PLANNING FOR **RETIREMENT**

RETIREMENT PLANNING STRATEGIES

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LIFE BEGINS AT RETIREMENT

You've been thinking seriously about retirement. Now it's time to start putting your plans on paper. This booklet will help you visualize a typical day in retirement and understand your options for converting your retirement savings into income so the transition is a smooth one and you can enjoy the lifestyle you want.

Have a vision

A startling number of Canadians don't have a clear idea of what they will do in retirement or haven't discussed their retirement plans with their partner. The first step is to visualize your retirement lifestyle and talk about it with the people you plan to share it with. Here are some things you can do to define your retirement vision:

Talk to other people you know who have retired. What was their biggest challenge? What was the biggest surprise?

Ask yourself, what have I always wanted to do in life, but never had time to do?

On a blank sheet of paper, **write out what a typical day in retirement will look like**, then a typical week, winter and summer. Try to be specific. For example, ask yourself, how many nights a week do I plan to eat out? If you are a couple, do this separately to see how closely your retirement visions match.

On the back of your sheet, **write down projects or events that will happen over the course of any given year** (such as vacations, seasons tickets to sporting events, house renovations, golf memberships).

Pretend to be retired for a day, a week, or a month. Do everything as if you were already retired (including your spending). This will help you define your vision and plan realistically for expenses.

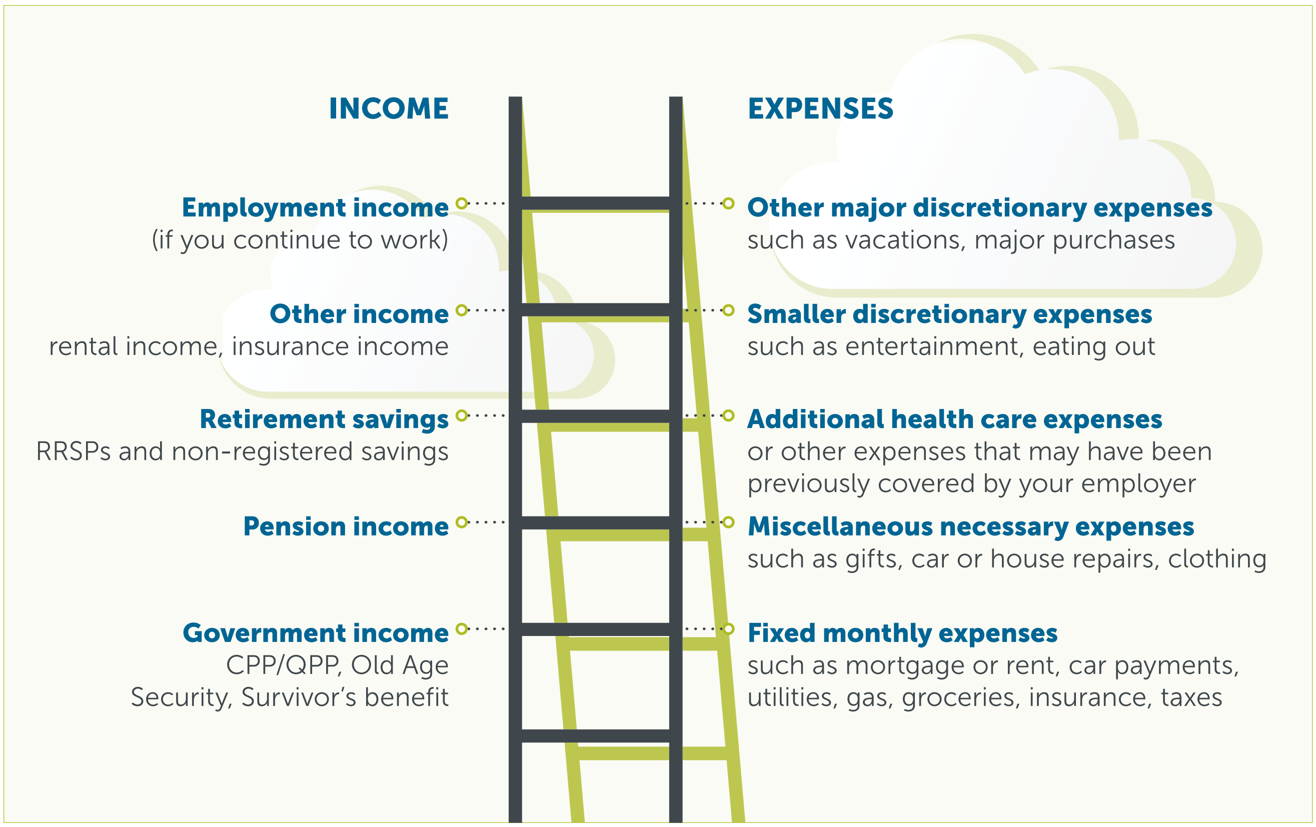
You should also ask yourself whether you plan to keep working. More and more retirees are continuing to work, either by choice, or because they need the income. Working a few days a week at a job you enjoy, consulting in your field of work, or branching out into an entirely new career path can all be rewarding ways to transition into retirement, and will increase your income.

All of this may sound simple, but having a clear picture of your retirement lifestyle can make a huge difference in determining how much money you will need, and how to arrange your finances. For instance, if you plan on spending time with your grandkids, gardening, and volunteering, your income needs will be very different than if you plan to golf every day, travel several times a year, and renovate your home.

Income versus expenses

Now that you have a better idea of what your retirement lifestyle will be, the next step is to look at your income and expenses.

Most people have only a general idea of what their income and expenses will be when they retire. We've used a ladder to illustrate the items you need to consider when calculating your income and expenses. The items on the bottom rung of the ladder are the most reliable, steady sources of income and your basic expenses. The items on the top rungs represent extra, variable income and expenses that are more discretionary in nature. Ideally, you should be entering retirement with as little debt as possible. Your advisor can help you outline your income and expenses in detail.



If you haven't already done so, now is a great time to switch as many of your regular expenses to monthly equal billing payments so it's easier to budget.

Your finances – the "Big Picture"

Before you sit down with your advisor to talk about options for converting your retirement savings into income, you need to ask yourself some important questions. **Try answering these questions on a scale from 1 to 10** (10 being the most important or of the most concern) so you can identify your financial priorities as you enter retirement:

- ___ **/10** How much of your assets do you want to leave to your heirs?
- ___ **/10** How concerned are you about inflation?
- ___ **/10** How concerned are you about having adequate coverage or extra income for increasing health care expenses?
- ___ **/10** How comfortable are you with market fluctuations?
- ___ **/10** How important is it to protect your capital?
- ___ **/10** How great is your need for regular income from your investments (for instance, will you have enough pension income to meet most of your expenses, or will you need to rely on investment income as well)?
- ___ **/10** How concerned are you about outliving your income?
- ___ **/10** How important is it to continue accumulating wealth?
- ___ **/10** How concerned are you about minimizing taxes?
- ___ **/10** How concerned are you about having enough income if your spouse dies?

Income options

You have a vision for what retired life will look like, what your income and expenses will be, and what's important to you. Now it's time to review your options for converting your retirement savings into income.

You must convert your Registered Retirement Savings Plan (RRSP) into retirement income by the end of the year in which you turn age 71. Your main choices are:

1. Cash in your RRSPs, and face a potentially high tax bill.
2. Buy an annuity.
3. Convert your RRSP into a Registered Retirement Income Fund (RRIF).
4. Invest a portion of your retirement savings into a Guaranteed Minimum Withdrawal Benefit (GMWB).

Annuities

An annuity is a series of regular payments that provides you with steady, guaranteed income, similar to a pension. With a life annuity, you will receive payments for as long as you live. Annuities can be purchased using non-registered or registered funds. They can be an effective way to cover fixed costs in retirement.

The amount of income you will receive from a life annuity will depend on your age when you purchased it, gender (because women statistically, live longer than men), the type of annuity, how often you want to be paid, and whether you want to have the annuity income guaranteed for a certain period of time. You can choose to receive payments monthly, quarterly, semi-annually or annually.

Types of annuities

While many financial institutions offer annuities, only life insurance companies can offer life annuities.

The following chart describes the different types of annuities available and how the type will affect the amount and length of time you receive income payments.

Term Certain Annuity	Income Payments	Guarantee Period
Payments are made for a specific term or guaranteed period (for registered funds, the term must be to age 90 according to current laws).	Depends on the length of the term selected.	Payments continue until the end of the guarantee period then stop. If you die before the end of the guarantee period, your beneficiary will receive the remaining income payments until the end of the period.
Straight Life Annuity		
Payments continue as long as you live and stop when you die.	Tend to be slightly higher than other single life annuities because there is no guarantee period.	No guarantee period — payments stop when you die.
Life Annuity with a Guaranteed Period (eg. with 10-year term)		
Payments continue as long as you live. If you die before the end of the guarantee period, your beneficiary receives the remaining payments until the guarantee period is over.	Tend to be slightly lower than a straight life annuity because of the guarantee period, but higher than a joint life annuity.	You can choose any guarantee period (10 years is common) as long as the guarantee period plus your age doesn't exceed age 90.
Joint and Last Survivor Annuity		
Payments are guaranteed as long as either you or your spouse lives. If one of you dies, the surviving spouse continues receiving payments until the spouse dies.	Tend to be lower because two lives are being insured instead of one so the payout period is generally longer.	You can choose between a straight Joint & Last Survivor Annuity where the payments stop after the last surviving spouse dies, or you can include a minimum guarantee period. You can also reduce the payments to the surviving spouse if you wish.

Note that annuities purchased using registered pension funds are subject to specific government regulations.

Taxation of annuities

If you buy an annuity with registered funds such as RRSPs, the payments are fully taxable because your contributions to your RRSP were tax deductible. If you buy an annuity with non-registered funds, only the interest portion of your income payments is taxable (because you already paid tax on the principal when you earned the income). In this case, the tax is spread evenly over the lifetime of the annuity.

Benefits of annuities

Annuities are attractive investment options for many reasons. Buying an annuity is a simple, straightforward decision. Once you decide on the type of annuity and how often you want to receive income, there are no other investment decisions to make. Most important, certain types of annuities may offer guaranteed income for life.

Annuities may also be used to make a charitable gift. A portion of your cash donation may be used by the charity to purchase an annuity on your life, which will provide you with steady income for as long as you live, plus a potential tax credit. The charity gets to keep the rest. Your advisor can help you set up a charitable gift in such a way that you get the maximum tax benefit, and the charity receives the maximum donation.

While annuities offer many benefits, it's important to realize that once you purchase an annuity the decision is final—you can't convert the annuity into another form of investment or retirement income.

Registered Retirement Income Funds (RRIFs)

A Registered Retirement Income Fund (RRIF) is a registered plan that allows you to continue making investment choices, while paying you an income. The best way to think of a RRIF is an extension of your RRSP. Your plan remains intact, and your investments continue to grow on a tax-sheltered basis. The only difference is that you must withdraw a certain amount of income from the plan each year. The value of your plan and how long your income will last will depend on what kind of investments you choose, how those investments perform, as well as how much income you plan to withdraw.

RRIF minimum payment

The government specifies a minimum amount you have to withdraw from your RRIF each year. The formula is designed to provide an increasing income until you reach age 94 when it levels out at 20% of your plan value. You do not have to take an income payment in the year you purchased the RRIF. The chart here shows what the government minimum payment is each year for RRIFs issued after 1993.

You can also base the minimum RRIF payment on your spouse's age if your spouse is younger than you. This will result in lower payments than if you used your own age, and more money being left in your plan to accumulate tax-sheltered. It is important to note, however, that once you make this decision, it cannot be changed, even if your spouse dies or you get a divorce.

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

(‡ % of plan value at the beginning of each year)

Unlike an annuity, a RRIF requires ongoing investment decisions. Some of the decisions you will need to make if you choose a RRIF include:

1. What should you invest in? Most RRIF plans offer a variety of investment vehicles including a Daily Interest Account, Guaranteed Interest Contracts (GICs) that guarantee a specified rate of return, and Segregated Funds, where your rate of return will fluctuate with the market.
2. How do you want to be paid? You can choose the government minimum payment, a fixed amount, or just the interest earned on guaranteed interest contracts.
3. How often you want to be paid? Most RRIF plans allow you to take income payments monthly, quarterly, semi-annually, or annually. Payments may be automatically deposited into your bank account.
4. Should I base my RRIF payments on my age or my spouse's age (if your spouse is younger)?

Taxation of RRIFs

Any amount you receive from a RRIF is taxable as regular income. If you withdraw more than the government minimum, tax is also withheld on the excess amount. There are also withholding taxes if you make a withdrawal in the year the RRIF was purchased or if you are a foreign resident.

RRIFs and estate planning

You can set up your RRIF policy so that payments will continue to your spouse when you die. This is called designating your spouse as the successor annuitant. If you name your spouse as the beneficiary, the RRIF can be rolled over to your spouse's RRIF tax-free, but your spouse would still pay tax on any income they withdraw from the plan. If you have no spouse, then the proceeds of the RRIF would be paid to your beneficiary or to your estate. In this case, the full value of the plan would be considered income and taxable to your estate in the year of death. The only exception to this is if you name your spouse, a financially dependent child or grandchild under the age of 18, or a child or grandchild dependent on you because of physical or mental infirmity as the beneficiary.

Pension funds and other locked-in funds

There are several investment options available for pension plans and other locked-in funds. Your choices will depend on where you live, since pension legislation varies by province. In most cases, locked-in funds cannot be converted to some form of income until age 55 (you should check the rules with your pension administrator). Here is a brief description of the different types of plans available for pension funds and other locked-in funds.

LRIFs and PRIFs

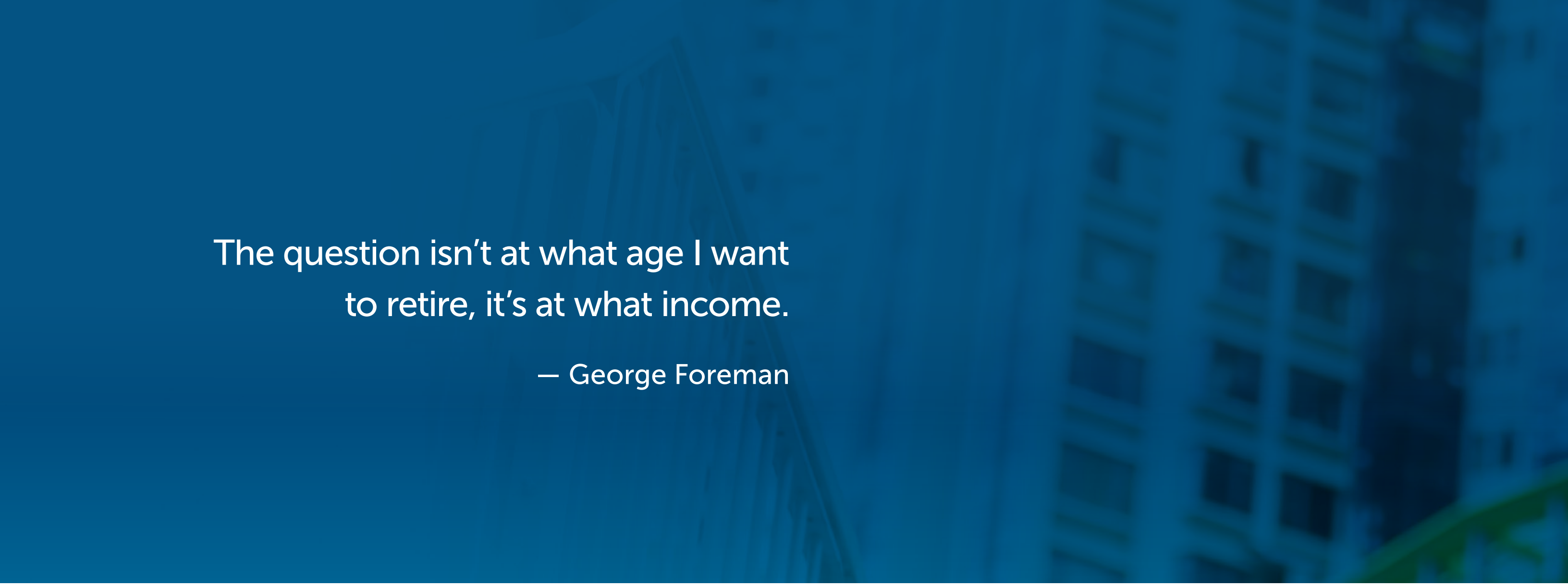
Locked-In Retirement Income Funds (LRIFs) are very similar to RRIFs in that you have full control over what you invest in, and there is a minimum government payment, which is the same for RRIFs. The biggest difference is that there is also a maximum payment amount. The plan owner's age is always used to calculate the maximum payment. For the minimum payment, your spouse's age can be used in every province except New Brunswick. LRIFs are only available in certain provinces. A variation of the LRIF is the Prescribed Retirement Income Fund (PRIF) in Saskatchewan.

LIFs

Life Income Funds (LIFs) are similar to LRIFs in that they also give you full control over your investments, and have a minimum and maximum payment, but how the maximum payment amount is calculated is different than with other plans. In some provinces, you may be required to convert your LIF to an annuity at age 80 as well.

2022 LIF Minimum/Maximum Withdrawal Percentages

Age as at Jan 1, 2022	Minimum Withdrawal Percentage	Maximum Withdrawal Percentage. Alberta, British Columbia, Ontario, New Brunswick, Newfoundland, Saskatchewan	Maximum Withdrawal Percentage. Quebec, Manitoba, Nova Scotia	Maximum Withdrawal Percentage. Federal/PBSA (LIF/RLIF)
50	2.50%	6.27%	6.10%	4.33%
51	2.56%	6.31%	6.10%	4.36%
52	2.63%	6.35%	6.10%	4.40%
53	2.70%	6.40%	6.10%	4.44%
54	2.78%	6.45%	6.10%	4.48%
55	2.86%	6.51%	6.40%	4.53%
56	2.94%	6.57%	6.50%	4.58%
57	3.03%	6.63%	6.50%	4.64%
58	3.13%	6.70%	6.60%	4.70%
59	3.23%	6.77%	6.70%	4.76%
60	3.33%	6.85%	6.70%	4.83%
61	3.45%	6.94%	6.80%	4.91%
62	3.57%	7.04%	6.90%	4.99%
63	3.70%	7.14%	7.00%	5.09%
64	3.85%	7.26%	7.10%	5.19%
65	4.00%	7.38%	7.20%	5.30%
66	4.17%	7.52%	7.30%	5.43%
67	4.35%	7.67%	7.40%	5.57%
68	4.55%	7.83%	7.60%	5.73%
69	4.76%	8.02%	7.70%	5.90%
70	5.00%	8.22%	7.90%	6.10%
71	5.28%	8.45%	8.10%	6.33%
72	5.40%	8.71%	8.30%	6.59%
73	5.53%	9.00%	8.50%	6.89%
74	5.67%	9.34%	8.80%	7.24%
75	5.82%	9.71%	9.10%	7.64%
76	5.98%	10.15%	9.40%	8.11%
77	6.17%	10.66%	9.80%	8.65%
78	6.36%	11.25%	10.30%	9.28%
79	6.58%	11.96%	10.80%	10.03%
80	6.82%	12.82%	11.50%	10.93%
81	7.08%	13.87%	12.10%	12.02%
82	7.38%	15.19%	12.90%	13.40%
83	7.71%	16.90%	13.80%	15.16%
84	8.08%	19.19%	14.80%	17.52%
85	8.51%	22.40%	16.00%	20.81%
86	8.99%	27.23%	17.30%	25.76%
87	9.55%	35.29%	18.90%	34.01%
88	10.21%	51.46%	20.00%	50.50%
89	10.99%	100.00%	20.00%	100.00%
90	11.92%	100.00%	20.00%	100.00%
91	13.06%	100.00%	20.00%	100.00%
92	14.49%	100.00%	20.00%	100.00%
93	16.34%	100.00%	20.00%	100.00%
94	18.79%	100.00%	20.00%	100.00%
95+	20.00%	100.00%	20.00%	100.00%



> The question isn't at what age I want to retire, it's at what income.
>
> — George Foreman

Systematic withdrawal plans

If you have non-registered savings, you can set up a systematic withdrawal plan to provide regular income payments. You decide what amount or percentage of your plan value you want to withdraw, and the payments will be automatically deposited into your bank account (unlike RRIFs, there is no government minimum withdrawal amount).

Like most plans, you have the choice of receiving payments monthly, quarterly, semi-annually or annually. If you choose a conservative withdrawal rate, your plan may continue to grow in value or maintain its current value, allowing you to receive income payments indefinitely and preserving your estate for your heirs.

Payments are not taxable as income since you already paid tax on the earnings in the plan, however, you will still have to pay tax on any capital gains, dividend, and interest income in the policy each year. There may also be withdrawal charges depending on the type of plan you have and the amount you withdraw. If you have both guaranteed interest contracts and segregated funds in your non-registered portfolio, you may want to draw your income from the guaranteed interest contracts first, since they are taxed at a higher tax rate. Your advisor can help with these types of decisions.

Guaranteed Withdrawal Benefit (GWB)

As an innovative retirement option for Canadians, the GWB is a variable annuity with Segregated Funds as the underlying investment that guarantees a minimum annual income for life, regardless of how the investments perform. The target markets are pre-retirees and early retirees. In addition to guaranteed income for life, a GWB may also have value added features such as annual income base bonuses and automatic resets.

Retirement planning strategies

There are many excellent strategies you can use when you are getting ready to convert your retirement savings into income. Your advisor can determine which strategies might work for you. Here are just a few:

- Contribute a portion of your retirement savings to a GWB. Income Base resets may increase your future retirement income and protect your portfolio against the risks; market volatility, inflation and the potential of outliving your savings.
- Top up your RRSP at the end of the year in which you turn age 71.
- If you still have earned income when you are 71, you can also make an overcontribution to your RRSP in December before you convert your RRSP into a RRIF or an annuity. Any amount in excess of $2,000 will attract a 1% per month penalty tax, but since it will only be for one month before your next year's contribution room becomes available, the tax savings will likely far outweigh the penalty.
- Take advantage of income splitting to reduce taxes. If you earn more than your spouse, you can allocate up to 50% of your eligible pension income so it is taxed in the hands of your spouse.
- If you are going to invest in funds, consider segregated funds because of their guarantees and other important estate planning benefits.
- Consider a RRIF/annuity combination. The guaranteed annuity payments can cover your fixed costs while the RRIF payments, which may vary, can be used for additional expenses.
- Consider a RRIF with a GWB to take advantage of guaranteed retirement income for life.
- For RRIFs, choose the government minimum payment option. Choosing annual payments at year-end can also help maximize the growth of your plan.

Empire Life retirement solutions

When it comes time to retire, Empire Life can help. Empire Life Guaranteed Investment Funds come with powerful benefit guarantees to help protect your capital and your estate. Class Plus 3.0 offers guaranteed retirement income for life and our conservative, value-oriented investment style is ideally suited for retirement income plans. The Empire Life Guaranteed Interest Contract offers competitive rates with estate planning benefits such as probate and estate bypass upon death if a beneficiary has been named. Ask your advisor about Empire Life retirement products today.

Resources

Government of Canada website, with information on CPP/QPP, OAS, Pension tax credit and more www.servicecanada.gc.ca

Revenue Canada www.cra-arc.gc.ca

Health Canada www.hc-sc.gc.ca

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