BMO NESBITT BURNS

The Answers to 45 Frequently Asked Questions about Retirement

Looking for more information, please contact:

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1. Where will my retirement income come from?

Most retirees receive income from six main sources:

1. Personal Savings and Investments
2. Earned Income
3. Company Pension Benefits
4. Canada Pension Plan (CPP)
5. Old Age Security program (OAS)
6. Guaranteed Income Supplement (GIS)

2. How much will my income need to increase to keep up with the cost of living?

The cost of living (as measured by the Consumer Price Index) has fluctuated, but has averaged around 2% over the past 20 years. The 20 years prior to 1994 saw inflation average over 3% and Financial Planners recommend that retirees compensate for inflation when preparing retirement income projections.

Source: Statistics Canada

3. If inflation averages 3.0%, how much will I need in the future?

Assume you retire at age 60 and need $4,000 per month retirement income. Assuming 3.0% inflation, at age 65 you will need $4,637 to buy the same goods and services. At age 70, this amount will rise to $5,375. At age 75, you will need $6,232 to maintain the same purchasing power as $4,000, 15 years earlier.

4. What percentage of my final working earnings will I need in retirement income?

Retirement planning resources suggest 66% to 75% of final earnings as a "rule of thumb." However, many people have to adjust to a 1/4 to 1/3 drop in their income. We recommend that as you near retirement, you make a monthly "needs" budget based on past spending (review your cheque/credit card register for the last year) and combine that with a "wants" list—items like travel, golf, entertainment, gifts, etc.—so that you have a carefully considered income goal, rather than just an estimate based on your final year's salary.

5. Before I retire, is there a way for me to project my retirement income?

With today's technology, there are many financial planning computer programs that are reasonably accurate. For a more detailed projection as you approach retirement, please contact us at 416-928-3261. It only takes a few questions and a few minutes of your time for us to provide with such a projection.

6. Where can I go to find answers to questions about my CPP and OAS benefits?

We have found Service Canada offices in our area to be quite helpful. You can also call Service Canada regarding your CPP or OAS benefits by dialing 1-800-277-9914. You can also visit Service Canada online at servicecanada.gc.ca.

Local Service Canada offices are:

[Toronto Centre Service 25 St. Clair Ave E. 1-800-277-9914]

[Willowdale Service Centre 4900 Yonge St. 1-800-277-9914]

[Etobicoke Service Centre 5343 Dundas St. W. 1-800-277-9914]

Also, a number of books that describe CPP and OAS benefits are available at most bookstores or the public library.

7. When should I file for my CPP and OAS? What will I need when I file?

Normally, you should file for the Canada Pension Plan 6 months before you plan to receive benefits. It is not started automatically; you must apply for it. You will need:

1. Application form—available from Human Resources Centres
2. Social Insurance Number

You should apply for the Old Age Security pension 6 months before you turn 65. Call your Service Canada centre or visit them online at servicecanada.gc.ca for further details and an application kit before visiting the office.

8. What are the maximum CPP and OAS I can be paid if I retire this year at age 65?

A person retiring (in 2014) at age 65 could receive as much as $1038/month CPP (average is $633) and $551 OAS per month, depending on past contributions to the system for CPP and residency requirements for OAS.

Source: Service Canada

9. What's the best way to get an accurate estimate of my CPP benefits?

Your first option is to view your CPP Statement of Contributions. You can access this on-line via the Service Canada website by creating a "My Service Canada Account." Or you can request a statement using the government form "Estimate Request for CPP Retirement Pension." They will then send you a record of your wage history, your CPP contributions, and an estimated retirement benefits statement.

10. Will CPP and OAS keep up with the cost of living?

Both the CPP and OAS are indexed to the Consumer Price Index (CPI). Because of well-known changes in demographics, we caution retirees not to fully rely on Cost of Living Adjustments (COLAs) to increase benefits at the rate of inflation in the future.

11. If I decide to retire before my normal retirement age, should I file for CPP early at the reduced rate? What is the reduction?

Normal retirement age is 65—the age at which you are entitled to 100% of your CPP benefit, based on your contributions. In 2014, for each month you choose to receive CPP before the "normal retirement age" your payment is reduced by 0.56%. The earliest you can collect is age 60 and the benefit would be 66.4% of your normal CPP.

Source: Service Canada

12. What if I still plan to work after age 65 – should I defer my CPP and OAS?

If you decide to wait to receive benefits after 65, your CPP benefits will increase by .70%/month or 8.4% per year. Thus, if you were to begin receiving your benefits at age 70, you would have an amount 42% greater than if you had taken your CPP at 65. Having a higher CPP figure that will be adjusted for inflation might provide you greater peace of mind if longevity is a concern.

With OAS, if you feel your earned income will cause you to be clawed back, deferring it will also increase your benefit to the tune of .6% per month or 7.2% per year. Thus, if you were to begin to receive your OAS benefits at age 70, you would have an amount 36% greater than if you had taken it at age 65.

Source: Service Canada

13. How much income can I earn from employment without affecting CPP and OAS payments?

Your CPP benefit is not reduced by income earned during retirement. The OAS benefit and the GIS benefit are available at age 65 and both are "means tested" benefits. If your net annual income is more than $70,954 your OAS benefit will be reduced by 15% of the excess (including OAS). At $115,716 all OAS is eliminated.

Source: Service Canada

14. Will my CPP and OAS be taxed?

Yes, both the CPP and the OAS are considered taxable income.

15. Is there a way to reduce the CPP and OAS tax?

There are a number of ways to structure your income to reduce the taxes paid on CPP and OAS and to minimize the OAS "claw back." For a list of ways that would be relevant to you, please contact us at 416-928-3261.

16. What kind of investments do you recommend for retirees?

Investments should be coordinated with an investor's individual need for income, growth of income, longevity risk, safety of principal, and liquidity. Only after careful planning should investments be recommended to a retiree.

In general, however, many retirees will rely on four "investment buckets" to provide them with income security in retirement: Short-term investments like GICs and Term Accounts are useful in meeting needs for cash within the short term or to provide an income buffer during times of market volatility. Fixed-income investments like bonds, GIC's, and preferred shares can meet intermediate need for income, for periods beyond a year but not more than 5 years. For those who lack pensions that provide lifetime guarantees, some retirees will consider allocating some funds to an annuity to provide longer-term income guarantees. Finally, long-term investments like real estate, stocks, and stock mutual funds/exchange traded funds can be used to potentially increase the portfolio return and the income it produces in the years to come.

17. What has been the long-term return of stocks?

From 1970 - 2013, the average total return of the Standard and Poor's 500 Index—large, mostly US companies—has been approximately 10.4%. During that same period of time, the S&P 500 has also experienced 8 market corrections of -20%

or more. In other words, the market rises about 3 1/2 of every 5 years.

While a retiree must be prepared for stock market volatility, these long-term historical facts highlight how retirees that have a long term time horizon should consider investments in stocks or stock mutual funds/exchange traded funds.

Source: Charles Schwab – May 22, 2014

18. Why do some people I know say they never made money investing in stocks? Are stocks really good retirement investments?

Some investors maintain a short-term perspective, buying only on good news (when the share prices are high) and quickly selling on bad news (when prices are low). There are no guarantees with stock ownership. Yet many patient investors have enjoyed very attractive returns over 10 and 20-year holding periods. Because most retirees have at least 10 or 20 years, having money invested in a diversified basket of high quality stocks is an excellent investment strategy for a portion of their retirement investments.

19. I have heard retirees have to be concerned about the "sequence of investment returns" in retirement. What does this mean?

It is true that when you are retired, the sequence upon which you achieve good or poor investment performance can significantly impact how long your money will last. This is due to the impact of withdrawals from your retirement investments to meet living expenses – something that was likely not happening during your working years. If, for example, you withdrawal money evenly from your retirement investments and experience stock market losses in the early years of retirement, you may not be able to properly make up for the losses. Alternatively, if you experience great investment performance in the early years of retirement, it may mean that you will be able to create additional income buffers or have a greater estate to leave to your loved ones. Having a retirement plan that accounts for "sequence of return" issues and market volatility is something that should be factored into every retirees plan.

20. In general, how would you arrange my investments to meet my need for income and growth?

Following basic planning principles: First, we determine a cash reserve amount and set that aside for use in the next 12 months and to meet emergency expenses. Next, we arrange fixed-income investments to produce income for a set period of, say, between 2 and 5 years. We then examine if there is a need for guaranteed income in your plan either now or at a later age, and if funds should be set aside for some type of annuity investment. Depending on your tolerance for risk, the balance could be positioned in several growth investments, each employing different approaches to investing, thereby diversifying the portfolio. Using this strategy, we expect that income will be available each year for a number of years and that unguaranteed but higher potential growth investments can be left untouched for 5 years or longer.

21. Aren't Bank Guaranteed Investment Certificates (GICs) better than investments in stocks for retired investors?

Fixed-dollar investments with short maturities, such as GICs, do offer stability of principal and should be one component of nearly every retired investor's portfolio. The interest rate on these investments, however, is extremely low in the current environment. So while the principal may be stable, it is not really safe to rely on the interest for steady retirement income. You should also consider the tax implications of "interest" income (100% taxable) as compared to "capital gains" income (50% taxable) in taxable accounts.

GICs are CDIC insured up to $100,000 per depositor, per institution.

22. I've always liked real estate as an investment. Should I own real estate?

Real estate investments may be appropriate because of their growing income and appreciation potential. But real estate properties may require hands-on management, which can grow into an unwelcome chore during retirement years.

Many investors choose to participate in real estate investments called Real Estate Investment Trusts (REITs) versus direct real estate investments. This is because REIT's provide the potential for growth and income and are liquid because they are a security traded on an exchange.

23. I have heard investment fees can really eat into the investment returns of retirees. How can I reduce the fees I pay to manage my retirement investments?

All things equal, the higher the investment fees, the lower a retiree's investment returns. However, in the investment world, not all things are equal and investors have to carefully weigh investment fees versus consistent performance and the quality of an investments longer term track record. Some ways investors can potentially reduce their overall costs are:

I) Consider using Exchange Traded Funds (ETF's) versus traditional mutual funds for some of your investment holdings

II) Review investments in balanced or bond mutual funds where a high fee on fixed income may be incurred unnecessarily.

III) Consider consolidating retirement and investment accounts to benefit from special pricing that financial institutions offer at different investment thresholds.

24. Now that I'm going to stop working, won't my taxes be lower?

Many retired workers are surprised to learn that they will still be paying income taxes, often with little or no reduction in tax payments from their working years. You need to plan carefully, and you should consider using some tax-advantaged strategies. Start by determining your taxable retirement income and your marginal tax bracket.

25. Is there a way for me to safely and legally reduce my income taxes during retirement?

Most investors should consider a number of alternatives including:

- Prescribed annuities that provide tax-advantaged income—more appropriate in later years
- Quality corporate class mutual funds that appreciate with tax-deferred growth
- Systematic withdrawal plans that offer tax-advantaged income
- The use of Tax Free Savings Accounts (TFSA's)
- Consider RRSP drawdown strategies prior to age 71

26. What are my options for the money that is in my defined contribution or other pension plan?

Usually there are four broad choices (or some combination), each with different advantages and disadvantages:

1. Leave it invested in the company plan
2. Annuitize and receive an income for life

3. Withdraw the account balance, pay taxes, and then invest the funds
4. Roll over to a Locked-In Retirement Account (LIRA) or other pension fund, paying no taxes, and continue to defer the income tax until age 71

27. Why should I consider a rollover to a Locked-In Retirement Account (LIRA)?

The Locked-In Retirement Account (LIRA) offers the ability to control the management of the investments and the potential of higher returns and increasing income. The account can be rolled over tax-free to a surviving spouse with the remaining balance distributed to beneficiaries at the death of the spouse.

28. Should I roll over to a Locked-In Retirement Account (LIRA) when I can leave my pension in my plan and not pay any expenses?

While many investors do leave pension balances in a company-sponsored plan, many individuals prefer a LIRA for a number of reasons.

First, the choices in the company plan are usually limited to a handful of investment accounts while an LIRA offers an almost unlimited number of alternatives and the ability to make changes frequently and easily.

Second, many retired investors find the service from a former employer or from a voice menu reached via a toll-free number to be less than adequate.

Perhaps the most important reason for retired investors to choose an LIRA is the personal attention and advice offered by an Investment Advisor who is knowledgeable about the investment markets, financial planning, and the needs of the retiree.

29. When am I required to withdraw money from my RRSP?

During the year you turn 71, you must convert your RRSP to a RRIF and receive at least a minimum distribution starting the following year.

30. How do I calculate the amount of the required minimum that I must withdraw?

The Canada Customs and Revenue Agency has issued regulations substantially simplifying the calculation of minimum required distributions from RRIFs/LIFs/LRIFs. The calculation is based on the following factors:

1. The value of your RRIF/LIF/LRIF account at the end of the previous year.
2. Your age (or your spouse's age) and a table indicating a minimum percentage for each age.

LIFs and LRIFs also have certain maximum withdrawals, but there is no maximum for RRIFs.

To receive a RRIF withdrawal table showing the mandatory minimum withdrawals at various ages, please contact us at 416-928-3261.

31. I've heard that if I take my "non-locked-in" money out of my company plan, my employer will withhold up to 30%! Is this true?

It is true. If your company writes you a cheque for your pension balance, even if you intend to deposit it to an RRSP, they must withhold between 10% and 30% tax, depending on the size of your balance.

32. Is there a way I can avoid having 30% withheld from my rollover?

Yes. You can arrange to have the funds transferred directly from the pension into an RRSP. In that case, your company writes the cheque to the custodian of your RRSP, not to you, and there is no withholding applied to the account balance. Special paperwork is required.

33. I have an $180,000 pension rollover and I need $1,500 in monthly income from the LIF. If I make an average return of 6% on my investment portfolio, how long will my money last? What if I can increase the return to 8% or even 9%?

Earning 6% interest and withdrawing 10% from the account each year would deplete the principal in approximately 15 years. At 8% interest, the portfolio would run out in 20 years; at 9% return, in 27 years.

Obviously a portfolio earning more than the rate of withdrawal will never be depleted and can actually be used to provide increasing income in retirement to offset the rising cost of living.

The above figures are for illustrative purposes only and do not represent the performance of any actual investment. Also, it is appropriate to use a conservative estimate for portfolio returns in retirement and most financial planners would not recommend using rates of return of 8% or 9% for planning purposes. Actual investment results may vary.

34. What are my biggest financial risks in retirement?

For many retired Canadians, the largest financial risk is not enough money or living too long and running out of money.

Often retirees are not aware of the number of years they will have in retirement and take too conservative an approach in managing their retirement money. The slow but steady rise in the cost of living each year can truly be the hidden risk of retirement investing. For example, the cost of a stamp in 1984 was $.32 and today is $1.00.

Moreover, the impact of the fall in interest rates on GICs over the last few years has been an unfortunate experience for many. It is always important to plan appropriately and make sure there are several safeguards built into your retirement plan.

35. Should I keep my life insurance or cash it in?

The primary use of life insurance is the cash benefit it provides to offset the loss of income that an individual's family would realize in the event of the death of the insured person. This is the original reason many people purchase life insurance.

But what about in retirement? Ask yourself this question: Has the purpose for owning life insurance changed? Your estate may well have a large tax liability at your death. The death benefit of an insurance policy is tax-free and could well cover your accruing tax liability. Or is your own income in retirement the most important factor?

Keep in mind that cashing in your insurance may be considered a taxable disposition.

36. Isn't life insurance a bad investment?

While some argue that life insurance can be a poor investment, there are some advantages.

Often the tax advantages are overlooked. The proceeds of a life insurance policy are normally tax-exempt. While many other investments are taxed on the difference between the cost and the payoff, the death benefit from life insurance owned by an individual is usually not taxable. However, "cashing in" a policy can lead to a taxable event.

We recommend you consult with us for a complete review of your insurance needs before terminating your life insurance. Contact us at 416-928-3261.

37. What about estate planning?

You should review your wills, powers of attorney, and related documents regularly with your attorney. You may discover that you need to update your estate plan because of changes in your life, family, and/or changes in laws that affect estate planning.

You have worked hard to this point to accumulate all the assets you currently possess. So you want to make sure that when you die your assets are distributed where you want them to be distributed. Estate planning gives structure to your final wishes, while helping your beneficiaries avoid or negate unfavourable fees and taxes.

38. Are there tax-wise ways to transfer wealth to my heirs?

A large part of estate planning is the tax-efficient (wise) transfer of your accumulated wealth to your heirs. There are a number of ways to reduce or eliminate taxes that would otherwise be due upon your death. The result is more money left for the benefit of your heirs.

Please contact us at 416-928-3261 for more detailed information on how to potentially reduce or eliminate taxes on your estate.

39. I'm concerned about the change that retirement will bring to my daily routine. What can I do to prepare myself for this change?

Carefully consider what you will do with your time, who you will see, and what is important to you. Make a weekly schedule of activities and events that you intend to pursue in retirement. Talk things over with your spouse and family and get involved in retirement activities prior to actually retiring.

Consider a "dress rehearsal" by taking a two-week vacation at home and pretending you have retired. Many pre-retirees have found this to be a practical way to find out if they are ready (or not) to retire.

40. The idea of not working makes me uncertain about my financial future. How can I know that the resources I have accumulated will help me meet my needs for the rest of my life?

This is the purpose of financial planning for retirement. Remarkably, many individuals work for up to forty years accumulating wealth, and then spend only a minimal amount of time analyzing and projecting their income at retirement.

Many of our clients at BMO Nesbitt Burns come to us specifically to learn how to secure their financial future after retirement. As we specialize in planning for retirement, please contact us at 416-928-3261 for additional help.

41. I hear and read about people who do their own investing at lower cost than those who use Financial Planners. Why should I pay more to invest?

Some individuals should take the "do it yourself" approach. Others should not.

Ask yourself these questions:

1. Am I knowledgeable about the investment markets?
2. Can I do my own financial planning?
3. Do I have the extra time that I want to commit to these tasks?
4. Will I enjoy handling my own investments and planning?
5. Is the potential savings worth the potential risks of making a mistake?

If you are answering "yes" to these questions, you might want to take your retirement planning into your own hands. Answers of "no" may suggest that you should use the services of a professional advisor to assist you with these important tasks.

42. Assuming I decide to have a second opinion with you, how can I get started?

By calling us at 416-928-3261 to have a free, complimentary consultation with us. The moment you walk through our door, you will be treated like a client. We'll have a cup of coffee waiting if you want it. When we sit down together, our plan is to listen rather than speak. We want to know about you: your goals, your dreams, and your needs. What do you want to do with your money? What do you want to protect? It's our job to learn all these details. Only then will we suggest a possible course of action. Whether we ever do business together or not, meeting with us should represent a giant step toward reaching your financial goals, and we plan on making it exactly that.

43. Is there a way that I can simplify my investing during retirement?

Many investors, over the course of their working years, develop numerous investment accounts at banks, brokerages, mutual fund companies, etc. If you can select one investment firm or advisor that meets your needs and that you are comfortable working with, it is possible and actually quite easy to consolidate your investment holdings.

44. Is the experience of retirement different for women than it is for men?

There is evidence to suggest that the emotional and financial aspects of retirement are different for women as compared to men. While there are many details that should be reviewed, one of the biggest differences is that women tend to live longer than men and thus may require greater savings and income in order to meet a potentially longer retirement.

45. What are the biggest mistakes retirees make?

Unfortunately, some retirees just don't have a financial plan. This can lead to over-spending or under-spending.

Ironically, many newly retired workers are too conservative. Our experience has been that some retirees should spend more money in the first few years of retirement and enjoy their current health and high energy. They also have a backlog of "to-dos" that they have wanted to experience like travel, hobbies, cruises, etc. Often we find that, unless prompted to start enjoying life, some retirees settle into an attitude of "we have to save the money for later."

Will You Run Out of Money Before You Run Out of Time?

In the chart below, the figures show how many years it will take for your principal and earnings to become fully depleted if you spend more money than your portfolio is actually earning.

Years until All Capital Is Depleted											
Withdrawal	Expected Rate of Return										
Rate	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%
6%	37	*	*	*	*	*	*	*	*	*	*
7%	25	33	*	*	*	*	*	*	*	*	*
8%	20	23	30	*	*	*	*	*	*	*	*
9%	16	18	22	29	*	*	*	*	*	*	*
10%	14	15	17	20	27	*	*	*	*	*	*
11%	12	14	15	17	20	25	*	*	*	*	*
12%	11	12	13	14	16	19	24	*	*	*	*
13%	10	11	11	12	14	15	18	23	*	*	*
14%	9	10	10	11	12	13	15	17	22	*	*
15%	8	9	9	10	11	11	13	14	16	21	*
16%	8	8	8	9	10	10	11	12	14	16	20
17%	7	8	8	8	9	9	10	11	12	13	15
18%	7	7	7	8	8	8	9	10	10	11	13
19%	6	7	7	7	8	8	8	9	9	10	11
20%	6	6	6	7	7	7	8	8	9	9	10

** = Capital will never be depleted at this combination of return and withdrawal.*