BEING FINANCIALLY PREPARED FOR RETIREMENT

The Scary Facts!

$1.00 item in 1972, costs $3.78 today

At the average rate of inflation, the price you pay for an item today will be double in 20 years… almost $5.00 for a dozen eggs!!

You would need $300,000 invested at 6% for an $18,000 annual income when you retire

The average life span for a man is 76, but you should plan financially for 85

The average life span for a woman is 82, but you should plan for 90

It's quite possible that you could live 30 years after retirement

Where will your retirement income come from?

Old Age Security
Canada Pension Plan
Company Pension Plan
Registered Retirement Savings Plan
Personal Savings
Home Equity

Financial Planners estimate that you will need a retirement income that is 70-80% of your final earned income to live comfortably

Generally you will spend less on clothing, eating out and routine transportation

You may initially spend more on travel or hobbies. Utilities will likely cost more because you are home more

Old Age Security and Canada Pension Plan are intended to provide about 35% of your retirement income

Ideally, a company pension plan will make up 50%

Personal savings or RRSP's will make up the remaining 15%

Old Age Security

Must be 65 or older (if born after 1957, eligibility age increases incrementally to a maximum age of 67)
Apply for benefits 6 months in advance
Meet Canadian residence requirements
OAS is taxable income
Current maximum is $544 per month
Reduced if total income >$69,562 year
Guaranteed Income Supplement for low income seniors (maximum $738)

Canada Pension Plan

Must have contributed to be eligible
Apply 6 months in advance
CPP is taxable income
Current maximum is $986 per month based on how much and how long you contributed
Calculations allow for a “drop out” period of up to 15% of low earning years

You can draw CPP at age 60 with benefits reduced by .7% per month prior to age 65
You can postpone CPP until age 70, increasing your amount by .7% per month
Survivor benefits may be available to a spouse and/or children
You can “pension share” with a spouse or common-law partner who is also 60 years of age to take advantage of tax benefits (ie; spouse has lower tax rate)

Company Pension Plans

Defined Contribution
Defined Benefit
Deferred Profit Sharing
Group RRSP

Defined Contribution

Commonly, a set percentage is deducted from income and matched by employer
Contributions are invested with a company designated investment firm
Employee contributions can be claimed to reduce taxable income
Usually vested after 2 years (cannot cash funds but employer cannot take back their portion)

The employee is responsible for choosing and tracking investments and their performance
Pension funds may be available as early as age 55
Pension funds must be used to purchase an Annuity or Life Income Fund

Annuity

A contract with a Life Insurance Company
Guarantees specific income for specific length of time
Payments based on age, amount of money and interest rate when purchased
No lump sum withdrawals
No changes to payments or terms
Taxable income

Income Reducing Annuity – the “owner” would get a set amount and on their death, the spouse would get a reduced amount
Impaired Annuity – takes existing serious medical conditions into consideration to pay a higher amount to compensate for shorter life expectancy

Life Income Fund

Payment amount guaranteed for life…You may collect 6 payments…or 600!
Term Certain – for example, 20 year payment to you or your beneficiary
Joint and Last Survivor – on death, payments continue to your spouse until their death (smaller payments than single life annuity)

Defined Benefits

Both employer and employee contribute
Pension provider manages the investment porfolio and associated risks
Provides a guaranteed income for life
Taxable income
Calculated using earnings and years of service
Protected against inflation

Can retire as early as age 55 with "bridge benefits" to age 65
Bridge benefits replaced by CPP at 65
Survivor and disability benefits

Many defined benefits plans have a website with a retirement income calculator (.omers. , www.hoopp.com, www.optrust.com)

Benefit calculations vary according to the plan but a very general example of what to expect would be:

2% x 35 years of service x $50,000 (applicable income) = $35,000 per year less appropriate deductions

Deferred Profit Sharing

An employer allocates a percentage of the company's pre-tax profits to the employee pension fund
Incentive to employee to work in the best interest of the company to boost profit
May not contribute if having a poor year
Contributions are tax deductible
Contributions vest after 2 years
No locking-in rules
At retirement, can cash contributions, buy an annuity or a Registered Retirement Income Fund (RRIF)
Group buying power can result in higher rates and lower investment management fees

Group RRSP

Employees save for retirement by contributing to an RRSP through payroll deduction
Group buying power can result in higher interest and lower management fees
Receive tax break every pay, at source

Remember

Company pension plans are designed to ideally provide 50% of your total retirement income

Registered Retirement Savings Plan (RRSP)

You contribute to a plan for yourself or a spouse
Contributions are tax deferred, reducing income tax payable now to withdraw when you are retired with a potentially lower tax bracket
Maximum contribution of 18% of annual earned income (cumulative) to an annually adjusted maximum

Credit Counselling

Suggestions

Use any tax refund resulting from your RRSP contribution to pay down your mortgage or deposit to a Registered Education Savings Plan

If you will have a larger company pension income, consider a Tax Free Savings Account vs RRSP

Some RRSP Investment Options

Savings
GIC's
Mutual Funds
Stock

Registered Retirement Income Fund (RRIF)

An RRSP must be converted to a retirement income by the end of the year you turn 71. You could use that money to buy an annuity or a Registered Retirement Income Fund (RRIF)

You choose how the RRIF is invested, keeping in mind that usually risk tolerance is lower after retirement as chances to recoup losses are less
Taxable income
RRIF's offer flexibility not available in other retirement vehicles

Subject to a government set minimum, you determine the payment amount and frequency

You can withdraw a lump sum at any time…keeping in mind that it becomes taxable income

Example RRIF payments:

$100,000 invested at 6% could give you $1000 per month from age 69 to 81, or…
$700 per month from age 69 to age 91
If your RRIF is earning only 2%, a $700 payment would end at age 83!

What about a Registered Education Savings Plan?

While planning for retirement, you may also want to contribute to an RESP to help fund post secondary education for your children

The current average cost of four years of University, providing your child lives at home, is $37,000

RESP's

You are allowed to contribute up to $4,000 per child per year to a maximum of $42,000
Government contributes a grant equal to 20% of your deposit to $400 per year and a maximum of $7200 per plan
You have a total of 21 years to invest
You have a total of 25 year from opening to collapse the plan

Withdrawals made from the plan, used for education, are taxable income at the student's low tax rate
If the RESP is not used, your original contributions can be withdrawn, earnings are taxable and the government will take back the 20% grant
Original contributions to $50,000 may be transferred to an RRSP if unused portion matches

Personal Savings

Having personal savings available will mean that you are prepared for any unexpected expenses
Only the earned income (interest, etc) will be taxable
Totally flexible and can be used at your discretion…you can avoid paying tax and penalties to withdraw funds

Home Equity

Borrow against home equity with a line of credit to get a low interest rate
Reverse mortgages, companies will make monthly payments to you on the understanding that they are repaid with preset interest on your death
Homes rarely depreciate, selling your home to downsize can net a substantial amount of cash and the "profit" on your residence is not taxable

Life Insurance

Reassess your needs shortly before retirement
Who is your life insurance for? Maybe adult children who will benefit, would be willing to pay the premiums
If you don't have individual life insurance, you may be able to continue to pay for a policy through your employer
Single? Good net worth? No children? Do you need life insurance?

Will

Provincial court can select a guardian for your children
Assets will be frozen until the province appoints an administrator, sometimes taking months
In Ontario, the first $200,000 will go to a spouse and any balance is split 50/50 between your spouse and children

To Make a will

Hire a lawyer
Purchase a Will Kit in a bookstore or business supply store
Obtain a form from the internet
Always notify the person you are appointing as executor and be sure they have ready access to a copy of the will

A Living Will

Clearly outlines your preferences about medical preferences, like life support
Reduces the stress of loved-ones trying to make important medical decisions for you
Provides a Medical Power of Attorney that allows your appointed representative to make medical decisions if you are unable to do so

Remember

It's never too late to start saving for retirement.

It will always be a benefit to you.

No contribution is too small to make a difference.