

Planning for major life transitions

Retirement planning

Retirement planning in Canada requires a thoughtful approach that integrates tax efficiency, government benefits, investment strategy and estate planning. A retirement plan acts as a roadmap for an individual's financial future, enabling them to make informed decisions, enjoy their retirement and confidently face uncertainties.

Determining how much a person needs for retirement is a crucial part of their strategy and depends on several factors. This includes their retirement age, retirement goals and retirement spending. When it comes to retirement spending, we first want to consider the sources of retirement income.

Government retirement benefits

Canada Pension Plan/Quebec Pension Plan (CPP/QPP) provide monthly payments based on contributions and the age at which a person chooses to apply. The standard age to start an individual's payments is 65, but they can start payments any time after they turn 60. However, claiming CPP/QPP early can reduce their payments by up to 36%. Conversely, waiting until the age of 70 could result in monthly payments that are up to 42% higher than if you start at 65.

Old Age Security (OAS) payments are available for Canadians over 65 who meet the residency requirements. An individual can also defer OAS for up to five years after 65 to receive higher monthly payments. However, if a person's taxable income reaches a certain level, they may be subject to OAS clawback.

The Guaranteed Income Supplement (GIS) provides a non-taxable monthly amount to low-income seniors aged 65 or older who are also receiving OAS.

Employer pension plans

These can include defined benefit pension plans; defined contribution pension plans; pooled registered pension plans; and group Registered Retirement Savings Plans.

Registered retirement plans

These are tax-sheltered accounts designed for retirement savings, such as Registered Retirement Savings Plans. Contributions may be tax-deductible and investment returns grow tax-free until withdrawal. By the end of the year that the individual turns 71, they generally must convert their RRSP into a Registered Retirement Income Fund (RRIF), which allows systematic income withdrawals. RRIFs offer similar investment options and tax-deferred growth as RRSPs, but an individual may no longer contribute and must make a minimum annual withdrawal.



Locked-In Retirement Accounts (LIRA)

If an individual leaves a workplace pension before retirement, their pension funds might be transferred to a LIRA. By a certain age (often 71), LIRAs must be converted into a Life Income Fund (LIF) or an annuity to provide retirement income.

Personal savings and investments

These may include tax-free savings accounts (TFSA), non-registered accounts, annuities, etc. For a TFSA, contributions are not tax-deductible, but investment growth and withdrawals are tax-free.

Considerations for retirement

Longer lives: people are living much longer than they previously were, so it is important to plan for a long life to reduce the risk of outliving your savings.

Increased living costs: the cost of living is rising, so it is important to have an investment strategy to provide long-term growth.

Health care expenses: having any expected needs covered is a start, but it's important to also plan for unexpected health care costs. It's important to plan for costs associated with long-term care if needed, in your retirement planning.

Tax planning

Maximizing after-tax income will be important, as it can make retirement savings last longer. It is important to consider the following strategies:

- **Timing of withdrawals** from a person's registered accounts can help them manage marginal tax rates in different years.
- **Tax-free withdrawals** from a person's TFSA can be a great strategy if they are concerned about OAS clawback or other income-tested benefits.
- **Pension income splitting** involves the higher-income spouse allocating up to 50% of eligible pension income (such as from a RRIF or employer pension plan) to the lower-income spouse, potentially reducing overall household tax burden.
- **Spousal RRSPs** can be an effective way to equalize retirement income between spouses. Withdrawals by the lower-income spouse are taxed in their hands, potentially at a lower rate.

Retirement planning checklist

Determine retirement needs

Set a retirement age goal.

Define personal goals to accomplish in retirement (travel, hobbies, etc.).

Calculate expected monthly and annual expenses in retirement.



CPP/QPP

Research the contribution history.

Determine the optimal age to start receiving payments (60–70). Consider the impact of early or late claiming on monthly payments.

Old Age Security (OAS)

Verify the residency requirements.

Determine the optimal age to start receiving payments (65–70). Consider deferring payments to increase monthly benefits.

Understand the OAS clawback rules and how they affect a person's taxable income.

Guaranteed Income Supplement (GIS)

Check eligibility for GIS if a person has a low income.

Employer pension plans

Understand any benefits a person is entitled to from any defined benefit pension plans or pooled registered pension plans, if applicable.

Monitor contributions and investment performance for any defined contribution pension plans or group registered retirement savings plans (RRSPs), if applicable.

Registered retirement plans (RRSPs and RRIFs)

Ensure optimized contributions to the registered retirement savings plan (RRSP).

Consider contributing to a spousal RRSP to equalize retirement income.

Convert an RRSP to a registered retirement income fund (RRIF) by the end of the year one turns 71.

Plan withdrawals to optimize tax benefits.

Prepare for health care expenses

Estimate potential health care costs.

Consider long-term care insurance or setting aside funds for unexpected expenses.

Tax planning strategies

Plan withdrawals from registered accounts to manage marginal tax rates.

Use TFSA withdrawals to avoid OAS clawback and other income-tested benefits.

Allocate up to 50% of eligible pension income to the lower-income spouse.

By following these steps, an individual can create a comprehensive and effective retirement plan that aligns with their financial goals and ensures a secure and enjoyable retirement.

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