to retire felt that they either fell short of their projected "target" or were nowhere close to where they anticipated being in relation to their retirement savings.

Do the following look or sound familiar?

- I am not financially prepared for retirement.
- I won't be set up properly by the time I retire.
- I may need to extend my working life longer than I had originally planned, maybe past age 65, to accumulate the funds I think I will need.

If so, the discussion and information that follows will offer some great insights about your retirement planning.

You may need less than you think

Once in the retirement stage, retirees often find that their actual costs are lower than they had expected. This situation can be the result of a number of factors. For instance, many expenses that absorbed a significant amount of your income in your working years may not exist during your retirement. For example, many Canadians aim to live mortgage-free in retirement. If mortgage payments account for a sizable portion of your family's income during your working life but have been eliminated by the time you retire, you may find that the additional disposable income goes further than you anticipated. Other demands on your income may also have changed or have been eliminated, such as the monthly costs of public transportation, dining out, gasoline, parking expenses, and business attire. These considerations, along with the absence of payroll deductions you were accustomed to, like CPP/QPP contributions and EI premiums, for example, significantly impact the amount of your retirement income that remains available to you.

Even if you retire more gradually, working part-time or perhaps periodically as a consultant, the accompanying work-related expenses may still be greatly reduced. Depending on your life stage, taking into account your children's ages and the age at which you retire, you may also be finished paying their education-related costs. If you are no longer making regular RESP contributions or paying your children's daily living expenses, this is another scenario where the income you thought you'd need in retirement may potentially exceed your actual requirements to maintain your standard of living. Other important factors to remember are that, in many cases, you are simply not having to save for retirement anymore or having a lower income may put you in a lower marginal income tax bracket, therefore paying less tax.

The 2015 RBC Retirement Myths and Realities Poll (RBC 2015 Poll) revealed that retirees have fewer concerns about money than they did leading up to retirement. Specifically, those approaching retirement expressed worries about managing their cash flow in retirement, but the majority reported no difference in cash flow once they had actually retired. While pre-retirees voiced concern about creating a regular income stream in retirement and managing their tax burden, retirees were far less anxious about it.

Quite often, financial planners express projected retirement income as a percentage of your gross pre-retirement income. So, it stands to reason that if you estimate your retirement needs based on your income in your peak earning years, and then use a percentage of that amount to determine adequate retirement income, you may discover that your actual needs are lower when you consider your expenses.

The risk of longevity

The RBC 2015 Poll revealed that 91% of retirees were optimistic that their money would last for at least their lifetime. This finding contrasts with the 79% of those approaching retirement who held the same view. The fact that retirees noted a higher level of optimism suggests that retirement funds either went further than expected or that retirees were pleasantly surprised by the adequacy of their retirement income. These statistics also appear to support the proposition that Canadians are more financially prepared for retirement than they may initially think.

The 70% rule

You may be familiar with the rule of thumb that states you will need 70% of your pre-retirement income to sustain your lifestyle in retirement. In practice, however, this rule may be too general to address the very specific circumstances of each person's retirement. While this level of income may be adequate for some, the number of your dependants, your debt levels, and your lifestyle aspirations can sway your needs significantly up or down. Preferences and responsibilities differ greatly from one individual to the next, and it's key to remember that factors like health care costs can make inroads into carefully planned retirement dollars.

The 4% rule

Many financial planners consider that withdrawing 4% of your savings annually, adjusted for inflation, should translate to your savings lasting for 30 years. However, when you factor in conservative savings preferences and low interest rates on fixed-

Retirement income – projections versus reality *continued*

income investments, this strategy seems increasingly unlikely to yield the kind of income that the rule of thumb suggests. In addition, market volatility and the mixture of investments in your portfolio may impact the health of your retirement income.

This type of strategy appears to necessitate dipping into capital, not to mention the fact that other elements can also have a fairly substantial impact. For example, if your portfolio is lower at the time you retire, due to market fluctuations, you will be in a different position when you start making withdrawals than an individual who retires when the market is stronger. You should also consider investment mix since it is one of the easiest ways that you can improve your probability of success. You can take advantage of diversification opportunities through different asset classes, geographical markets and industries. Furthermore, as the average life expectancies increase for both men and women in Canada, planning for 30 years may no longer be enough of a projected time frame to provide you with income for life, not to mention the increased health-care costs that may go hand in hand with a prolonged lifespan.

Retirement design – the importance of customization

To successfully customize your retirement needs, it's important to base your projected retirement income on your specific personal situation and income needs, rather than simply on an arbitrary figure. Take the time to really think about your retirement vision, and factor in details of your desired lifestyle, including the number and nature of the vacations you wish to take, the daily activities you anticipate pursuing, and your entertaining and dining-out preferences. Through this process, you may even discover that you have different priorities at various stages of your retirement. By giving these factors the appropriate level of attention, you'll gain a more accurate insight as to your retirement needs, and realize that you may not need to replace 70% of your pre-retirement income to enjoy a comfortable standard of retirement living. This is where a budgeting tool is an effective option to consider, as it can aid you in thinking about and organizing current expenses and future retirement expenses.

Annual Retirement Expense Worksheet*

Monthly Expenses	Today	Retirement
Accomodation		
Rent / mortgage	$	$
Property taxes (municipal, water, school)	$	$
Heat	$	$
Electricity	$	$
Telephone	$	$
Maintenance / repairs	$	$
Insurance (home)	$	$
Cable TV, TV / PVR rental	$	$
Transportation		
Gas / oil	$	$
Car insurance / licence	$	$
Car repair / maintenance	$	$
Public transportation	$	$
Travel	$	$
Living expenses		
Food	$	$
Clothing	$	$
Dependent / family care	$	$
Newspapers, magazines, books, video rentals	$	$
Entertainment / restaurants	$	$
Charitable donations	$	$
Health care	$	$
Life insurance	$	$
Monthly payments		
Regular savings programs	$	$
Car (loan / lease)	$	$
Personal loans	$	$
Credit / charge cards	$	$
Other	$	$
Total	$	$

* adapted from: http://www.rbcroyalbank.com/cgi-bin/retirement/retirementexpense/start.cgi

Retirement income – projections versus reality *continued*

An additional factor to think about is whether you wish to budget for more income for a limited period of time, to accommodate your changing lifestyle wishes. Say you want to anticipate five or 10 years of taking multiple overseas vacations early in your retirement. If so, it's important to identify this and weave it into your plan, as it may involve making changes to your investment portfolio to periodically generate additional cash flow. In other words, because this will not be a spending pattern that endures throughout your entire retirement, you will need to plan for a retirement income to accommodate that particular goal. You may also want to vary your expenditure as you get older, which could be a result of anticipated changes in your health, your potential wish to downsize your home in the long-term, spend more time at a vacation property, or possibly help family members with expenses and purchases, whether during your retirement years or as part of your estate plan. Regardless of the specific choices you make, don't underestimate the number of years for which you may need cash flow, since that time frame could be up to 30 years, or even longer.

Consider Tim and June, the case study couple in Appendix 1. They have a home and a cottage, and are mortgage-free. They plan on spending $20,000 a year on vacations over the next 15 years. They have a marked lack of liquidity and are concerned that travel spending over the early years of their retirement will be replaced later on with health-care related expenses. Most of their capital is tied up in real estate, and while effective income splitting (discussed later) can help to give them additional net income, it may not be sufficient to enable them to realize their desired retirement lifestyle. This example highlights three key points to always consider: 1) your sources of retirement income, 2) the ages at which the various types of income will begin, and 3) how this intersects with your spending plans.

In addition to lifestyle choices, some retirees particularly enjoy helping the next generations of their family with expenditure, providing a down payment on a home, for example, or assisting with educational expenses. If your children and grandchildren are facing these expenses now, during your lifetime, you may decide now is the time to make gifts, rather than providing a legacy upon death. Doing so may help your family avoid or reduce costly long-term debt and provide a valuable financial boost as they reach important milestones like launching their careers or starting their families. That being said, however, be aware that making a gift today can impact your retirement plan.

Family support

Do you anticipate retiring and continuing to support members of your family or having them support you? Whether you consider ongoing support of older and/or younger generations a pleasure, a moral obligation, or maybe a cultural norm, obligations to provide for family members may straddle the threshold of your retirement.

The RBC Retirement Poll indicated some generational divide regarding family support and expectations. Among respondents, 72% of Canadians in the 18–34 age bracket ("younger Canadians") felt they owed it to their parents to keep them comfortable in their retirement. The feedback from respondents of their parents' generation (ages 50–69), however, revealed a strong desire for independence in retirement. Specifically, 76% of respondents in the Boomer generation didn't want to receive support from their children in retirement. Part of the reason for the older generation's view may be linked to their belief that, by comparison, their children's generation faces more financial pressures (61%) and is less prepared for retirement (59%).

> Without a doubt, the demands of raising children, while caring for aging parents, can have a significant impact on your ability to focus on saving for retirement.

Living with competing priorities

Let's consider Samuel and Davika, the case study couple described in Appendix 2. They're the parents of minor children and plan to finance each child's post-secondary education in the next 10 years, plus they have aging parents, one of whom lives in Florida. Depending on the wishes of their parents and their financial position, Samuel and Davika may be called upon to provide support in the years to come, financially or in the form of caregiving (either themselves or arranging for caregiving, or both, possibly at a distance). This situation may involve arranging long-term care and grappling with the legal and financial requirements of a foreign jurisdiction. Predicting if and when these additional responsibilities might arise, and whether siblings or other family members may be involved, is understandably difficult.

Without a doubt, the demands of raising children, while caring for aging parents, can have a significant impact on your ability to focus on saving for retirement. When you are the midst of important life stages that include expenditure for your dependants, whether parents or children, it makes sense that these expenses can appear much more immediate than accumulating retirement funds for a prospective retirement date that could be 20 years in the future. This concern is not exclusive to Boomers.

Retirement income – projections versus reality *continued*

In the 25th Annual RBC RRSP Poll (the RRSP Poll), it was revealed that 80% of younger Canadians worry about balancing immediate expenses with long-term retirement savings. In comparison, only 70% of Boomers (parents of the younger Canadians) share this concern. One possible reason for this difference in thinking could be the financial demands facing the younger generation. Within the 18–34 age range, many respondents in this demographic group are still pursuing education or are in the early stages of their careers. They are likely juggling a number of factors, including having young children, making student loan repayments (depending on age), saving for their children's education, paying child-care expenses, accumulating funds for a down payment on a home, or paying mortgages, in addition to a myriad of other payments at this stage in their lives. However, this doesn't automatically mean they're not thinking about saving for retirement. In fact, according to the RRSP Poll, 42% of Canadians in this age group use regular RRSP contribution plans, compared to 23% of respondents in their parents' generation.

The survey also showed that only 36% of younger Canadians owned RRSPs, compared to less than 67% of Canadians in the Boomer generation. That may not be a surprising statistic and may again be attributed, at least in part, to the competing financial demands in the lives of younger Canadians, which potentially makes it more challenging for them to contribute to RRSPs.

The younger age group encompasses individuals as young as 18 who may be enrolled in full-time educational programs and may never have been employed, and thus not accumulating RRSP contribution room. Even if they do have RRSP contribution room, the demands on their income may include significant student loan and other debt repayments. Realistically, many individuals in this age group are in their early earning years, potentially with entry-level salaries and having to make rent payments. Those who are towards the top end of the age range might also face RRSP contribution challenges, but may have established regular contribution plans where funds are withdrawn periodically from their bank accounts. That approach can be a practical way to contribute if capital is not available to make a lump-sum contribution. The findings of the RRSP Poll seem to support this line of thinking, as they show 38% of Boomers make one-time contributions to their RRSPs compared to 18% of younger Canadians.

The importance of disability planning

While you're working on retirement planning, it's important to incorporate particular considerations that may be a priority for your family. If you're planning to provide financially for a person with a physical or mental disability during your lifetime or after your death, you need to ensure you don't inadvertently jeopardize that person's entitlement to provincial or territorial disability-related income support and other benefits. Recipients who own assets or receive income in excess of specified amounts may be disqualified or become ineligible to receive the income or benefits on which they rely. One common tool used to address this concern is a Henson Trust. It can take effect either during your lifetime (inter vivos) or on your death (testamentary) under the terms of your Will. This kind of trust gives the trustees absolute discretion to distribute income and capital from the trust to the beneficiary and, as the beneficiary cannot claim or demand payments from the trust, they are not considered to own the trust assets. This may be one option to discuss with your legal professional to determine if it's right for you. These trusts are subject to provincial and territorial regulations and may not be an effective strategy in every province (they are not recognized in Alberta, the Northwest Territories and Nunavut).

The Registered Disability Savings Plan (RDSP) is designed to assist persons with disabilities in saving for their long-term financial needs. It offers tax-deferred investment growth, generous matching grants and bonds, as well as an opportunity for friends and family members to assist with contributions. Payments received from an RDSP do not affect eligibility for federal government benefits such as OAS, the GST credit, and the Canada Child Tax Benefit, but payments may affect eligibility for provincial disability support payments or other means-tested disability pensions. It is worthwhile to consult the benefit provider before creating an RDSP. Whether you make contributions to an RDSP or settle a trust for a disabled beneficiary, the payments you make may affect your plan to save for retirement. These payments may also affect your income in retirement, so they need to be factored into your calculations.

Retirement income – projections versus reality *continued*

While it's not a comfortable notion to think about, you do need to plan for the possibility that you may become disabled or incapacitated yourself during retirement. The reality is that enjoying longer life can bring unexpected challenges such as illnesses, accidents, and the effects of aging, which can trigger additional expenses, including the cost of long-term care. Forward planning can help to ensure these events don't have a negative impact on your retirement income. This is where critical illness, disability, and long-term care insurance may be invaluable solutions. This specific form of planning is discussed in more detail later in this report.

John and Jane Wirtz, the case study couple in Appendix 3, are Alberta residents and have an adult son, David, who has a cognitive impairment. He is employed but will never be able to live independently. John and Jane have adequate assets to use either a Registered Disability Savings Plan (RDSP) or a trust solution to provide for their son's ongoing maintenance. Since David is employed, it will have to be determined whether he qualifies for certain means-tested government benefits. This may depend on the applicable income and asset thresholds in the jurisdiction where he lives. A testamentary trust could still enable the trustee to distribute income and capital on his behalf, as appropriate, although the mechanism of a Henson Trust is not recognized in Alberta. The trust could be drafted to provide for David's maintenance in a group home or by means of home health care after his parents have passed away. It is also possible that a testamentary trust may qualify for graduated tax rates, as a "qualified disability trust," assuming David continues to qualify for the Disability Tax Credit and that the appropriate election is made on his behalf every tax year. This could allow for future income splitting between David and the trust, as well as the distribution of trust assets in a tax-efficient manner. The couple should consult with their legal professional about this, along with the feasibility of setting up an RDSP for David.

RRSPs and beyond

Traditionally, Canadian residents have focused on saving for retirement using Registered Retirement Savings Plans (RRSPs). The Tax-Free Savings Account (TFSA) is an attractive option to also consider for earning investment income and capital gains in a tax-free environment. While the TFSA is a relatively recent addition on the buffet table of financial planning vehicles (2009) and, consequently, contribution room is still low (currently $10,000 per year) in comparison to an RRSP, it certainly has some appealing characteristics. You can withdraw funds at any time without tax consequences, and the amount withdrawn is not lost contribution room; it is added back to the plan holder's contribution room

for the calendar year following the year of withdrawal. These features make the TFSA an appealing complement to saving in an RRSP, even though there's no income tax deduction when you make a contribution. For younger Canadians, given the time frame between now and retirement, the TFSA presents itself as a potentially significant retirement savings vehicle.

The choice of tax-advantaged savings vehicles, whether earmarked for retirement or not, offers Canadians increased saving options over what was available to earlier generations. For those in the younger age group, in particular, there's a longer time horizon to experience the benefits of these enhancements. The array of options for accumulating retirement savings may, in fact, be one reason why only 36% of younger Canadians – the lowest level in more than a decade – own RRSPs. When the choices are there, they can spread the funds available for retirement savings across RRSPs, TFSAs, and other savings vehicles they're eligible for.

Though an assortment of options exist, RRSPs remain a long-established cornerstone of retirement savings. The 25th Annual RBC RRSP Poll findings demonstrate that 39% of younger Canadians worry about the impact their unused RRSP contribution room could have on their retirement savings; this compares to 22% of Boomers. The advantage for younger Canadians investing in RRSPs is the opportunity for tax-deferred growth in the RRSP due to the extended time the funds remain in the plan. The sooner they start, no matter how small the contributions, the greater the opportunity for growth. At the same time, however, Canadians of any age should not overlook the potential advantages of using their TFSA contribution room to maximize retirement income. Contribution room accrues throughout your lifetime, starting at the age of majority, and isn't dependent on the income you earn. You can continue to benefit from this ever-increasing contribution room throughout your retirement. Later in this report, we discuss the different savings vehicles further.

Retirement income – projections versus reality *continued*

The importance of a financial plan

Your finances are a primary consideration, there's no doubt about it. If you have insufficient income to pay your projected retirement expenses, or less surplus income than you anticipated, you could find yourself working years longer than you intended or facing a retirement lifestyle that may not be what you had in mind.

The simple fact remains that those who prepare a financial plan are more likely than those who don't to have a realistic idea of their retirement income and whether it will meet their needs. A personalized financial plan prepared by a professional advisor also means that if your projected income falls short of your requirements, you'll likely have a backup strategy to help make up the difference.

So, if you're worried you won't have enough income in retirement to maintain your pre-retirement lifestyle, like the 37% of Boomers who reported this concern in the RBC Retirement Poll, ask yourself: is your unease based on objective analysis of your retirement income and your projected spending, or is it founded on the preconceived percentage of your pre-retirement income you've "heard" you will need? Generally speaking, sentiments about lack of preparedness for retirement go hand in hand with a lack of knowledge about what you actually need. That's why a professionally prepared financial plan incorporating your personal financial data can help you determine, with a greater degree of accuracy, what it will actually take to facilitate your chosen retirement lifestyle.

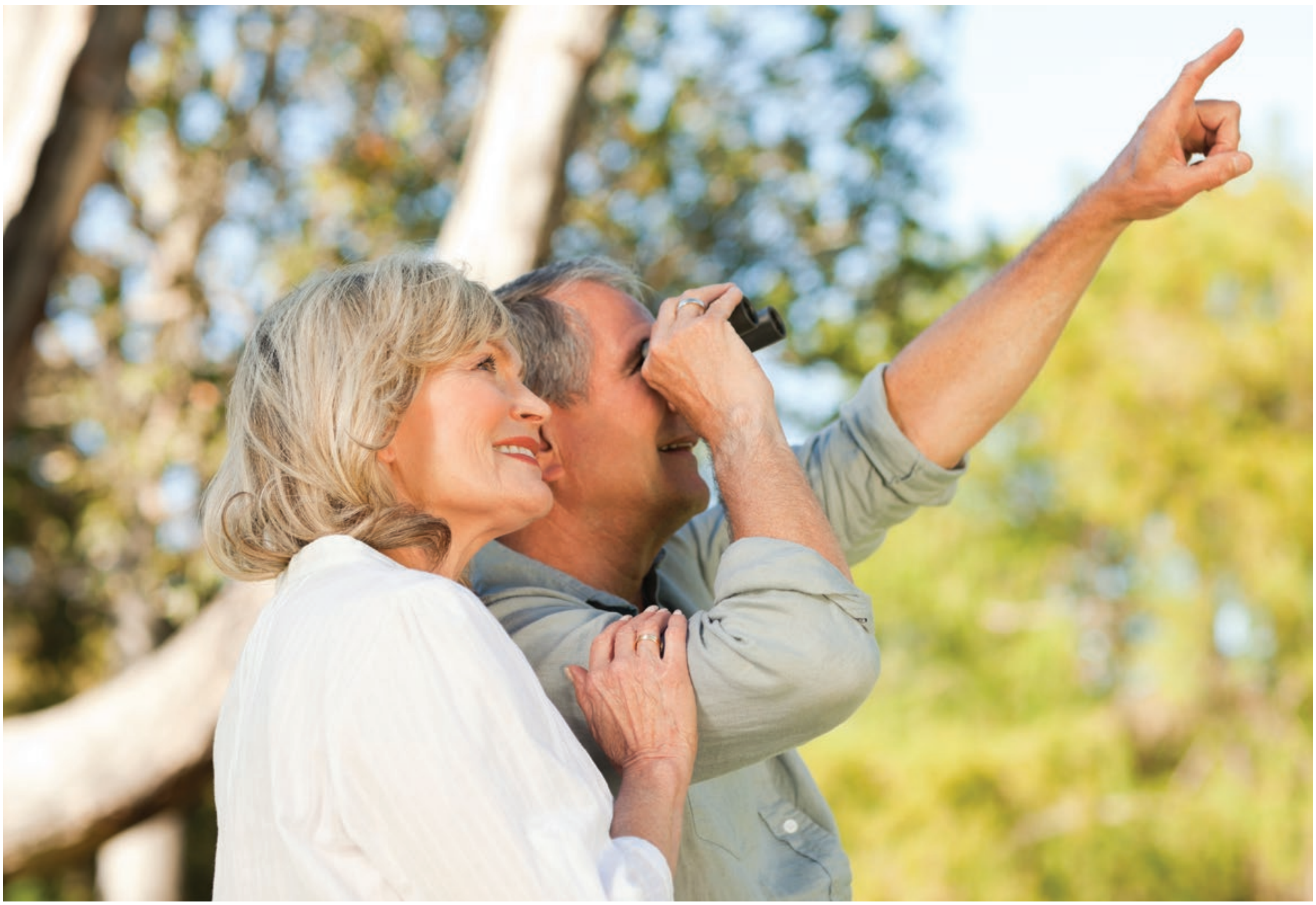
The simple fact remains that those who prepare a financial plan are more likely than those who don't to have a realistic idea of their retirement income and whether it will meet their needs.

Having a retirement vision

A great deal of emphasis in retirement planning is frequently placed on the financial aspect. Those contemplating the distant or not-so-distant prospect of retirement generally focus on two main things: their projected sources of income and the age at which they perceive they'll be in a financial position to retire. While these are important considerations, the issue is that they are sometimes to the exclusion of other elements. Take a step back and think about it from an alternate perspective. The question should be: How do I want to spend my retirement? Then, ask yourself what income you will need to accomplish your chosen retirement lifestyle and what factors might affect your ability to fulfill those wishes. You may find there are non-financial factors that have a significant impact on whether or not you achieve your objectives. This point was evident in the RBC 2015 Poll, where it was found that 66% of those who were partially retired did so because they wanted to enjoy an active retirement while their health was good. This number jumped to 76% for those who were fully retired. Clearly, good health is a critical determining factor for enjoying retirement.

If you've given serious thought to exactly what you want from a retirement lifestyle, that's the first step. Unfortunately for some Canadians, that initial step is never taken. Our survey revealed that many Canadians fear they may not have what they need to maintain their current lifestyle when they retire. If that describes you, it may be an indication that you're not looking at it from the right angle; in other words, you're not focusing on how to realize your retirement dreams. Another potential misstep is that you may have over-estimated what you'll need. If this is the case, you may be surprised to find out you're actually on track to retire at your chosen age. This is exactly where a financial plan may be a very useful tool to help provide clarity.

To begin, focus on the potentially pleasant prospect of what you



Having a retirement vision *continued*

plan to do in retirement. Will you continue to live in Canada? Do you want to spend part of each year abroad or at a vacation property? Will you spend time with family and friends? Will you remain in your present home or buy a retirement property, either to downsize or to relocate closer to family? Depending on your cultural background, your retirement plans may even include living with relatives or in close proximity to your children and grandchildren.

Making healthy choices

Of course, living arrangements are just one of many considerations that can influence the shape of your retirement. Keep in mind that some will be expected, others not. Unforeseen developments with your health can be a significant factor. Illness can have a detrimental effect on your finances as well as impeding your travel plans or eliminating those activities you looked forward to enjoying in retirement. Illness may also affect your life expectancy, drastically change your estate plan, and force you to compress the experiences you'd planned to enjoy over a period of years into a shorter time frame. On the other hand, advances in medical treatments may also mean that you live with treatable medical conditions for many years. While these circumstances aren't ideal or what anyone envisions, and are frequently the cause of additional expenditure, possibly including the costs of long-term care, the result could be a longer retirement and one in which you have to adjust your lifestyle expectations to accommodate the situation.

It's reassuring to know there are a variety of options out there that may help minimize the negative consequences of ill health – a popular choice is insurance. Keep in mind, though, that the feasibility of insuring against a range of predictable or unpredictable conditions will depend on numerous factors, including your state of health and your age at the time you apply for coverage. This is where your licensed insurance professional becomes an invaluable resource to walk you through the range of product choices.

Family and cultural considerations

There are a number of diverse cultures in today's Canadian society. So, it only makes sense that cultural traditions in regards to caring for seniors are also widely diverse. Cultural preferences may favour caring for senior family members in the home, as part of a larger family group, extending the family home to accommodate retired parents, or placing family members in specialized accommodation during later retirement years. The prevalence of immigrant family members in Canadian family units also increases the likelihood that travel, relocation, or living part-time in more than one jurisdiction, perhaps to spend time with children and grandchildren, may be an important part of your plans. For some, the desire to spend time with family that may live in multiple geographic locations could be the cornerstone of designing a retirement plan. It could influence the decision to acquire or retain assets in multiple jurisdictions and maintain citizenships to facilitate multi-jurisdictional living. This could be a natural family lifestyle or it could be a transitional state of affairs. Some prospective retirees, trying to foresee future eventualities, may plan for extensive travel during their early retirement years, expecting they may become less mobile in later years and live with or in close proximity to one branch of their family. All these factors need to be taken into account in planning your retirement, building your estate plan, and making investment decisions that are appropriate for your assets.

If you're a business owner, your vision of retirement may be influenced to a certain degree by your business succession plan. Do you intend to sell the business to a third party and use the lump-sum proceeds as a major source of retirement funding?

Specifics for business owners

If you're a business owner, your vision of retirement may be influenced to a certain degree by your business succession plan. Do you intend to sell the business to a third party and use the lump-sum proceeds as a major source of retirement funding? Alternatively, if you're passing the business on to family members, perhaps you're planning a more gradual retirement, possibly involving a period during which you continue to work part-time to ensure a smooth transition. It's common for some retiring business owners to keep working in a consultative capacity well into their retirement years; it really depends on the nature of the business and the plans you make to pass it on. In some cases, for owners of professional corporations, for example, winding up the business over a number of years may be the natural route. These different situations and factors understandably influence how you see your retirement, when it will begin, the sources of income you expect to have, and your plans for the years ahead. As the RBC 2015 Poll revealed, retired business owners are more likely than non-business owner retirees to show willingness to return to paid work if their retirement income is insufficient.

Sources of retirement income

A touched-on metaphor in retirement planning is that your sources of retirement income can be thought of as the legs of a three-legged stool. The three legs are:

1. Government income sources,
2. Employer retirement plans or pensions, and
3. Personal savings, which generally encompass registered and non-registered savings.

Additional income from annuities and funds accumulating in other registered plans, like TFSAs, for example, also needs to be accounted for. Depending on your income sources before retirement, any combination of these is possible. For many individuals who've been salaried employees during their working lives, a major source of retirement income may be a registered pension plan. In the case of self-employed individuals, the proceeds from the sale of their business and non-registered investments may be the most significant assets, with RRSPs and other registered assets and government income sources coming a distant second.

In planning, you may determine that you need to generate some additional retirement income; as an example, let's say $10,000 per year above and beyond what government income sources provide. The following table illustrates how much you would need in non-registered assets to generate $10,000 in additional income (indexed to inflation). The amount of capital required today depends on when you will need the extra income, the rate of return you will receive, and the length of time for which you'll need that income. For instance, it would take $188,251 to provide an income stream of $10,000 a year, indexed to inflation, for 21 years (which would include a payment in your 90th year). If you are five years away from retirement, you'd require $162,387 invested today at 3% to provide that $188,251.

Doing a thorough review and analysis of these prospective income

Amount needed to generate a $10,000 income stream

Funds required today to provide an immediate income stream of $10,000 per year, indexed at 2%.		21-year income stream	26-year income stream	31-year income stream
3% after tax return		$188,251	$227,669	$265,211
5% after tax return		$156,074	$181,199	$202,935

Funds required now to provide enough capital to fund a future $10,000 income stream indexed at 2%.	After-tax rate of return	21-year income stream	26-year income stream	31-year income stream
5 years away	3%	$162,387	$196,389	$228,773
10 years away	3%	$140,076	$169,407	$197,342
15 years away	3%	$120,832	$146,132	$170,229
5 years away	5%	$122,288	$141,974	$159,005
10 years away	5%	$95,816	$111,241	$124,584
15 years away	5%	$75,074	$87,160	$97,615

Sources of retirement income *continued*

sources should function as the building blocks of your personal retirement plan. Your situation is as individual as you are, and the importance of zeroing in on your specific circumstances cannot be overstated. You may be relying on the proceeds of a business sale, continued income from an extended working life as you gradually relinquish control to a successor or remain on board as a consultant, or you may be expecting to receive an inheritance at some point in retirement and have factored that into the plan. If you are receiving or anticipate receiving income from a Registered Retirement Income Fund (RRIF) at some point in retirement, you may wish to analyze how to balance the amount of your RRIF withdrawal to maximize the income you receive from government sources, like Old Age Security (OAS), for example. In 2015, you may have to repay some or all of your OAS if your income exceeds a set threshold. OAS Recovery Tax or "claw-back" begins when your individual net income for 2015 exceeds $72,809. Some potential strategies that may help you minimize OAS claw-back include:

- Making spousal RRSP contributions pre-retirement to equalize your taxable retirement income with your spouse or common-law partner. For example, instead of receiving $80,000 of retirement income and your spouse or common-law partner receiving little or no retirement income, it may be possible for each of you to receive $40,000 of retirement income if you use a spousal RRSP effectively.
- Splitting your pension with your spouse or common-law partner in retirement. The pension income splitting rules provide an opportunity to reallocate eligible pension income from one spouse to another in order to reduce or eliminate the impact of the OAS claw-back for the higher-income spouse.
- Investing in a TFSA so that your withdrawals are not considered taxable income and not considered in determining whether part of your OAS pension should be clawed back.
- Considering other potential opportunities such as creating an alter-ego or joint-partner trust to earn investment income. These special types of inter-vivos trusts, which can only be created by individuals who are 65 or over, may, if properly structured, enable income to be earned and retained in the trust and taxed on the trust tax return instead of on your personal tax return.

Among those polled in the RBC 2015 Poll, 85% of pre-retirees and 80% of retirees felt strongly about the importance of managing their income tax bracket to reduce the claw-back. This emphasis on the value of maximizing OAS eligibility is interesting in view of the fact that an estimated 93.6% of OAS recipients (in 2013) were not affected by the recovery tax (Office of the Superintendent of Financial Institutions Actuarial Report (12th) on the Old Age Security Program). What this means is only an estimated 6.4% of recipients (337,000) are actually affected by the claw-back. By 2050, this number is projected to rise to 7.8% of OAS recipients (718,000). TFSAs and pension income splitting, as discussed, are also considered in reaching these projected figures as factors potentially reducing the income that will be taken into account in determining OAS eligibility.

From an estate-planning perspective, one further key aspect that should not be overlooked is the loss of OAS from the family income on the death of a spouse who received OAS prior to their death. This reduction in income compares with the survivor benefit received by the surviving spouse of a CPP/QPP recipient.

Registered savings plan comparisons

As part of planning, it's worthwhile to examine the relative benefits of accumulating retirement income in an RRSP versus a TFSA. If you're approaching retirement, the limited contribution room available in a TFSA due to the relatively recent arrival of this product may mean it's not a serious contender, in terms of the funds you can accumulate. On the other hand, if you anticipate being in a higher marginal tax bracket in retirement than you are when you make contributions, a TFSA may make sense. As a general rule, if you will be paying tax at a lower marginal rate on your RRSP withdrawals than you did on your RRSP contributions, an RRSP is more likely the preferred savings vehicle for you.

In the RBC 2015 Poll, 91% of those approaching retirement reported that they intend to use RRSPs/RRIFs as a source of retirement income and expect it to make up 27% of their income. For those who were already retired, RRSP/RRIF income was a source of retirement income for 88%, representing 23% of their income. This makes for an interesting comparison. The poll showed that 66% of both retired and pre-retired respondents who reported that withdrawals from TFSAs would or already did form part of their retirement income. With these poll findings, however, it's important to keep in mind the limited contribution limits for this relatively new savings vehicle and that 81% of those including TFSA withdrawals as part of their retirement income have investable assets of $1 million or more.

For the younger generations who have time to accumulate considerable TFSA contributions before retirement and can maximize the benefit of some of the account's characteristics, like the ability to add the amount of withdrawals to the following year's contribution room, the TFSA may be stronger as an alternative retirement savings vehicle to an RRSP. Another potential advantage of the TFSA is the ability to continue to accumulate contribution room for tax-free savings, regardless of your income or your age

Sources of retirement income *continued*

once 18. Those who choose this option will potentially appreciate the ability to make tax-free withdrawals rather than fully taxable ones. It's reasons like these that it seems the TFSA's appeal will likely continue to increase along with its contribution room.

Another option you don't want to overlook is the potential advantages of non-registered investing versus RRSPs. Simply put, non-registered investing may work best if you will be in a higher marginal tax bracket after you retire than you were before. You may also benefit if you choose investments that produce capital gains and eligible Canadian dividends. That being said, keep in mind this pre-supposes that you are comfortable with a lack of bonds and interest-producing investments in your portfolio and that you have the general intention to hold your investments at least until retirement and not generate taxable capital gains in the years prior to retirement.

The following is a comparison of a Tax-Free Savings Account (TFSA) and two RRSP accounts, one in which the marginal tax rates are equal before and during retirement and one where the marginal tax rate is lower during retirement. One thing to note is we have assumed the tax refund received for the RRSP contributions is also invested. If you don't typically do this, the RRSP balances will be lower.

Comparison of a TFSA versus two RRSPs

	TFSA	**RRSP	***RRSP with lower tax rate in retirement	Age
*Annual, out-of-pocket contribution	$6,000	$6,000	$6,000	40
Balance at retirement	$421,551	$633,911	$633,911	65
Net annual payout	**$25,751**	**$25,751**	**$29,507**	65–90

Assumptions: 6% rate of return. Contributions and payouts are indexed at 2%. The average combined federal and provincial Canadian marginal tax rate for $50,000 to $60,000 of income is 33.5% and at $30,000 of income is 23.8%.

*Annual RRSP contribution includes investment of the full tax reduction due to the contribution. The gross annual contributions to the RRSP accounts are $9,023. The tax rate used when calculating the RRSP contributions is 33.5%.

**Net annual payout where the marginal tax rate during retirement is equal to the marginal tax rate prior to retirement. The tax rate used is 33.5%.

***Net annual payout where the marginal tax rate during retirement is less than the marginal tax rate prior to retirement. The reduced tax rate used for the payout in this scenario is 23.8%.

The impact of market corrections

This is a situation that some don't think to plan or account for. Have you considered how a market correction would affect your retirement plans? If your portfolio lost value during your retirement, would it have a significant impact on your ability to generate sufficient income to meet your regular lifestyle expenses? Your retirement plan should definitely incorporate strategies to help you withstand a market correction and the effect of other circumstances that you may not be able to predict.

Adjustments to investment approach

External circumstances, like a market correction, sometimes involve making uncomfortable choices. You may need to consider changing your investment approach if your portfolio is adversely affected by market conditions. You may encounter periods of volatility, which could be a short-term phenomenon, as opposed to a market correction that could affect your reserves of capital for months, or even years. The point to drive home here is that it is crucial to obtain professional advice before changing your investment approach. Reacting to temporary volatility with an over-emphasis on one asset class may not be wise and could permanently deplete your assets. Advisors generally recommend relying on a properly diversified portfolio, designed to your risk tolerance and time horizon specifications, to lessen the impact of external factors. Making drastic changes that are not consistent with your risk profile or your level of investment knowledge are rarely a good idea. You may feel like you don't have the time horizon to tolerate market fluctuations, particularly if your retirement income depends heavily on the performance of your portfolio. Remember, though, you may be an investor for decades to come. It is important to maintain a long-term approach – prudent investment principles will still work to your advantage.

Equity financing

There are a variety of solutions available that have been designed to provide additional cash flow using your home's equity as collateral. Secured lending, home equity lines of credit, and reverse mortgages are all examples of this kind of borrowing. Specifically, a reverse mortgage is a special kind of loan that allows qualifying homeowners to access up to a set percentage of the value of their home as cash if they satisfy certain age and equity requirements. In this situation, you do not make principal or interest payments until you sell or move out of your home. The key to using these options effectively is to understand the terms and relative costs of borrowing:

- Reverse mortgages involve administrative and legal fees and

Sources of retirement income *continued*

only permit borrowing up to a pre-determined percentage of the property's value. They can be a solution if your circumstances fit.

- You will generally qualify for a reverse mortgage if you meet the age and equity requirements and have a saleable property.
- Home equity lines of credit involve regular interest payments and can be flexible, but you have to qualify. This involves checking your income, your other borrowing, and your credit rating. How will these payments affect your retirement cash flow?
- For lines of credit, consider whether you could still afford the repayments if your lender's policies changed, the costs of borrowing rose, or if your income was adversely affected, for example, by the death of a spouse. This could occur if your spouse's sources of retirement income would not provide a payment to the survivor on their death.

Considering moving as an option

While the idea of moving doesn't appeal to everyone, shifting to a more affordable home is an alternative to equity financing. Within the 2015 RBC Poll, there was an inclination revealed by respondents to simplify their life and reduce expenses before considering a move. Another way to maintain independence if your income is reduced is moving to another more affordable neighbourhood, but the poll responses showed that retirees were reluctant to move out of their neighbourhood, which sometimes involved moving farther away from the comfort provided by family and friends. For those who want to avoid moving, a reverse mortgage can be a welcome solution. For others who may value a smaller residence, perhaps one with security features and minimal maintenance responsibilities, a condominium may be the ideal answer. They may enjoy having additional cash to spend on travel and the freedom to get up and go. If you are entertaining the idea of downsizing, make sure you're aware that selling your real estate involves legal and real estate fees and land transfer tax. Simply put, you may not net as much as you expected, so you need to factor those expenses into the calculations.

Eliminating debt and/or accessing home equity

Do you anticipate having debt in retirement? Many Canadians approaching retirement face the possibility not only that they may have years remaining on their mortgage when they retire, but, as discussed earlier, that they may also need to use the equity in their home(s) to produce additional income. How much debt in retirement is acceptable to you? If interest rates rise during your retirement, will you be able to maintain your current level of borrowing, and, if not, do you have a plan to replace those borrowed funds or an alternate source of financing? These are personal questions for each individual and his or her family. How you answer, and your approach, depends on your personal comfort level with debt. It is important to consider whether a certain level of borrowing is part of your retirement plan or whether you will continue working into your retirement years to pay off debt. Would you encounter financial difficulties if you stopped working due to unforeseen circumstances, like illness? Retirees who consider utilizing the equity in their home to supplement their income may also have to reassess their objectives of leaving wealth to their children.

When asked about their attitude towards retiring with debt, 77% of retirees responding to the RBC 2015 Poll stated that they were either "comfortable" or "somewhat comfortable" retiring with debt. This compares to 58% of pre-retirees asked the same question. Interestingly, females expressed an overall lower level of comfort with this concept than their male counterparts. This general comfort level can be distilled into somewhat more meaningful data through the findings that 20% of respondents, encompassing retired and pre-retired individuals, either had or would have a mortgage or line of credit on their principal residence when they retired, and 10% would retire with credit card debt. The overall numbers of those expecting to retire with debt was unchanged from 2014.

So what lessons can we learn from these findings? It is interesting to note that few retirees polled view the equity in their homes as a source of income. Although 54% of retirees who responded had equity in their home and could take out a loan or a mortgage, only 1% were using that equity to produce 13% of their retirement income. That percentage represents a 5% increase from the

Sources of retirement income *continued*

previous year. To summarize those findings, the same percentage of respondents were using a reverse mortgage as an income source, but those who were using it were funding a greater portion of their income with their home equity.

As you can see below, each scenario provides a very different net value at age 90. The following chart illustrates three options mortgage free homeowners have if they require liquidity to fund their future retirement lifestyle expenses. In each case an income stream is created from ages 75-90.

Three Options for Accessing Liquidity from Your Home

	Reverse Mortgage	Line of Credit (LoC)	Sale of Home
Home Value at age 75	**$1,300,000**		
Initial lump sum available at age 75	$612,495 Suggested maximum reverse mortgage for given home value in a large urban area at age 75	$1,040,000 Maximum line of credit limit based on home value using 80% loan to value ratio	$1,200,000 Approximate net proceeds from sale of home
Annual payouts for 16 years (75 – 90), indexed at 2%	$44,106 Maximum annual indexed payment that will deplete the account at age 90	$40,400 Maximum annual indexed loan advance covering the 4% interest expense and borrowing up to the original LoC limit.	$86,411 Maximum annual indexed payment that will deplete the account at age 90. Note: new rent or lodging costs not included.
Future net value at age 90	$176,667 Future value of home less future value of suggested reverse mortgage.	$376,948 Future value of home less LoC balance.	$0

Assumptions: Payments and advances are indexed and taken at the beginning of the year. Payments and property values are indexed at 2%. Investment accounts grow at 4% after-tax rate of return. Line of credit interest is 4% and paid monthly. Reverse mortgage interest rate is 5.25%.

Asset rich but cash poor – finding a solution

The creation of additional retirement income is one of the topics explored in the Appendix 4 case study. Newly retired couple, Matt and Sophie Smith, has a $1.2 million home and a $500,000 cottage but will be short of cash flow by the time they reach their mid-70s. The question here is how can this "asset rich but cash poor" couple harness their net worth to help them pay their bills? Their options include a reverse mortgage on their home, a conventional line of credit, or downsizing. A reverse mortgage may be an attractive option in this case to provide income until the death of the second spouse. At that time, the property would be sold to discharge the borrowing, and the remaining funds would be used in a trust as a way to provide for the future maintenance of the cottage for their children.

For the Smiths in this particular example, the approach of a reverse mortgage appears to achieve their objectives. They remain in the home they love for their combined lives. The reverse mortgage facilitates their continued lifestyle and on their death the remaining funds allow their wishes for the family cottage to be realized.

The option of downsizing

For some, moving to a smaller home during retirement may seem like a potential solution to cash-flow concerns. While this is an option prospective retirees are willing to consider, how many retirees actually downsize? The RBC 2015 Poll revealed openness to the idea was greater than actual follow-through. Among those polled, pre-retirees were willing to consider downsizing within five years of retirement but fewer retirees followed through with this intention. While 20% of retirees polled intended to move to a smaller home within five years of retirement, only 10% of retirees

Sources of retirement income *continued*

actually did. These statistics are hardly surprising — your home understandably represents significant comfort and security.

What these results reflect is a general disinclination on the part of individuals, both pre- and post-retirement, to move in the event of cash-flow difficulties. Respondents felt they would rather stay in their home and live frugally than downsize. While 72% of pre-retirees expressed this sentiment, the number rose slightly to 80% when the question was posed to those already retired. Reflecting on that upward shift, it seems to indicate that the idea of downsizing seems marginally more appealing when viewed hypothetically before retirement than it does when faced with the actual reality of making the move.

Of course, there are alternatives to downsizing. The idea of staying in your own home (even if not your current home), in the neighbourhood where you already live, close to family and friends appealed to almost 90% of respondents, both pre- and post-retirement. The distinct importance of comfort that comes with remaining in your current environment is emphasized by the fact that 88% of retired respondents would avoid downsizing and instead pay for care as needed rather than move to a retirement residence.

Downsizing was considered to be an option for almost equal numbers of pre-retirees and retirees who thought they didn't need so much space, but overall there was a greater number of respondents who were willing to downsize as a result of changes in their health.

Yet another option in the event of cash-flow difficulties is returning to the workforce, though this is not an attractive choice for many. Responses of those polled showed that younger individuals, whether retired or not, were more inclined to return to paid work or contemplate the idea of returning to work as a potential solution.

Income splitting as part of a retirement plan

As part of your overall planning, have you taken any steps to maximize your retirement income and minimize taxation? Developing a formal financial plan can help give you an accurate picture of your income in retirement and as such may highlight whether any potential income-splitting strategies are appropriate in your circumstances. Addressing this specific topic, the RBC 2015 Poll revealed that of those retirees who had prepared a financial plan, only 38% incorporated a detailed budget. More surprisingly, that dropped to 28% for those approaching retirement. Overall, 19% of retirees and 28% of pre-retirees had no financial plan at all. Of specific interest was that 45% of pre-retirees with a financial plan incorporating a detailed budget had investable assets of $1 million plus, indicating that high-net worth individuals were most inclined to engage in the financial planning process.

Pension income-splitting rules, introduced in 2007, now enable families to reduce their total tax bill by allocating certain kinds of "eligible pension income" to a spouse who is taxed at a lower marginal rate. Your ability to benefit from pension income splitting depends on a few factors: the primary recipient of the pension income being subject to tax at a higher rate than their spouse, as well as the age of the primary recipient. The age of the spouse to whom the pension income is allocated is not important for income-splitting purposes but can affect the receiving spouse's ability to claim certain tax credits. Two major sources of eligible pension income are registered pension plan income and income from an RRIF or a Life Income Fund (LIF). As an example, if you receive income from a registered pension plan, you can allocate up to 50% of that pension income to your spouse, even if you are under age 65 during the year. If you receive income from an RRIF or LIF, however, you must be 65 years of age or older during the year to allocate up to 50% of that income to your spouse. In either case, your spouse's age does not affect their ability to have the allocated pension income taxed on their income tax return.

Sources of retirement income *continued*

To further illustrate this type of scenario, consider a situation in which one spouse receives $150,000 annually in retirement income comprised of government pensions, an employer pension, and RRIFs; the other spouse receives $30,000 from RRIFs and government pensions. Because of the disparity in their incomes, the couple can benefit by splitting their pension income. The table below shows how the couple will have more discretionary income to put towards personal lifestyle goals such as vacations from applying an income-splitting strategy.

Income-Splitting Strategy

	Net taxable income – pre-split	Tax payable pre-split	Average tax rate	Net taxable income – post-split	Resulting average tax rate	Tax payable post-split	Resulting annual tax savings
A	$150,000	$45,264	30.2%	$90,000	23.2%	$20,878	
B	$30,000	$3,817	12.7%	$90,000	23.2%	$20,878	
Totals	$180,000	$49,081	27.26%	$180,000	23.2%	$41,756	$7,325

Income-splitting opportunities are also available for other kinds of retirement income; a prime example of this is Canada Pension Plan/Quebec Pension Plan income, even if this represents a relatively insignificant portion of your retirement income. This approach is known as pension sharing. In order to qualify, you must be receiving CPP/QPP or be eligible to receive it. If so, you can share a portion of your pension based on the number of months you and your spouse lived together during your joint contributory period.

There are also a number of other income-splitting strategies that may be appropriate, depending on your family situation. If you and your spouse, and possibly other family members, are paying tax at different marginal tax rates, spreading taxable income between family members to reduce the family's overall tax bill may be effective. You don't need to restrict your planning to sources of retirement income. For example, gifting funds to a lower-income spouse to contribute to his or her TFSA is just one option. The attribution rules, which would normally kick in to attribute the income back to the gifting spouse as taxable income, do not apply in this scenario, and the income earned in the TFSA will be tax-free. Another possible strategy you may benefit from using is a spousal loan from the higher-income spouse to the lower-income spouse at the CRA's prescribed interest rate. As long as the annual interest payments are made by the required date each year, the investment income and capital gains earned on the borrowed funds can be taxed at the spouse's lower rate of tax. Furthermore, if you're a business owner, an estate freeze of the family business may enable you to transfer future business growth to your spouse and/or your children and fix the value of your shares at a particular date. This approach may work well, depending, of course, on your intentions for the business and the degree of ongoing management that you would like to have. Your qualified tax advisor can advise on whether these kinds of strategies (or others) are appropriate for you.

Delaying receipt of retirement income

What some people aren't aware of in retirement planning is that you do, in fact, have options for determining when you start to receive certain types of retirement income. You may or may not be able to choose when you begin receiving payments from a pension plan, but if you do have a choice, there are potential benefits to delaying receipt of some sources of retirement income. For instance, delaying the conversion of your RRSPs and locked-in retirement accounts (LIRAs)/locked-in RRSPs to RRIFs and LIFs to the end of the year in which you turn age 71 allows you to maximize tax-deferred growth in the account. It's worthwhile to note, however, that the delay should be weighed

Sources of retirement income *continued*

in importance against taking the income earlier and benefitting from the income-splitting opportunities discussed earlier in this report. Realistically, it depends if pension income splitting is a possibility for your family. Likewise, delaying CPP/QPP and OAS can significantly increase your payments when the time comes, but this may not be a relevant factor if your life expectancy is reduced or if you have specific plans for the early years of your retirement (vacation and travel, for example, which can be facilitated by this additional income). On the other hand, if you don't require the additional income from these sources in the early stages of retirement, consider that CPP/QPP can increase by up to 42% if you delay to age 70. Similarly, your OAS payments can increase by up to 36% by deferring receipt to age 70. You also need to take a close look at whether these additional funds will place you in a higher marginal tax bracket. Maximizing payments from government income sources may not be a driving force in designing your retirement, but it may contribute to some of your decision-making. The table below illustrates an ideal time for most 65-year-olds to receive CPP if they have a life expectancy of age 90. Note that you should only think about delaying the receipt of CPP if you do not need the money for your current living requirements.

CPP Illustration Assumptions	
Current Age	65
Expected Annual CPP Benefit at 65 in Today's Dollars ($12,780 maximum)	$12,780
Estimated Life Expectancy (Age)	90
Estimated Consumer Price Index (Inflation)	2%
Estimated Marginal Tax Rate in Retirement	32%

CPP Benefit Table

CPP Start Age	Year	Annual Benefit in Today's Dollars	Cumulative Lifetime Benefit in Today's Dollars	Annual Benefit in the First Year Adjusted for 2% Indexation (CPI) and 32% Tax
65	2015	$12,780	$319,500	$8,690
66	2016	$13,854	$332,484	$9,609
67	2017	$14,927	$343,322	$10,560
68	2018	$16,001	$352,012	$11,546
69	2019	$17,074	$358,556	$12,567
70	2020	**$18,148**	**$362,952**	**$13,625**

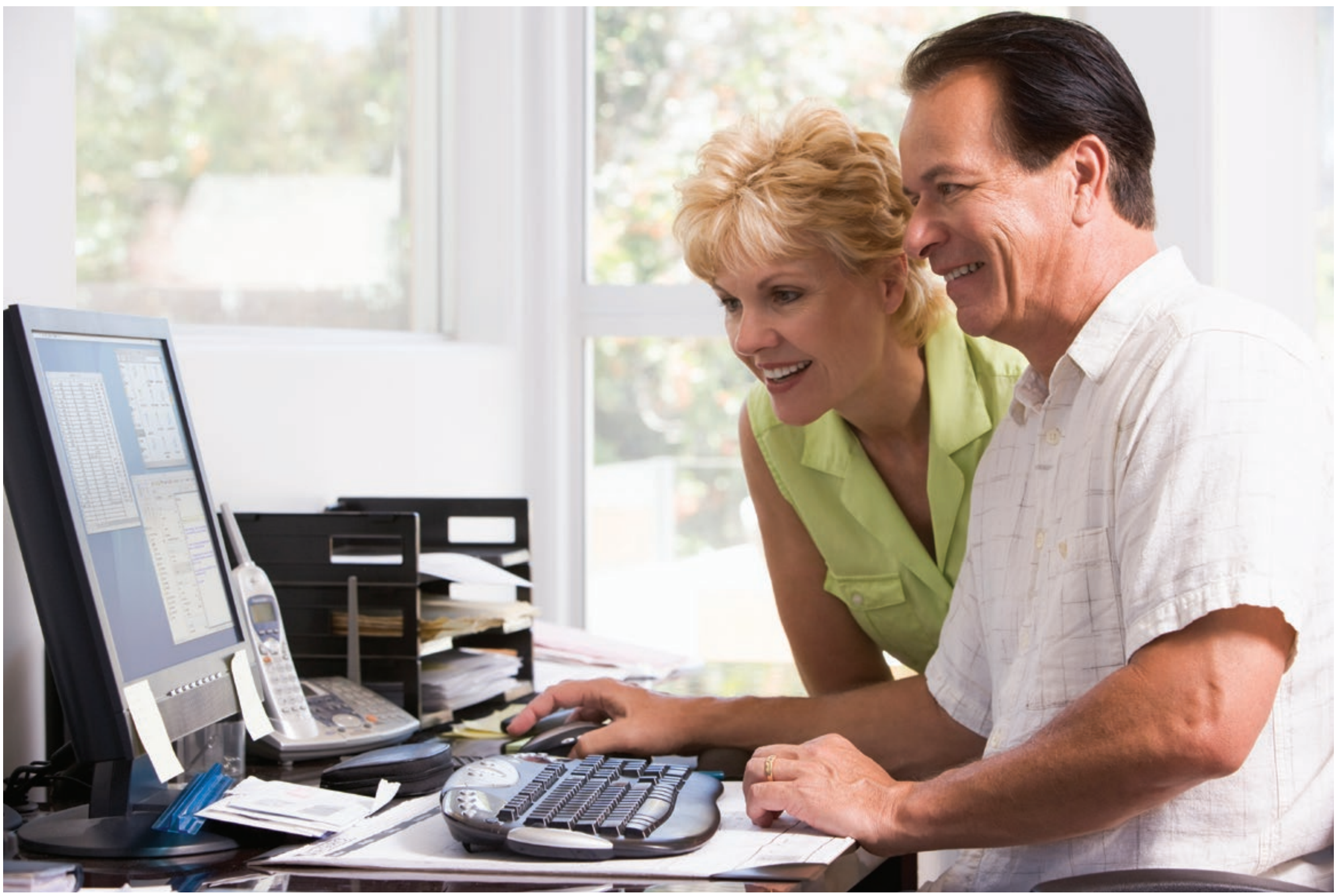
Conclusion: Based on your stated life expectancy, starting CPP benefits at age 70 will maximize your lifetime CPP benefit.

Investment management – pre- and post-retirement

A "thinking ahead" mindset is very important in your retirement planning. Do you foresee changes in your approach to investment management decisions when you retire? For many Canadians, there can be a transition from long-term growth and accumulation to income-producing portfolios, inside and outside of RRSPs and LIFs. Some veer towards insurance products or segregated funds, for example, that may offer a degree of protection from market fluctuation at a time of life when retirees favour asset preservation and income-generation as opposed to growth. Some focus on meeting the costs of a new lifestyle, while others zero in on creating and preserving legacies for the next generation. Multiple factors can influence your approach. Your level of investment knowledge and the level of involvement you want to have are both significant factors in making these decisions.

If you anticipate a slower pace of life in retirement, you may end up having additional time to review your investments more closely. Depending on the type of person you are, perhaps you'll want to participate in investment decisions more actively or, on the flip side, maybe you're too busy enjoying newfound leisure to keep track of your portfolio performance on a daily basis and would rather leave the decision-making to your investment professionals. There's definitely a multitude of options out there, some with a learning curve, so depending on your inclination and objectives, you may decide to tackle them using the wealth of learning tools and resources available.

The same rules generally apply if you choose to go that route. Understand your level of investment knowledge, your risk tolerance, and your time horizon, and be honest with yourself and your professional advisors about your objectives. Do you want to continue to pursue growth, perhaps tweaking your approach to avoid taking risks, to generate regular income, to preserve capital while generating tax-efficient income, or a combination of these?



Major expenditure in retirement

What do you anticipate to be your major sources of expenditure in your retirement years? The answer greatly depends on your circumstances, your family, and your retirement plans. Many retirees aim to travel in retirement, at least for a portion of the time. In retirement you may be planning to travel as tourists throughout the world, to visit family, or to enjoy vacation properties located in Canada or elsewhere. In fact, responses to the RBC 2015 Poll revealed that 70% of those contemplating their retirement planned to take more time to travel. Compare this with the 62% of retirees who were actually travelling. There may be a number of reasons for this disparity. Interestingly, the majority of respondents in both categories had investable assets of $1 million or more. What this may imply is that finances contributed to the ability of these individuals to plan for travel but that financial issues were not the reason, or the only reason, why they did not execute their plans. There may be other significant factors, including health, for example, in the later years of retirement that make travel impractical and insurance costs prohibitive. Spending time with family also ranks high on the list, to an equal extent, in the plans of both retirees and pre-retirees. This desire may require travel or it may push travel down the list of priorities, depending on where the family lives. However, travel features prominently in the retirement plans of many who find they suddenly have the extra time after a working life where vacations, free time, and resources may have been limited or dictated by career and the priorities of family life.

Travel plans

If your travel plans involve spending part of the year in a warmer climate, do you plan to purchase a vacation property? Do you already have a vacation property in another country and plan to spend more time there when you retire? Many Canadian snowbirds, for example, winter in Florida and Arizona and own properties in their chosen location.

While the idea of spending winter in a warmer climate might hover towards the top in your retirement plans, the practicalities of making your dream a reality can be daunting. The RBC 2015 Poll showed that while 27% of pre-retirees expressed the intention of becoming snowbirds, only 16% of retirees actually realized this vision. Properties generally come with property ownership commitments, like maintenance, plus potential tax consequences when you buy, sell, and receive rental income. Tax considerations can also be a factor when you spend significant amounts of time in tax jurisdictions outside Canada. Many snowbirds are all too familiar with these implications. In each case, it's helpful to obtain professional advice from a qualified cross-border tax advisor to ensure you're familiar with the tax rules in the jurisdictions where you live and/or vacation.

If your travel plans involve spending part of the year in a warmer climate, do you plan to purchase a vacation property? Do you already have a vacation property in another country and plan to spend more time there when you retire?

Property maintenance and renovations

Property maintenance is an ongoing expense for many families, whether you're maintaining your primary home, a vacation property, or an investment property. The time and costs are both major considerations when you're purchasing a vacation home. You may be deciding between a condo, which may require relatively little upkeep, and other properties that may have both property and landscaping to maintain. If you're buying abroad, familiarize yourself with all the property ownership requirements, fees, taxes, and anything else that relates to your new property. The legal obligations of property ownership could be very different from what you're used to at home. This is another area where your professional tax and legal advisors in your chosen location can help. Beyond the requirements of everyday upkeep, renovation costs can also make inroads into your retirement income. This kind of expense often increases with the age of the property, so factor it into your income requirements for retirement and allow for inflation.

Cottage ownership is a common priority and one that is frequently integrated into an individual's vision of a rich family life, extending into retirement and later into estate-planning objectives of passing a family vacation property to heirs. The demands of ownership can have a significant impact on your income and must feature in your budget calculations. Samuel and Davika from the Appendix 2 case study, a couple who is 15–20 years away from retirement, plan to buy a cottage in the next five years. They will need to adjust their cash-flow projections to accommodate this. They must balance this objective with their desire to pay for their children's education and determine whether it will affect their ability to retire on schedule. As Samuel and Davika want to retire debt-free, this will necessitate making accelerated payments. They are also contributing to Registered Education Saving Plans (RESPs) for their children and saving annually in TFSAs, factors that will obviously affect cash flow.

Major expenditure in retirement *continued*

To realize their objective of buying a cottage in five years, they may have to deplete non-registered savings, RRSPs, and TFSAs. They may also have to borrow additional funds, and interest charges on those will not be deductible. For them, it's important to understand that withdrawing from their RRSPs will have tax consequences and that by depleting their savings and retirement funds, they undermine their safety net in the event of unforeseen circumstances. With this plan, they also increase their reliance on their combined employer pensions. In the event of disability or job loss, they would be unable to continue contributing to the pension plans and may have to sell their cottage to help finance their retirement. To address this contingency, they may wish to consider purchasing disability insurance.

If you're renovating to maintain or enhance a family cottage or a vacation property, particularly if it is shared by other family members who want to keep it in the family for future generations, think about formalizing the arrangements to share expenses and responsibilities for the necessary work among those who use the property and seek to inherit it. With typical family dynamics being what they are, the workload may not always be shared equally. If you're thinking of passing your vacation property to the next generation of your family, factor your intentions into your overall estate plan and obtain professional legal and tax planning advice on your strategy for gifting, changing ownership, or leaving the cottage to your beneficiaries in your Will. By doing this, you can help minimize the impact of a future transition on everyone, as far as possible. Placing properties into joint names or even settling a trust during your lifetime can be an answer, but these options have legal and tax implications and may not always be appropriate.

Making gifts to family

For many retirees, the opportunity to help children and grandchildren with expenses is a major planning objective. Grandparents may feel strongly about helping grandchildren achieve their career ambitions by contributing to their post-secondary education or assisting with school fees. Similarly, many choose to help family members with a down payment on a property, provide funds to help pay for a wedding, or offer support for other significant expenses. If you're deciding when to make a gift, during your lifetime or in your Will, ask yourself if it's important to you to be around to witness the consequences of your gift. Some people view it merely from a practical standpoint. They can provide funds when they are needed to help lessen the burden of student loans and large mortgages later on; others actively enjoy seeing the younger generations benefitting from their gifts. This may be the case particularly if, as the donor of the gift, you have

In retirement, you may find your regular living expenses vary considerably from your working years. Many retirees are surprised to discover that, in the absence of mortgage payments, commuting costs, child-rearing expenses, and the requirements of business attire, their monthly expenditure is considerably lower.

sufficient resources to maintain your chosen retirement lifestyle and your estate-planning objectives with your remaining assets. Always consider how gifts will impact you and your spouse, and take into account your life expectancy.

Providing a legacy in your Will, sometimes through a testamentary trust, may be another personal goal. For some people, the ability to leave a legacy amounts to an ambition in itself. Sometimes this desire is built on a cultural foundation; or maybe it is a family tradition. You may choose to include a testamentary trust in your planning because the beneficiaries in question are not currently of an age when it is appropriate for them to receive a gift or because you have chosen beneficiaries who you feel would benefit from having others manage the assets on their behalf. The desire to leave a legacy, in whatever form, can influence some to make spending choices in retirement oriented towards preserving capital rather than fulfilling lifestyle goals. What it all comes down to is determining what is important to you.

Lifestyle and leisure expenses

In retirement, you may find your regular living expenses vary considerably from your working years. Many retirees are surprised to discover that, in the absence of mortgage payments, commuting costs, child-rearing expenses, and the requirements of business attire, their monthly expenditure is considerably lower. In general, Canadians spend less in retirement because their lifestyle has changed, and they are no longer making pension or RRSP contributions or supporting children, in many cases. Of course, the rule of thumb that you need to replace 70% of your pre-retirement income to determine your necessary retirement income is merely that — a rule of thumb. The actual amount you spend in retirement depends on your circumstances. Expenses may shift from business to leisure, and you may find that your social life is different and, consequently, so is your expenditure for eating out and entertaining.

Major expenditure in retirement *continued*

Charitable giving

Do you anticipate making charitable donations during retirement? Would these gifts constitute a significant portion of your income or make inroads into your capital? Some interesting statistics were revealed in the RBC 2015 Poll about retirees and pre-retirees who have charitable inclinations or the desire to volunteer their time. In brief, 77% of pre-retirees envisioned volunteering or giving back to the community. By contrast, 63% actually followed through with those intentions during retirement. Of those individuals planning or already participating in community involvement, approximately 40% had investable assets of $1 million or more.

You may have already established a pattern of philanthropy in your life with volunteer work for charities or regular withdrawals from your bank account. There are a variety of ways to give back to the community. You could make donations in cash or in-kind, during your lifetime or upon your death. You can donate insurance policies, RRSPs, works of art, real estate, and a variety of different types of investments. The tax implications vary depending on the size and the nature of your gift and the manner in which you make your donation, so these are important factors to keep in mind.

Each year, you can claim a non-refundable charitable tax credit for charitable donations and gifts not exceeding 75% of your net income. There is no annual limit if you donate certified cultural property or ecologically sensitive land. If you go over the limit in making charitable donations, you can claim the excess over the next five years, subject to the 75% limit per year. Cash gifts are simplest, but donating assets in-kind can offer advantages. For example, if you donate publicly traded securities to qualifying charities, you don't need to recognize capital gains realized as a result of the gift, and you still receive a charitable donation receipt for the full amount of the gift. Here again, it's always best to obtain professional advice.

If you're questioning what impact this kind of charitable giving will have on your retirement, well, that depends on your retirement income and the number and size of gifts you make. Is this a continuation of your pre-retirement pattern of giving? Will you have more time to volunteer for your chosen charities when you retire, and will this result in increased donations? Samuel and Davika, from our case study example, plan to give more to charity during their retirement. This is a continuation of the pattern of giving they have already established, but they plan to increase their donations. Will this be practical, given a reduced retirement income and other demands on cash flow and capital? The best advice is to take the time to reassess your spending priorities. By reducing certain other expenses, you may be able to continue or even increase giving to the charities that are meaningful to you. Include these factors when you're assessing your likely retirement income, and be realistic. Doing so will help you and your financial planning professionals achieve a prospective retirement income target that will meet your needs.

Estate-planning objectives

Knowing the rules for making lifetime gifts

If you plan to make gifts to family and friends during your lifetime, you need to obtain advice from a qualified tax and/or legal advisor on the potential consequences to ensure your beneficiaries receive the gifts you intend. If you're thinking of making outright gifts of cash or assets, remember that provincial/territorial rules may affect the way in which you give. For example, if you want to give a cash gift to a minor who lives in Ontario, a grandchild perhaps, you would expect to give the gift to the child's parent or guardian to hold on their behalf. Subject to the legislation in your province/territory, it may be possible for the child's parent/guardian to invest some gifts on their behalf (in Ontario, gifts of $10,000 or less) but the tax consequences can still be important. In addition to certain investment income attributing back to the family member who gifted the funds for tax purposes, the parent holding the funds may have to file a tax return for the child to report income and capital gains earned on the funds you gifted to them.

If you make gifts to adults, keep in mind that cash gifts will not result in tax consequences for you but in-kind gifts of assets going to an adult who is not your spouse could trigger a capital gain or loss, if the asset you choose to gift has an unrealized gain or loss. It will be realized when you make the gift. Certain kinds of lifetime gifts can also result in a tax bill for you, so consider this when you decide what you are going to gift and to whom.

Gifting via income-splitting strategies like the family trust

There are some alternate ways to make gifts that can present tax-minimization and income-splitting opportunities. For example, you might choose to fund an inter-vivos (lifetime) trust, either by an irrevocable gift, or by means of a loan at the CRA's prescribed rate of interest. The trust may name a class of beneficiaries, which could include your spouse, children, and grandchildren, for instance. The investment income earned in the trust can be used to pay for expenses that directly benefit the beneficiaries. This type of approach could work well to help fund a wide variety of expenses including post-secondary education, private school tuition, and camp fees.

Assuming that the beneficiary you are aiming to benefit is in a lower marginal tax bracket than you are (in some cases they may have no income at all), the funds paid out of the trust to them or for their benefit can be taxed on their tax return at their marginal tax rate. If they have no other income at all, they can earn up to a certain amount of investment income every year, tax-free, because of their basic personal exemption.

Longer lifespans also unfortunately mean potentially longer periods of disability for some. Insurance can help cover the cost of care in an institution or for professional assistance at home.

The beauty of this kind of strategy is threefold: it may help you realize your objectives of gifting to family during your lifetime, allow for tax minimization through family income splitting, and enable you to retrieve the funds you loaned to the trust, if necessary, subject to the terms of the loan agreement. This provides a layer of flexibility to your planning that could accommodate any unexpected changes in your circumstances. Keep in mind, however, that if you make a gift to a trust, the gifted assets will no longer be available for you to use in retirement. In other words, it's important to consider whether it will impact your ultimate plans.

Creating an estate to pass to heirs

If building an estate and planning your legacy is one of your priorities, which it is for many Canadians, you may be concerned that the wealth you've carefully accumulated and invested during your working life, and the investments you've managed so diligently could become depleted during your retirement. Will you need to access your capital to meet expenses? Will sufficient funds be available on your death to fulfill your estate-planning objectives? Will the desire to leave an estate impact your own retirement goals?

Considering critical illness, disability, and long-term care insurance

These days, Canadians are living longer and are increasingly likely to survive a critical illness. This means they are also likely to incur increased health costs relating to the treatment of a critical illness. Recovery times from illnesses can be long and expensive, so you may incur costs of care, both in institutions and in the home. Longer lifespans also unfortunately mean potentially longer periods of disability for some. Insurance can help cover the cost of care in an institution or for professional assistance at home. Even those receiving care at home sometimes require a level of attention that exceeds what their family can provide and may spend periods of time in institutions. This is where critical illness, disability (until age 65), and long-term care insurance can be so effective to help cover a variety of costs, provide peace of mind, help you maintain your independence and financial security, and preserve

Estate-planning objectives *continued*

your estate for your beneficiaries. And, having insurance to protect you also leaves more money to use in your retirement years.

Using life insurance as a tool to pay taxes due on death

Passing your estate to your chosen beneficiaries may be important to you. If it is, question whether your desire to preserve your estate will affect your retirement lifestyle. Another important thing to ask yourself is whether the idea of leaving a legacy is desirable or absolutely essential. Life insurance can be an effective way to provide funds to meet your tax bill on death. If you're thinking of using life insurance for this purpose, and you've prepared an estate plan with the assistance of a qualified legal and tax advisor, you may have an idea of the potential tax liability facing your estate. Using life insurance proceeds to pay this bill can free up more of your assets to pass to your beneficiaries.

If some of your assets will pass to your beneficiaries without going through your estate, for example, because they are held as joint tenants with a right of survivorship, or if you have named beneficiaries on your RRSPs or locked-in plans, there may be a lack of liquid assets in your estate on your death with which to pay the taxes. Life insurance can address this shortage, if you are insurable and the premiums are reasonable. Take the premiums into account, and include probate fees and professional fees for your professional advisors and executors/liquidators, if applicable. The take-away point here is that you shouldn't underestimate the importance of the peace of mind this kind of planning can bring and the value of being able to enjoy the lifestyle you pictured for your retirement.

Helping create an estate with life insurance

If you're worried that your assets may be insufficient to provide the gifts you wish to leave to your beneficiaries, life insurance may help provide an estate. The insurance proceeds could be designated payable to the estate, if you want them to flow into a testamentary trust or be distributed in accordance with the terms of the Will. Alternatively, you can designate beneficiaries on the insurance policy. The death benefit would then be paid to them, outside your estate, on a tax-free basis.

If these types of insurance solutions appeal to you, take the time to talk with a life-licensed insurance representative about your options for appropriate policies that may help meet your needs.

Planning for a potential tax hit on death

The Tim and June Rose case study (Appendix 1) illustrates some important factors to consider in relation to the tax impact that can arise on death and its implications for the family. In this scenario, Tim and June own a home and a cottage. Although their home will be sold on the death of the surviving spouse, any potential capital gains triggered at that time will likely be exempt based on the application of the principal residence exemption. In the case of the cottage, however, there will be a capital gains tax bill. The couple's children have not expressed interest in keeping the cottage in the family so the couple intends the cottage to be sold on the second death and the sale proceeds used to meet the tax bill. The couple may also wish to investigate purchasing life insurance to cover potential capital gains on the death of the second spouse, to preserve a larger estate for their heirs. As this example shows, it is important to communicate effectively with family members about your estate plan to avoid unpleasant surprises. Tim and June's heirs should be forewarned that a portion of the sale proceeds of the cottage will be absorbed in meeting the tax liability. This may make the executor's job easier and may be appreciated, especially

Estate-planning objectives *continued*

if you've named a family member to act in that capacity.

Family dynamics in discussing sensitive subjects

Approaching sensitive topics can sometimes generate uneasy feelings among families. How do you discuss your retirement and estate planning issues with your family? What does "family" encompass? Is it your kids, parents, extended family, blended family, friends and caregivers? Given the many forms of family that now exist in modern society, planning can sometimes be more complex. For that very reason, it's crucial to ensure your discussion includes the key areas that specifically apply to your individual situation and how you define family. You know your family best, so the right approach and phrasing will go a long way in making the discussion positive and ensuring you cover all the areas that need attention or decisions.

The impact of cultural preferences

Your investing behaviour and/or your plans for retirement could very well be influenced by cultural preferences. For some, these cultural factors can determine how you spend your retirement, where you live, how you invest, and how you organize your estate plan. Including these elements in your retirement plan is important, along with tax, retirement, and estate-planning considerations. Communication is a key factor here, as it can help ensure that older and younger generations are informed about your choices, which in turn can help preserve family harmony.

Joint ownership of accounts and family vacation properties

Placing accounts in joint ownership with adult children is a common estate-planning technique but one that's frequently misunderstood. While it may be possible to minimize certain types of taxation by using this kind of strategy, probate taxes, for example, payable on your death, this planning may not always result in avoidance of probate taxes, and there are other potential legal and tax implications. So, before adding a joint holder to your account, it's prudent to always obtain professional legal and tax advice.

Family members are frequently added to the title of a vacation property or a family cottage, particularly when the goal is for the property to remain in the family after death. Understanding the potential tax consequences is paramount to any decision like this. It's essential to seek advice from a qualified legal advisor before implementing this strategy to ensure your intentions are properly documented. Legislation governing real estate transactions varies by province or territory, so the professional advice you obtain should also be in the jurisdiction where your property is located to ensure you understand the consequences of your planning and any potential tax implications.

Estate-planning objectives *continued*

The softer side of estate planning

Some things come naturally. Talking to your children about your estate plan may not, but that's not a reason to avoid it. Your planning choices depend on your family and the type of estate you want to leave. If you have a family business, for example, there may be family members participating in the business who are the natural beneficiaries of those business interests. Siblings or other family members may know this and realize that their portion of the estate will come from other assets. Similarly, leaving the family vacation property to those who want to keep it in the family and who wish to have an ownership interest in it may be the natural choice. You may have joint ownership or trust arrangements in place, or you may decide to set up a trust in your Will containing assets to be used for the property's maintenance.

Creating an estate plan, and/or performing regular reviews, is a necessary part of retirement. The hope here is that the decisions you make won't affect your enjoyment of your retirement lifestyle.

Understanding the tax consequences of a plan

Tax planning can be a driving force in designing an estate plan. For example, if you designate beneficiaries for your registered plans, understanding how those funds will be taxed and what your various beneficiaries will receive is central. For example, if you leave the balance in your RRSP/RRIF to one of your adult children, assuming that beneficiary doesn't qualify for preferential tax treatment, the funds in the plan will be paid to that beneficiary before tax is taken. The tax bill on those funds will be paid in your final tax return. A beneficiary who receives a share of the residue of your estate, according to the terms of your Will, may receive a share reduced by the tax paid on the RRSP/RRIF funds. It may be necessary to consider an equalization strategy in this kind of scenario. The funds in the RRSP/RRIF may have been depleted by the time you die. A question to ask here is: is there a mechanism in place to adjust the shares of your estate in the case where your registered plan beneficiary receives less than anticipated? The tax consequences depend on the circumstances. A non-resident beneficiary of your RRSP/RRIF, for example, may have non-resident tax withheld at source on any income earned in the plan after the date of your death and may also have to pay tax on the funds received in the jurisdiction where they live. Will this result in inequality? You may be able to build contingencies into your plan to accommodate this. At the very least, discuss the arrangements with your beneficiaries to avoid an unpleasant surprise.

If you're planning to set up a testamentary trust in your Will, possibly for a minor or other beneficiary who would benefit from having a trustee manage their inheritance, keep in mind that in most cases, funds must "flow" through your estate and be subject to taxation in your final tax return, before they can be placed in trust. Take this into account when determining the assets to fund the trust and whether this suits your intentions for your beneficiaries. Deciding whether to tell your beneficiaries your thought process in setting up a trust for them is up to you.

> The best advice is to select your executor/liquidator carefully, and ask him or her if they are prepared to act before you appoint them. If they become unable to act or find the process overwhelming in the future, a number of trust companies provide services designed to assist executors.

Choosing an executor/liquidator

Talk to your executor (liquidator in Quebec) and/or trustee before you appoint them. There's a general perception that being appointed as executor is an honour. An executor appointment can involve a significant amount of work and responsibility; it demands organizational abilities and can require that the executor balance complex family dynamics and undertakes technical tasks, like tax filing, which the individual you choose might not be familiar with. It can also require the executor to be physically present (this is important if you're thinking of an out-of-province or non-resident executor). There can also be compliance and sometimes taxation implications if you choose an executor who lives in another jurisdiction. What some people don't realize is that, realistically, administering an estate may take more than a year; this time commitment may be a burden for those with multiple demands on their time. Furthermore, the legal responsibilities of the role could also subject your executor to potential personal liability. In the RBC 2015 Poll, an increasing number of respondents, 80% of retired and 77% of pre-retired individuals, discussed their Wills with their executors.

The best advice is to select your executor carefully, and ask him or her if they are prepared to act before you appoint them. If they become unable to act or find the process overwhelming in the future, a number of trust companies provide services designed to assist executors, fully or partially, with estate administration responsibilities.

Estate-planning objectives *continued*

Planning for incapacity

Your retirement tasks should include planning for incapacity, and Powers of Attorney (called a Mandate in Quebec) are an essential part. Powers of Attorney, whether financial or for personal care, are governed by provincial/territorial legislation, so it's important to obtain legal advice in the jurisdiction where you live before preparing your Power of Attorney.

Powers of Attorney are generally associated with the aging process. Respondents to the RBC 2015 Poll showed that 67% of retirees have a Power of Attorney for financial and/or health-related matters compared to 54% of pre-retirees. Overall, 46% of pre-retirees did not have a Power of Attorney of any kind in place. This perhaps reflects an increasing inclination, if not a practical necessity, to consider matters of incapacity as we age. Powers of Attorney don't need to take effect solely in the event of incapacity. "Enduring" or "Continuing" Powers of Attorney can take effect immediately and will remain valid even if you lose capacity. Your Power of Attorney could also take effect on the happening of a triggering event or could exist for a limited time to authorize your Attorney to conduct a specific transaction on your behalf in your absence.

The main point to get across here is that multiple considerations could affect your choices, so always obtain professional advice from a qualified legal advisor when executing this kind of document.

Living Wills

Your retirement planning should include personal care decisions. Different legal documents are useful for this purpose, depending where you live. While these types of conversations can be difficult, it's crucial to document your choices and, if possible, communicate them to family members. A Power of Attorney for Personal Care, for example, provides direction on your personal decisions, like housing and health care. A Living Will (sometimes known as Health Care Directive) is a document that expresses your wishes in the event you are ill and can't communicate about the treatment you should receive. As an example, this may address whether you wish to be kept alive by artificial means. This document does not appoint an individual to act on your behalf in relation to these decisions; rather, it expresses your wishes when you cannot do so yourself. In some jurisdictions you can combine a Power of Attorney and a Living Will in one document.

Review your Power of Attorney regularly to ensure it continues to reflect your wishes. One-third of respondents to the RBC 2015 Poll, both retired and pre-retired, said they had reviewed their Powers of Attorney in the last year. Older respondents and those with investable assets of $1 million or more were more likely to have done so.

Defining retirement priorities

Do you know what you want from your retirement? Do you have a financial plan to make your goals possible? Frequently, those approaching retirement have different lifestyle aspirations than those who are actually retired. So what are retirees actually doing in their retirement years? As we found in the RBC 2015 Poll, the majority of retirees (72%) were simply "taking time for myself." The majority of pre-retirees expected to travel (70%), but only 62% were actually doing so.

Another interesting retirement reality was that the majority of retirees (51%) missed their social interaction with colleagues. This took precedence over the 26% of retirees who missed having a regular pay cheque. What these responses highlight is the importance of maintaining a social network in retirement to replace the interaction with colleagues at work, as well as that quality of life in retirement is uppermost in the minds of retirees. The Poll results also serve as a reminder that for some, the realities of retirement may, in general, be different from your expectations. Adequate planning and professional advice will positively impact your retirement preparedness, but don't underestimate how important it is to plan a retirement that makes you happy, populated by the people and activities that bring you fulfillment and peace of mind.

Conclusion

With a wide range of individual circumstances and personal details to consider, not to mention the various financial tools, savings vehicles, insurance options, and estate matters, it's clear why retirement can sometimes be viewed as a daunting life stage to appropriately plan. However, by shifting to a practical perspective that concentrates on how to achieve their desired lifestyle – rather than simply on what retirement will cost – Canadians will be better prepared to confidently and successfully shift into the retirement experience they anticipate.

With the knowledge and information presented in this report, the hope is that Canadians will benefit from an improved understanding of the process, as well as the ability to identify specific goals, take the necessary measures to attain them, and ultimately, the assurance that their ideal retirement expectations will be realized.

Your RBC advisor’s role

RBC works with clients and their independent legal or tax advisors to help achieve objectives and maximize overall wealth.

Our specialized financial advice includes estate planning solutions, succession planning from a business and personal perspective, borrowing and credit, cash management, wealth management, investment management, financial planning, personal retirement planning, trustee service, philanthropy and insurance.

Please contact your RBC advisor for more information or visit

http://www.rbcwealthmanagement.com/canada.html

for an introduction to an RBC advisor.

Appendix 1

Case Study: Tim and June Rose – Retired three years ago

Tim Rose, 68, retired three years ago in British Columbia with his wife, June, 66.

The Roses have three children. Mark, 33, lives and works in Alberta; Bill, 30, lives and works in Newfoundland; and, Sandra, 28, has been living and working in the U.S. for five years.

The couple's main goal is to ensure adequate retirement income to fund their needs.

They anticipate spending $65,000 (indexed to inflation) annually in retirement, in addition to income taxes. Prior to retirement, they were earning approximately $140,000 a year between them. The Roses want to travel as much as they can while they are healthy. To fund this goal, they want to have an additional $20,000 a year over the next 15 years to spend on vacations. They feel vacation expenses may be replaced by health-care related expenses, like nursing care, in the future.

Tim and June Rose – Assets and Liabilities

	Tim ($)	Tim Cost ($)	June ($)	June Cost ($)	Total ($)
Investable Assets					
Non-registered	$ 30,000	$ 30,000	$ 30,000	$20,000	$ 60,000
RRSP	$400,000		$ 50,000		$450,000
LIRA / DC Pension / LIF / LRIF	$275,000				$275,000
TFSA	$ 30,000		$ 30,000		$ 60,000
Lifestyle Assets and Liabilities					
Principal Residence	$450,000		$450,000		$900,000
Secondary Residence	$175,000	$100,000	$175,000	$100,000	$350,000
Total Net Worth	**$1,360,000**		**$735,000**		**$2,095,000**

Appendix 1 *continued*

The Roses own their own home and a cottage. They will spend a couple of months a year at their cottage. Their children live far away and have no interest in the cottage and will sell it once their parents have passed away or if their parents are in poor health and can no longer use the cottage.

If they maintain their spending, they will have sufficient cash flow to retire comfortably, given their mix of government pensions, June's $15,000 annual employment pension, and their investments, predominantly made up of Tim's RRSP and locked-in funds.

The couple's net worth is presently just over $2,000,000. If Tim lives until age 92 and Jane lives until age 95, their net worth will be approximately $2,500,000 upon Jane's death. Most of that is tied up in their real estate holdings.

Conclusions

- Tim and June's cash flow in retirement is sufficient to meet their needs.
- Including their travel expenses, they are spending approximately 60% of their pre-retirement income.
- Income splitting: Almost all of their income is being generated from Tim's RRIF and locked-in funds. They can reduce their overall taxation and have more discretionary income by splitting this income.
- Vacation costs may be replaced with health-care expenses. They will have enough to fund $20,000 in health-care expenses. If they run short on funds, they may decide to sell their cottage. Alternatively, they can borrow against the equity in their house or sell their house and live in less expensive accommodations.
- Estate: The main asset is their principal residence, which will be exempt from capital gains taxation.
- The cottage will trigger capital gains tax on death or sale. Proceeds of the cottage sale can be used to pay the taxes. There is no requirement to keep the cottage in the family.

Appendix 2

Case Study: Samuel and Davika Smitters – 15 years away from retirement

Samuel Smitters, 50, is a university professor, earning $90,000 annually. He lives in Ontario with his wife, Davika Smitters, also 50. Davika is a marketing specialist at a packaged goods company, presently earning $80,000 annually.

The Smitters have two children: Samantha, 10, and Steven, 8. Samuel's father, Barry, 72 owns his own business, and Samuel's mother, Brenda, 71, is retired. Davika's father is retired and living in a retirement community in Florida. Her mother passed away five years ago.

They have stated that they have the following goals:

- To buy a cottage in five years.
- To retire in 15 years.
- To pay for their children's post-secondary education.

The couple's present cash flow is enough to cover $60,000 (in today's dollars indexed to inflation) in annual living expenses, not including income taxes and mortgage payments. In addition, they are saving a total

Samuel and Davika Smitters – Assets and Liabilities

	Samuel ($)	Samuel Cost ($)	Davika ($)	Davika Cost ($)	Total ($)
Investable Assets					
Non-registered	$ 50,000	$ 50,000	$ 50,000	$50,000	$100,000
LIRA / DC Pension / LIF / LRIF	$100,000		$100,000		$200,000
Lifestyle Assets and Liabilities					
Principal Residence	$325,000		$325,000		$650,000
Mortgage	$150,000		$150,000		$300,000
Total Net Worth	**$325,000**		**$325,000**		**$650,000**

Appendix 2 *continued*

of almost $44,000 a year in RRSPs, TFSAs, RESPs, and pension contributions. Samuel and Davika realize they are saving a lot of their annual income.

The Smitters plan to have their mortgage paid off in 15 years and carry no debt into retirement. They realize this goal means high monthly payments. They would eventually like to contribute more to charity once their mortgage is paid off and their kids have completed school.

In retirement, they require $60,000 a year in today's dollars to cover their lifestyle expenses.

To reach their dream of buying a cottage in five years, Samuel and Davika will have to deplete their non-registered savings, RRSPs, and TFSAs. They could also borrow some of the required funds to buy the cottage.

Samuel and Davika feel comfortable depleting their savings to pay for a cottage knowing that they are saving for retirement in their pension plans and will continue saving in their TFSAs and RRSPs.

A big concern is what would happen if either one of them became disabled, resulting in a dramatic reduction in their income stream. A further concern is the well-being of Samuel's parents and Davika's father. They are also concerned about estate taxes that may be payable upon both of their deaths.

Samuel and Davika Smitters – Present Cash Flow

	Samuel	Davika
Gross Employment Income	$90,000	$80,000
Lifestyle Expenses*	$30,000	$30,000
Donation	$ 1,000	$ 1,000
Savings		
RRSP	$ 5,400	$ 4,800
Defined Contribution Pension	$ 7,200	$ 6,400
RESP	$ 2,500	$ 2,500
TFSA	$ 7,500	$ 7,500
Debt Payments		
Mortgage	$13,491	$13,491
Total Cash Flow	**$22,909**	**$14,309**

* Lifestyle expenses exclude debt payments, savings, taxes and donations.

Conclusions

- Cottage purchase: This is a stretch for them, but they can do it. The Smitters can deplete non-registered savings, TFSAs, and RRSPs or get a mortgage, or a combination of both.
- Retirement: They need to continue saving 12% (8% employee, 4% employer) of their salaries in their pension plans and contributing their maximums to their RRSPs. Their locked-in funds will be worth over $1,000,000 by the time they start withdrawing in the year they each turn 72.
- If they lose their jobs and stop contributing to their pension plans, they may end up having to sell their cottage to fund their retirement. They also have money in their locked-in plans and plan on continuing to contribute to their TFSAs and RRSPs.
- Education: They will have enough in RESPs to help both of their kids pay for a large portion of their education. They expect their children to help as well.
- Disability or job loss: They can either save less each year or forego the purchase of the cottage, or they may have to do both. They could sell the cottage if either one became disabled after the cottage purchase. They should consider purchasing disability insurance, which will help keep their retirement dreams alive.
- They will be able to give more to charity in retirement once their mortgage is paid off and annual retirement savings stop.
- Net worth: Presently it is $650,000. That is expected to be $3.5 million by the time they are 90. Approximately $2,000,000 will be in real estate. Assuming they are both insurable, they should consider purchasing life insurance, which can be used to pay estate taxes.
- Parents: Samuel and Davika need to discuss with their siblings what will happen with their parents if they are not able to care for themselves.

Appendix 3

Case Study: John and Jane Wirtz – Five years away from retirement

John Wirtz, 60, a business owner, earns $175,000 annually. He lives in Alberta with his wife, Jane Wirtz, 58. Jane is a primary school teacher earning $60,000 a year.

They have three children: Robert, 33; Beth, 31; and, David, 28. Robert and Beth both work in the family business. David has a cognitive impairment and has worked in retail sales for many years. He lives with the Wirtzs and will never be able to live independently.

The Wirtzs have stated that they have the following goals:

- To retire in five years.
- To help pay for their grandchildren's education.
- To ensure David is looked after once they have passed away.

John and Jane Wirtz – Assets and Liabilities

	John ($)	John Cost ($)	Jane ($)	Jane Cost ($)	Total ($)
Investable Assets					
Non-registered	$ 750,000	$500,000	$150,000	$125,000	$ 900,000
RRSP	$ 400,000		$100,000		$ 500,000
Holding Co. Investment Assets	$1,000,000	$100,000			$1,000,000
TFSA	$ 45,000		$ 45,000		$ 90,000
Lifestyle Assets and Liabilities					
Principal Residence	$ 525,000		$525,000		$1,050,000
Secondary Residence	$ 250,000	$200,000	$250,000	$200,000	$ 500,000
Mortgage	$ 200,000		$200,000		$ 400,000
Total Net Worth	**$2,770,000**		**$870,000**		**$3,640,000**

Appendix 3 *continued*

Their annual spending today is about $90,000 (indexed to inflation) above and beyond savings and taxes. They are saving about $26,000 in RRSPs a year, as well as $10,000 each in TFSAs. They will transfer some of the investment income they earn each year to fund their TFSAs, which is much more tax efficient.

The Wirtzs would like to pay off their mortgage before retirement. The penalty to do so today is substantial, so they will continue making mortgage payments for the next five years and pay off the balance at their retirement date.

Given their substantial assets, the Wirtzs are fortunate enough to have several options.

A big concern of the Wirtzs is what would happen to their youngest child upon their deaths or if either or both of them became disabled and David couldn't live with them. David earns his own income, but it is not enough to be self-sufficient. They can afford to set aside $200,000 to fund a registered disability savings plan (RDSP) and plan on doing that this year.

John has also said that they have enough money in their non-registered account to put $150,000 into an RESP for their grandchildren and want to do that today.

The Wirtzs want to take at least two vacations a year and spend a total of $20,000 a year. They will also spend one month in the summer and one month in the winter at a home they own in Banff, Alberta.

John and Jane Wirtz – Present Cash Flow

	John	Jane
Gross Employment Income	$175,000	$60,000
Lifestyle Expenses*	$ 66,600	$23,400
Savings		
RRSP	$ 24,270	$ 2,000
TFSA	$ 10,000	$10,000
Debt Payments		
Mortgage	$ 17,988	$17,988
Total Cash Flow	$ 56,142	$ 6,612

* Lifestyle expenses exclude debt payments, savings, taxes and donations.

Their retirement savings, along with Jane's $36,000 a year defined benefit pension plan, will allow them to comfortably retire in five years. Their retirement cash flow will be more than the $80,000 a year, indexed to inflation, that they plan to spend, not including vacations or income taxes. At retirement, they are better off using Jane's age when setting up the amount for RRIF minimums, allowing additional tax deferral.

They presently have a net worth of about $3,700,000. At the age of 90, they will have a net worth of approximately $7,500,000 if they contribute the maximums to an RESP and RDSP this year and continue contributing to their TFSAs and RRSPs.

Given what their net worth may be, they are concerned about estate taxes upon death and how to make sure their assets are distributed to their children.

Conclusions

- They will have enough cash flow in retirement with their investments, government pensions, and Jane's employment pension.
- They expect to spend less than 50% of their pre-retirement income in retirement.
- They should name beneficiaries on their TFSAs and RRSPs to reduce probate (albiet minimal in Alberta) and for simpler estate administration.
- They should use non-registered income to help fund TFSA contributions.
- They can fund an RDSP and RESP without impacting their retirement plans.
- They should consider establishing a testamentary trust, naming David as the beneficiary (also potentially naming Robert and Beth as trustees).
- A trust may impact David's entitlement to provincial disability benefits.
- They should have a trust document to allow for allocating funds to look after David in a group home or having private home health care.

Appendix 4

Case Study: Matt and Sophie Smith – Newly retired couple

Matt and Sophie Smith retired last month in their hometown of Toronto. Matt, 65, worked for many years as a warehouse manager and Sophie, 63, worked as a primary school administrator.

They have three children: Miranda, 33; Jamie, 25; and, John, 23. Miranda and Jamie are both working, and John is finishing off his final year at Dalhousie.

The Smiths have stated that they have the following goals:

- To ensure they have adequate retirement income to maintain their lifestyle.
- To remain in their home.
- To assure their cottage property can be transferred to their children.

They expect to spend $60,000 (indexed to inflation) a year in retirement, in addition to the income taxes they will have to pay. They also expect to spend $15,000 a year on vacations for the next 20 years.

The Smiths purchased their existing home 30 years ago, and it is now worth $1.2 million. They do not want to move from their home.

They also have a cottage in Northern Ontario worth $500,000. Over the past several years, they put as much money as they could into paying off a mortgage they had on the cottage. That left them with very little to save. They feel they will spend $15,000 annually on regular maintenance, property taxes, and hydro bills on the cottage. Their children are beginning to help with the annual

Matt and Sophie Smith – Assets and Liabilities

	Matt ($)	Matt Cost ($)	Sophie ($)	Sophie Cost ($)	Total ($)
Investable Assets					
RRSP	$ 100,000				$ 100,000
LIRA / DC Pension / LIF / LRIF	$ 100,000		$100,000		$ 200,000
Lifestyle Assets and Liabilities					
Principal Residence	$ 600,000		$600,000		$1,200,000
Secondary Residence	$ 250,000	$125,000	$250,000	$125,000	$ 500,000
Total Net Worth	**$1,050,000**		**$950,000**		**$2,000,000**

Appendix 4 *continued*

costs. Eventually, they would like the cottage property to go to their children. They are concerned that their children will not be able to afford the upkeep.

In addition to their real estate holding, they have some money in RRSPs and locked-in funds. Fortunately, Sophie will be receiving a $31,000 annual pension from a defined benefit pension plan.

Given their existing assets and their retirement income requirement, they will be running a deficit of approximately $20,000 a year when Matt is 76, even though they will have a net worth of over $2,000,000. With a life expectancy of age 90, they will have a net worth of almost $3,000,000, but will not have enough annually to pay their bills.

They have to find a way to pay their bills!

Conclusions

- Matt and Sophie are asset rich, but cash poor. They put as much money as they could towards paying off their cottage and now have very little in savings.
- By their mid-70s, they will not have enough cash flow to fund their retirement. They can use the equity in their house and get a reverse mortgage, or they can take out a home equity line of credit and invest the money to create a cash flow.
- A $600,000 line of credit or reverse mortgage when Matt is 75 will provide them with the required funds for their retirement and allow them to stay in their home.
- Their retirement spending will be close to 100% of what they were spending pre-retirement. They need to consider reducing their spending.
- On the death of the second spouse, their house can be sold. There will be no taxes, as it is their principal residence.
- A portion of the sale proceeds can be used to pay capital gains taxes on their cottage. A further amount can be used to fund a cottage trust to maintain the cottage. That way, the children can keep the cottage.

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