Financial Planning For Retirement

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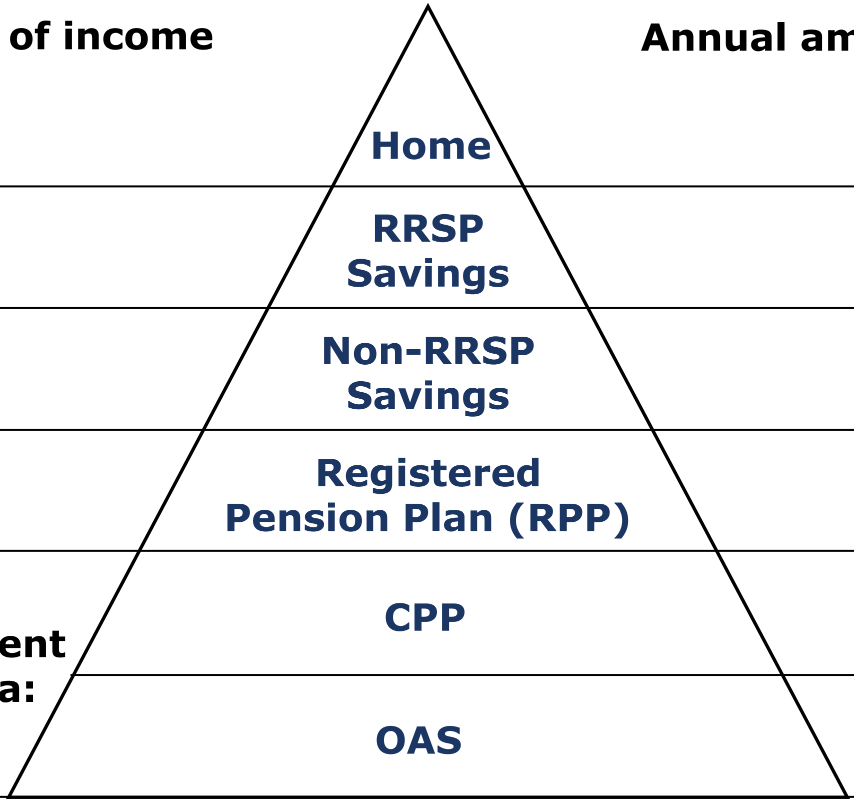
Retirement Income Sources

Source of income | **Annual amount**



Government Of Canada:

Total income ______________

Approximate income tax ______________

Spendable income ______________

Income Taxation (BC) – Approximate Rates

- 0% tax on the first $11,000 of income
- 20.06% on income between $11,001 and $37,869
- 22.7% on income between $37,870 and $44,701
- 29.7% on income between $44,702 and $75,740
- 32.5% on income between $75,741 and $86,958
- 34.29% on income between $86,959 and $89,401
- 38.29% on income between $89,402 and $105,592
- 40.7% on income between $105,593 and $138,586
- 43.7% on income between $138,587 and $151,050
- 45.8% in income above $151,050

- Only 50% of capital gains are included into income
- Dividends receive special income tax credits when earned in a taxable account

RRSP

- RRSP rules cont'd...
  - By the end of the year that you turn 71, your RRSPs must be dealt with in one of the following ways:
  - *Withdrawal* – heavy tax bite
  - *Annuity* - was a popular choice in the 1990's, now more so only around age 70
  - *RRIF* - most common at start of retirement

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RRIF

- RRIF rules:
  - Investment flexibility same as an RRSP
  - Once RRSP's have been converted to a RRIF, your first RRIF payment must be made by the end of *the following year* at the latest
  - CRA has set *minimum* required income payments, based on your choice of either spouse's age

UBC Faculty Pension Plan

- Must convert to LIF/RRIF plan (or annuity) by end of year in which member turns 71
- Payments to begin the following year, at the latest
- LIF and RRIF share the same minimum payment requirement
- LIF has a maximum payment percentage (depends on Factor F)

RRIF/LIF Minimum Withdrawal Rates By Age @ Prior Dec. 31

60 – 3.33%	70 – 5.00%	80 – 6.82%	90 – 11.92%
61 – 3.45%	71 – 5.28%	81 – 7.08%	91 – 13.06%
62 – 3.57%	72 – 5.40%	82 – 7.38%	92 – 14.49%
63 – 3.70%	73 – 5.53%	83 – 7.71%	93 – 16.34%
64 – 3.85%	74 – 5.67%	84 – 8.08%	94 – 18.79%
65 – 4.00%	75 – 5.82%	85 – 8.51%	95 - 20.00%
66 – 4.17%	76 – 5.98%	86 – 8.99%	96 - 20.00%
67 – 4.35%	77 – 6.17%	87 – 9.55%	97 - 20.00%
68 – 4.55%	78 – 6.36%	88 – 10.21%	98 - 20.00%
69 – 4.76%	79 – 6.58%	89 – 10.99%	99 - 20.00%

TFSA – Tax-Free Accounts

- Maximum contribution through 2016 - $46,500
- Contributions not deductible
- Begin accumulating contribution room in year of 18th birthday
- Growth and income in TFSA not taxable
- Withdrawals not taxable
- Withdrawals can be re-contributed in future years in addition to regular contribution room

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Income Planning Strategies

- Pension Income Splitting
- Spousal RRSPs
- Systematic Withdrawal Plans from non-registered accounts
- Organize your savings *tax efficiently by account type:*
  - Tax Deferred (RRSP, RRIF, LIF) - interest income
  - Taxable (Open) - capital gains and dividends
  - Tax Free (TFSA) – highest potential appreciation

Uses Of Money

Emergency

- very liquid
- safe/no risk

Income

- some liquidity
- regular income
- some risk

Growth

- little liquidity
- greater risk
- higher return potential

Historical Rates of Return 1950-2012

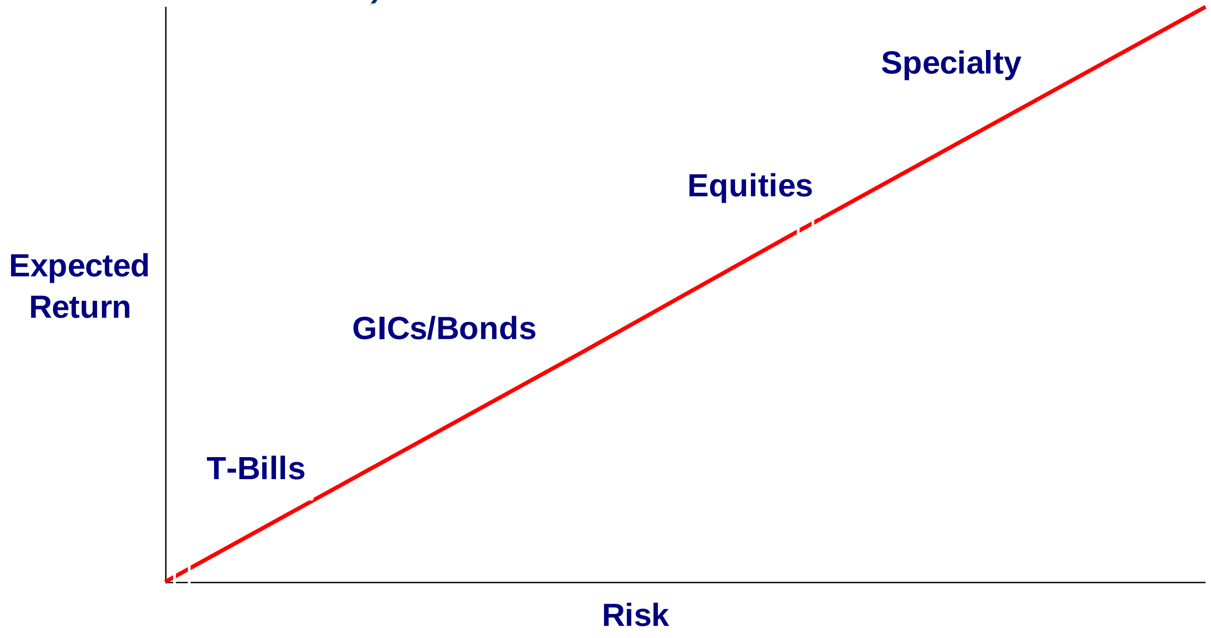
- Inflation – 3.7%
- Treasury Bills – 5.6%
- 5-Year GIC’s – 6.8%
- Canadian Bonds – 7.7%
- Canadian Stocks – 9.9%
- U.S. Large Stocks – 11.0%

Is there a relationship between inflation and rates of return?

(source: Morningstar)

Risk v Return

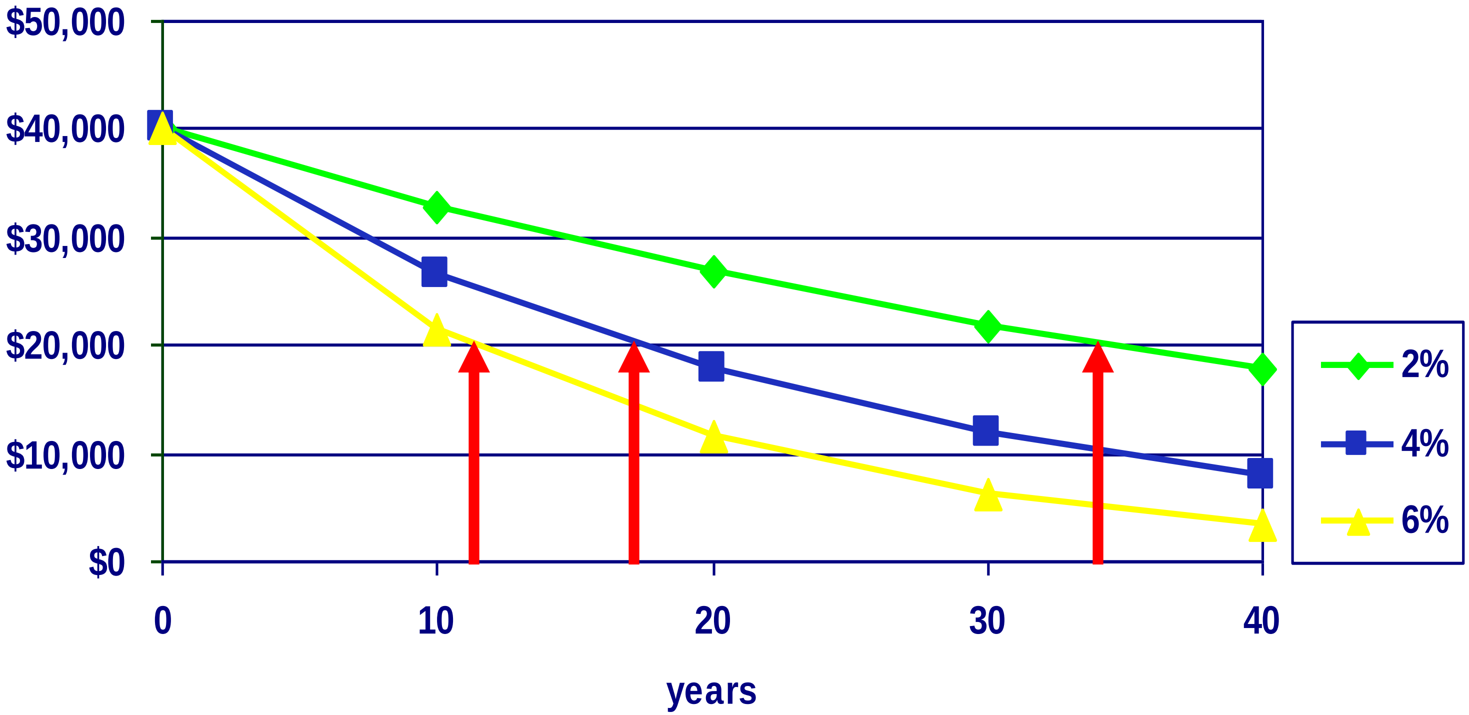
The higher the expected return, the greater the risk (size of fluctuations).



Major Factors That Impact Retirement Income

- Inflation
- Longevity
- Sequence Risk

Inflation & The Rule of 72



DO YOU PERFORM REGULAR

RETIREMENT INCOME PROJECTIONS?

Longevity Risk

Probability of Survival from Age 65

To Age	Female	Male
70	94 %	92%
75	85	81
80	72	66
85	56	46
90	35	24
95	16	8
100	5	1

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Longevity Risk

Probability of Survival from Age 65 – Married Couple

To Age	At Least One
70	99.5%
75	97
80	91
85	76
90	50
95	22

Will you outlive your money?

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Annuity Income – per $250,000

Based on Life Annuity, guaranteed 5 years (as at October 2015):

Age	Male	Female	Joint 100%	Joint 66%
65	$1,377	$1,254	$1,121	$1,248
70	$1,606	$1,434	$1,269	$1,422
75	$1,915	$1,675	$1,451	$1,666

If income is to be indexed at 2%:

Age	Male	Female	Joint 100%	Joint 66%
65	$1,114	$980	$869	$983
70	$1,352	$1,182	$1,026	$1,171
75	$1,668	$1,430	$1,216	$1,408

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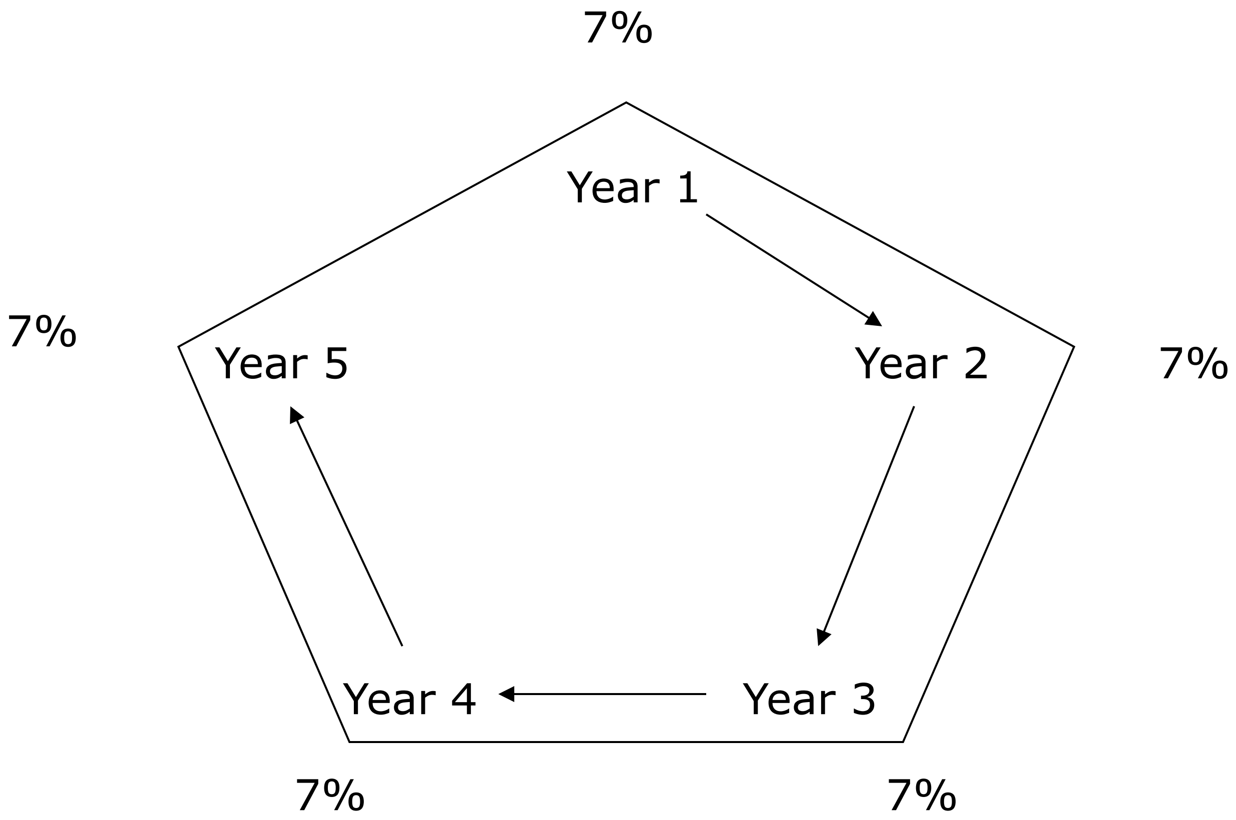
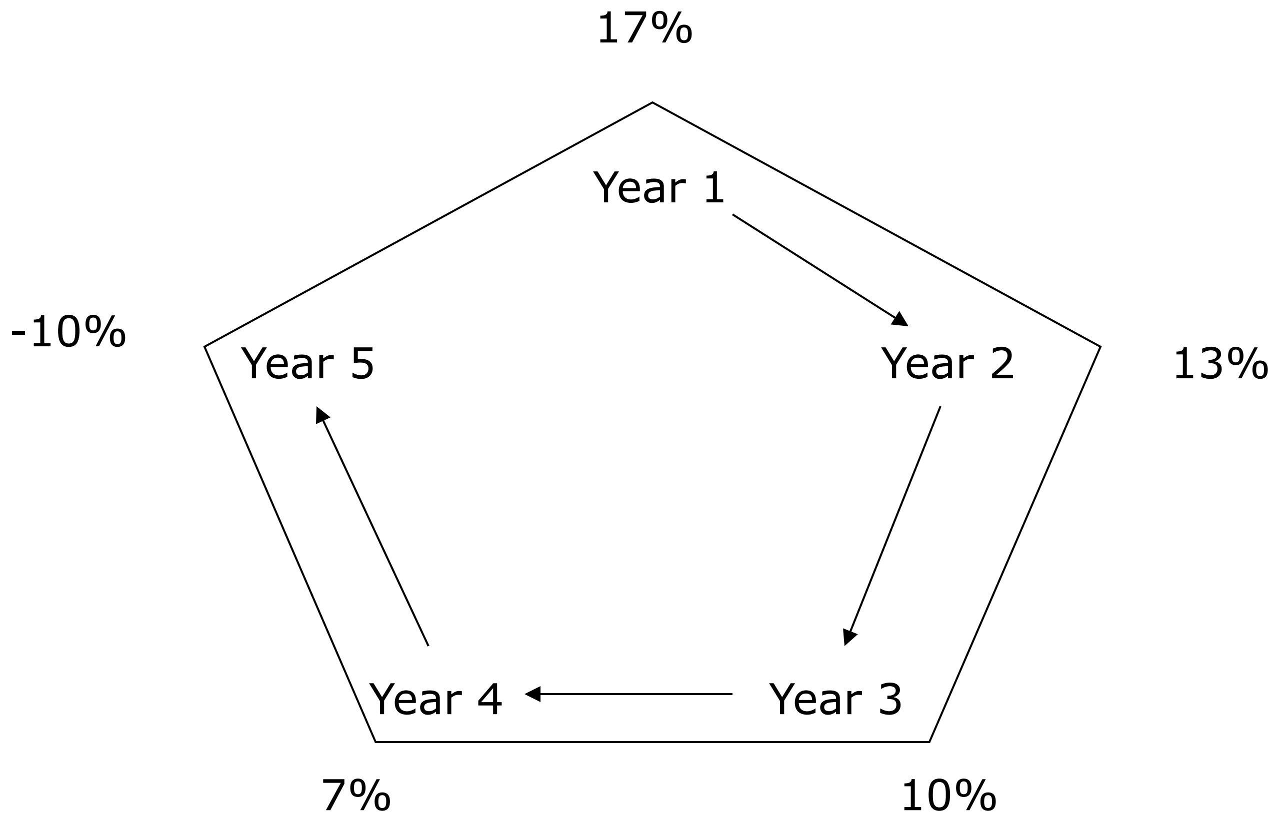
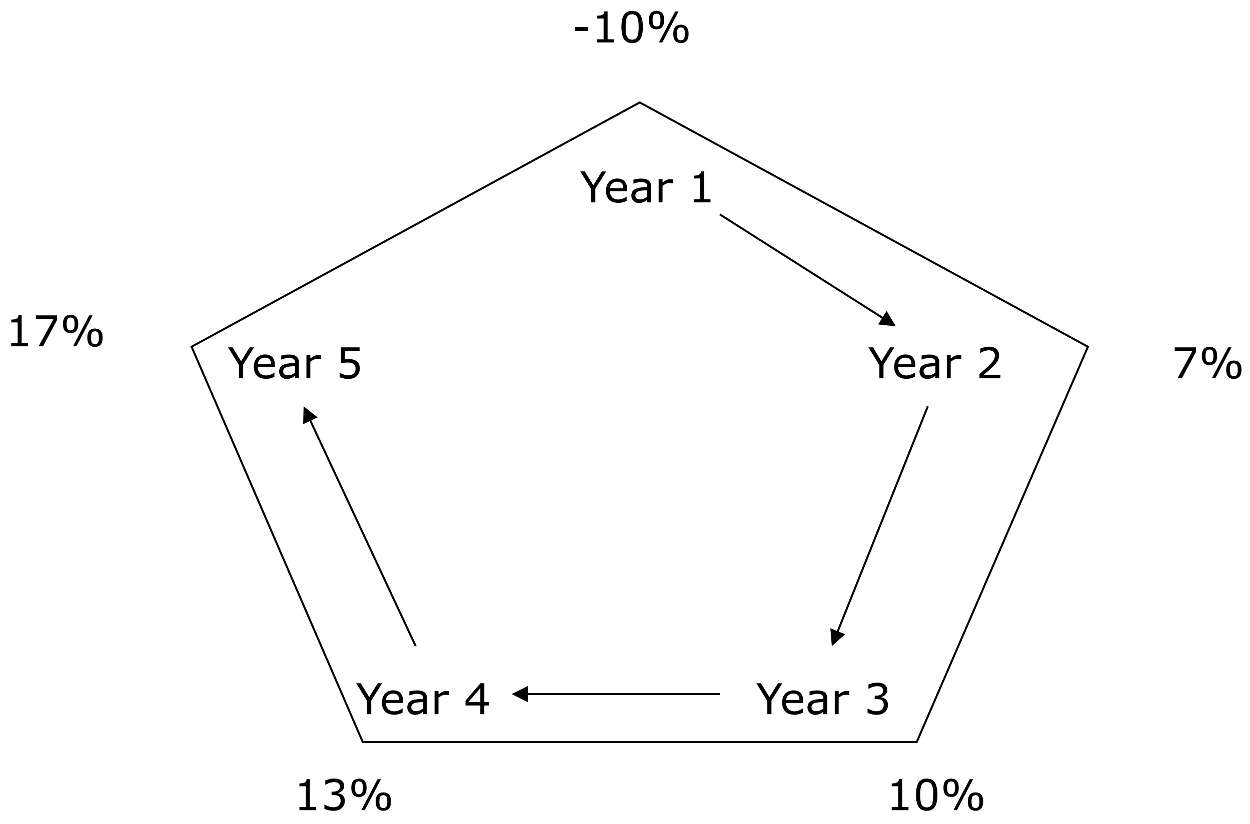
Sequence Risk
#1 – 7% average return



Sequence Risk
#2 – 7% average return



Sequence Risk
#3 – 7% average return



Sample Returns & Portfolio Values

$100,000 portfolio with $7,000 withdrawal at the end of each year:

	#1 7/7/7/7/7	#2 17/13/10/7/-10	#3 -10/7/10/13/17
Year 1	$100,000	$110,000	$83,000
Year 2	$100,000	$117,300	$81,810
Year 3	$100,000	$122,030	$82,991
Year 4	$100,000	$123,572	$86,780
Year 5	$100,000	$104,215	$94,532

How To Reduce Risk

- Key strategies:
  - Diversify by asset class (cash, fixed income, equity)

  - Diversify geographically (Canada, U.S., International)
    - reduces overall risk.
    - wider selection of investment opportunities.
    - better opportunities, better returns.

What Should Retirees Do?

- Set realistic and identifiable goals
- Create an Investment Policy Statement
  - Risk Tolerance
  - Investment Objectives
  - Time Horizon
  - Target Real Return
  - Liquidity Needs
  - Asset Allocation

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What Should Retirees Do?

- Select an “optimized” portfolio - one that maximizes long-term return for your risk level
- Invest for the long-term, which determines >90% of return variability - avoid short-term tactics – do not try to time the market
- Perform regular retirement income projections – at least every 3 years

Financial Planning

- Personalized Financial Plan
- Risk Tolerance Assessment
- Investment Policy Statement
- Retirement Income Projection

Access the Financial Planning Standards Council website:
www.fpsc.ca/financial-planning-process

Advocis – The Financial Advisors Association of Canada

www.advocis.ca

***"Those who fail to plan, plan to fail."* – Benjamin Franklin**

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Questions to Ask a Financial Advisor

- What are your qualifications?
- What is your experience?
- What is your area of specialization?
- What services do you offer?
- Do you provide your plans and recommendations in writing?
- What is your approach to financial planning?
- Will you be the only person working with me?
- How will I be paying for your services?
- How much will you charge me?
- Who are your regulatory bodies?

DISCLOSURE

Alain Quennec is a Financial Advisor with Rogers Group Financial. The views expressed are those of the author and not necessarily those of Rogers Group Financial, which makes no representation as to their completeness or accuracy.

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QUESTIONS