Turning your savings into retirement income

Insurance

You've been concentrating for years on saving and investing for your future, so the switch from "saving money for later" to "withdrawing it now" can be one of the most challenging aspects of your retirement transition.

There are a number of changes on the horizon:

- You'll likely have different income needs in retirement as you'll be spending your time in different ways.
- You'll say goodbye to familiar savings vehicles like Registered Retirement Savings Plans (RRSPs) and turn your attention to retirement income products such as payout annuities and Registered Retirement Income Funds (RRIFs).
- Together with your advisor, you'll be factoring in different financial risks to ensure that your money lasts throughout your retirement years.

It may all sound a bit daunting, but some basic upfront planning is all it takes to structure a retirement income plan to suit your individual needs. Even better, your advisor can take you through the process step by step to help you turn your plans into action.

Three steps to your retirement transition

Step 1: Understand your retirement risks

While you will have experienced a variety of financial risks throughout your working life, there are risks that can have a significant impact on your retirement that you should factor into your plans.

Longevity risk

Canadians are living longer than ever, and with this longer life expectancy, you and other retirees face the possibility that you could outlive your money.

For example, if you and your spouse are healthy at age 65, there is a 94% chance that one of you will live to age 80 – and there's more than a 50% chance that you or your spouse will live to age 90.* Your retirement income plan should ensure you are protected for the long term.

Market volatility

Market volatility has always been one of the risks of investing, but it takes on new meaning when you turn your savings into retirement income.

A market downturn during retirement can significantly decrease your capital base. With little or no time to recover this loss, your ability to withdraw enough income to meet your needs may be impacted.

For these reasons, your retirement plan should work to minimize market volatility risk in the years leading up to retirement and after.

The good news is that there are retirement income products – such as payout annuities – that can help to mitigate longevity and market volatility risk, and keep your retirement plan on track.

Step 2: Know the rules around your savings plans

Your options for generating retirement income depend in part on the source of these savings.

- When it comes to your registered savings – like RRSPs or your locked-in savings from an employer's pension plan – the tax laws are clear: you need to convert these savings into something that generates retirement income by the end of the year in which you turn age 71.
- Non-registered savings have no such age restriction.

Step 3: Explore your income options

Once you've identified the sources of your savings, you can explore the retirement income options that are best suited to you.

Your income options at a glance

Here's a quick overview of each of the key retirement income vehicles available to you. Your advisor can explain in greater detail how each of these options works.

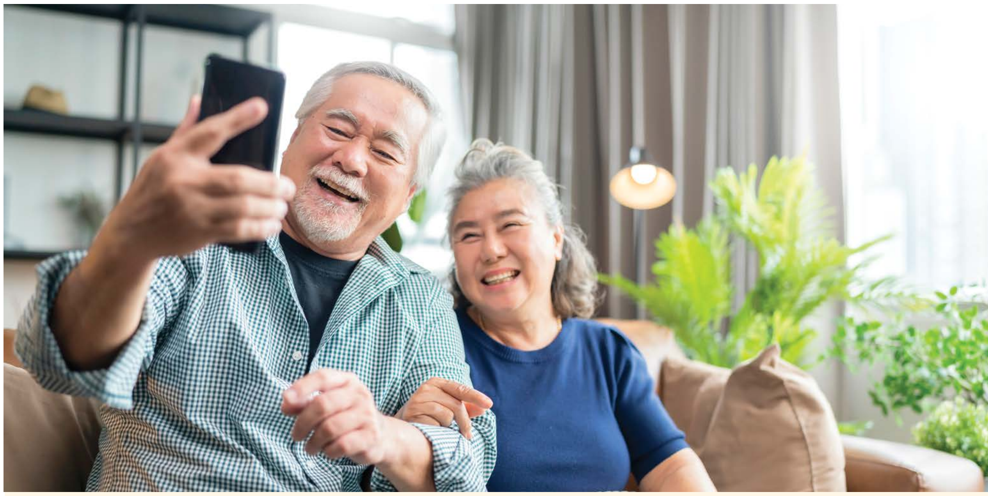
Source of investment savings	Your retirement income options
Registered non-locked-in investments These are savings from an RRSP, Spousal RRSP or employer's Deferred Profit Sharing Plan (DPSP).	■ Payout annuity (life or term) ■ Registered Retirement Income Fund (RRIF) ■ Cash withdrawal
Registered locked-in investments These are savings from an employer's pension plan. These savings might be still in the plan, or you may have transferred them when your employment ended to a Locked-in Retirement Savings Plan (LRSP) or Locked-in Retirement Account (LIRA).	■ Payout annuity (life) ■ Life Income Fund (LIF) ■ Locked-in Retirement Income Fund (LRIF)
Non-registered investments These include savings that you hold in an investment or bank account, or in a GIC, term deposit or other non-registered investment.	■ Payout annuity (life or term) ■ Continue to invest/reinvest your savings and withdraw money as needed – or on a regular basis through a systematic withdrawal program

CPP/QPP and OAS

Anyone who has contributed to the Canada Pension Plan (CPP) or Quebec Pension Plan (QPP) is eligible to receive a pension benefit from the plan once they retire. The amount you receive depends on a number of factors, including how much you've paid into the plan. There are three types of benefits: retirement, disability and survivor.

The Old Age Security (OAS) pension is available to all Canadians age 65 and older as long as certain eligibility requirements are met. You must apply to receive it and you will be taxed on any amount you receive. If you are in a higher tax bracket upon retirement, some or all of your OAS pension will be returned to the government through taxes on your income.

To learn more about eligibility requirements, please visit the Government of Canada's OAS and CPP/QPP benefits website at canadabenefits.gc.ca.



Think twice before cashing out

For savings that are currently in a non-locked-in registered plan (such as an RRSP), you have the option of "cashing out" and withdrawing some or all of your savings.

While this option gives you immediate access to a lump sum of money, the full amount of the withdrawal is treated as taxable income.

This means you could pay tax of 40% or more on the amount you withdraw – which puts you at risk of exhausting your capital much earlier than you would like, or drawing a much smaller amount than you need each year. For this reason, the cashout option for your registered savings has limited benefits and should be chosen with caution. It's crucial to speak with an advisor to review your options.

Your income options defined

	Description	Advantages	Disadvantages
RRIF	▪ Assets are held in an account much like an RRSP – and are tax sheltered until they are withdrawn. ▪ You make all investment decisions. ▪ You must withdraw a minimum amount annually based on your age and factors prescribed by CRA. There is no maximum withdrawal limit.	▪ Flexible – can take income as needed (subject to minimum withdrawal requirements). ▪ Potential afor investment growth. ▪ Can convert to an annuity if greater security is desired later in life. ▪ Continued tax-deferred growth. Only the amount withdrawn each year is taxable. ▪ Estate planning benefits where the remaining capital in your RRIF can be left to your named beneficiaries. Any death benefit payable may bypass probate.	▪ There is no maximum withdrawal limit from a RRIF. This means that you may end up outliving your RRIF. ▪ You assume all the market risk, and poor returns could mean less retirement income. ▪ Requires active management. You need time and knowledge to manage your investments, and you must rely on investment growth to provide inflation protection. ▪ Over time, the capital in your RRIF decreases and your income amount may decline. ▪ No predictability. Annual income can vary based on the value of your RRIF.
LIF/LRIF	▪ Assets are held in an account much like an RRSP – and are tax sheltered until they are withdrawn. ▪ You make all investment decisions. ▪ Like an RRIF, you must withdraw a minimum amount annually based on your age. There are also maximum annual withdrawal limits.	▪ Flexible – can take income as needed (subject to minimum and maximum withdrawal limits). ▪ The maximum annual withdrawal amount ensures there will be sufficient funds to provide income for the rest of your life. ▪ Potential for investment growth. ▪ Can convert to an annuity if greater security is desired later in life. ▪ Continued tax-deferred growth. Only the amount withdrawn each year is taxable. ▪ Estate planning benefits where the remaining capital in your LIF can be left to your named beneficiaries. Any death benefit payable may bypass probate.	▪ Your money is locked in and you cannot withdraw funds until you retire. Annual withdrawals are subject to maximum limits. ▪ You assume all the market risk, and poor returns could mean less retirement income. ▪ Requires active management. You need time and knowledge to manage your investments, and you must rely on investment growth to provide inflation protection. ▪ Over time, the capital in your LIF decreases and your income amount may decline. ▪ Some LIFs must be converted to a life annuity at age 80 (depending on pension legislation).
Life annuities	▪ A payout annuity provides you with guaranteed payments for life (like a pension) – or for a set term. ▪ You may be able to add features, such as inflation protection, a guaranteed payment period and spousal survivor payments. ▪ You make no investment decisions.	▪ Life annuities provide a guaranteed stream of income for life. All payments are guaranteed by the insurer – so there is no risk of outliving your savings. ▪ They eliminate risk of market volatility, as the insurance company assumes all investment risk. ▪ Joint and survivor annuities are available to guarantee financial security for a spouse. ▪ Guaranteed income periods can be chosen. During this period, payments will be made regardless of whether or not you (or your spouse in the case of joint life) are alive.	▪ Payment amount is determined and fixed at date of purchase. No changes are permitted and you cannot reverse your decision. ▪ Cash withdrawals to cover any emergencies are not allowed. ▪ With a life annuity, the death benefit owing to the named beneficiary is equal to the present value of any payments remaining in the guaranteed period. There is no death benefit payable once the guaranteed period has expired. ▪ With a term certain annuity, payments cease at the end of the specified term.

Comparing features of registered income options

All of the income options discussed in this guide can play a role in your retirement plan. The chart below outlines the key features of each product.

Feature	RRIF	LIF/LRIF	Payout Annuity
Provides guaranteed income for life	No[1]	No[1]	Yes
Provides a value on death or a death benefit	Yes	Yes	Yes[2]
Offers a joint life option	No[1]	No[1]	Yes
Offers indexing to keep up with inflation	No	No	Yes
Guaranteed income not affected by market downturns	No[1]	No[1]	Yes
Ability to bypass probate and minimize estate tax fees	Yes[3]	Yes[3]	Yes
Provides access to additional funds to cover emergencies	Yes	Yes	No

1. Some products held in these plans may offer these benefits.
2. The death benefit only applies during the guaranteed period. If the guaranteed period has expired or if the client has not chosen a guaranteed period, the death benefit is not applicable.
3. Only if the contract is issued by a life insurance company.

Make the most of your savings – with the professional advice you need

A proper retirement plan is the foundation for a financially secure future. As part of the transition to retirement, making the right financial decisions is more important than ever – and a plan can help provide the most efficient use of your valuable financial resources in retirement.

While a retirement plan doesn't have to be complicated, it can be difficult weaving your way through an increasingly complex financial environment. This guide provides useful information you can base your retirement income decisions on; however, it doesn't factor in any personal circumstances that could influence the structure of your retirement income strategy.

Professional advice can help to ensure that you have a retirement income plan that meets your personal and financial goals. Help is also available to evaluate your estate planning needs so you take the necessary steps to get your estate plan in order.

For more information on retirement planning and your retirement income options, please speak with your RBC Insurance® advisor.

RBC Insurance wealth management solutions

Whether you're building wealth for retirement or beginning to enjoy your savings, RBC Insurance offers financial solutions to help you reach your goals.

- RBC® Guaranteed Investment Funds (GIFs) combine the growth potential of a mutual fund with the security of a principal guarantee. They also provide you with unique estate planning and tax benefits.
- RBC Payout Annuities are an effective, easy-to-manage income solution that can provide you with a tax-advantaged, guaranteed income stream for life.

To learn more about these flexible, secure retirement solutions, visit rbcinsurance.com/retirement.

Notes

For more information, please contact your insurance advisor today.

Insurance

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Any amount that is allocated to a segregated fund is invested at the risk of the contract holder and may increase or decrease in value.

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* Annuity 2000 Mortality Table, Society of Actuaries.

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