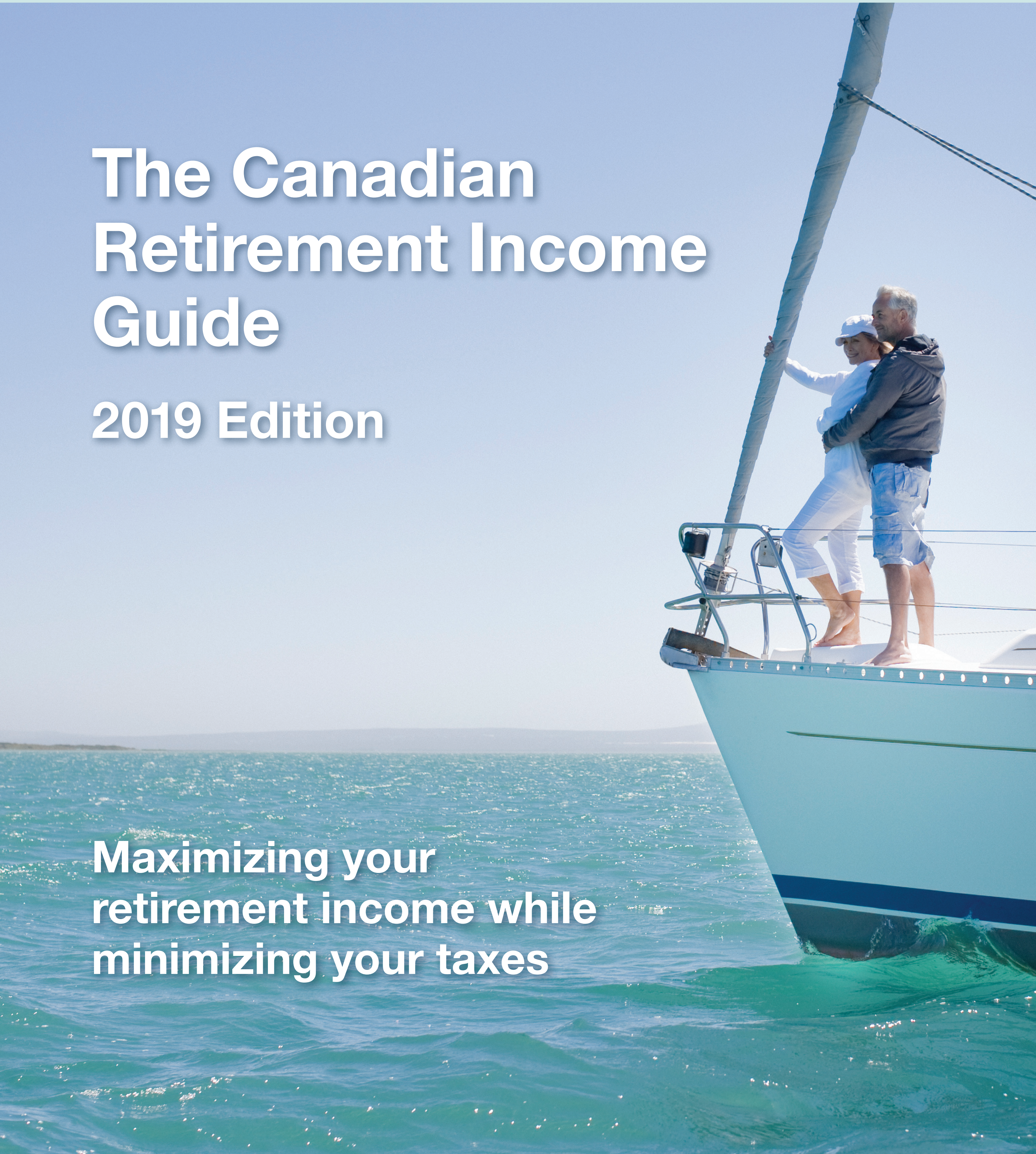
TriDelta Financial



The Canadian Retirement Income Guide

2019 Edition

Maximizing your retirement income while minimizing your taxes

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Introduction

When you retire, not only does your daily routine change, but you also stop receiving a pay cheque. With the traditional pension becoming less of a reality for many Canadians, building steady retirement income through your investments, asset base and government programs is a key part of any financial plan.

In this Guide, you will learn about some of the best ways to build your own retirement "paycheque" using the resources you already have. Common questions about different retirement income streams will also be answered, and tax minimizing tips will be provided along the way.

We provide you with some of our best insight on when and how much to draw from RRSPs, RRIFs, TFSAs, investment options, how to access government pensions and where to find other sources of cash flow. We trust that this Guide will be helpful to you. If you have any questions on the ideas and strategies presented or to find out more about our income solutions, please contact us. We look forward to hearing from you.

How much income will I need?

Before you determine your different sources of income and how to amalgamate this into a strong retirement "paycheque," you need to calculate how much retirement income you will require.

This is an individual exercise, not based on rules of thumb. The place to start is to review your current expenses, and to determine if there are expenses that you know will change between now and retirement (child care, RSP/Pension savings, transportation costs, debt charges, etc.).

To help with this, you can use the TriDelta Expenses Worksheet found here. This worksheet is easy to complete, and will cover most, if not all, of your annual expenses.

The Six Sources of Retirement Income

1. Government Pension Plans

The two basic sources of government retirement income are the **Canadian Pension Plan (CPP)** and the **Old Age Security (OAS)**. You have already likely contributed to your CPP on most paycheques to date, while the OAS is a "social security" program, based on your earnings level beginning at age 65. In order to make the most out of this income, here are a few tips:

1a Canada Pension Plan

The CPP is **fully taxable**, and payments are automatically provided to retirees starting at age 65 (although CPP can be started anywhere from age 60 to 70).

Early Withdrawals Option: You can choose to start withdrawing your CPP at the age of 60, although the monthly payments would be significantly lower. Currently the maximum CPP payment is reduced by 0.6% per month for every month you begin taking CPP payments prior to the age of 65. For example, if your maximum CPP benefit at age 65 was to be $1,000 per month, by taking your CPP payments at age 63, that maximum amount would be reduced to approximately $856 per month (14.40% reduction) and if you began taking CPP at age 60, the maximum benefit would be reduced by 36.0%. In the $1,000 a month example, the monthly payment is reduced to $640 per month. Factors to help determine whether to draw CPP earlier than age 65 relate to your current cash flow needs, your personal tax rate, as well as your overall health and family genetics. If you think you will have a low marginal tax rate and need additional income, and you are likely to have a shorter life expectancy, then taking the CP at age 60 is often worthwhile.

Late Withdrawal Option: Alternatively, if you think you will be around in your 90s, and that you may still be working until your late 60s and do not need the cash flow, maybe wait until age 70 to take it.

To find out how much you might expect to receive at different ages, as well as breakeven-age calculations, please visit https://www.tridelta.ca/resources/cpp-calculator/.

CPP pays a premium monthly payment for those deciding to take the payment later. CPP payments increase by 0.7% per month if started after age 65 with a total benefit of 42% if taken at age 70. (This means that if your maximum benefit would have been $1,000 a month at age 65, waiting until age 70 could result in a monthly payment of $1,420 instead, plus upward adjustments for inflation).

For spouses or common-law partners who are together and receive CPP, retirement pension benefits might be "shared." Because the CPP is fully taxable, this sharing may be good tax-efficient planning. If you are able to split your CPP income with a spouse with lower-income, you will both be taxed less as a result. Paying less tax means more retirement cash flow.

For example, Doug and Arlene (both 68 years old) have been married for 40 years. Doug worked as a teacher and is now retired. His annual income includes an Ontario teachers' pension of approximately $50,000 per year and CPP benefits of approximately $10,000 per year. Arlene has minimal income. By applying to share their CPP retirement pension payments they can realize combined tax savings of approximately $2,000 per year.

CPP Benefits (2019)	Maximum: $1,154.58/month	Average: $673.10/month

Source: www.canada.ca/en/services/benefits/publicpensions/cpp/cpp-benefit/amount.html

1b Old Age Security (OAS)

The eligibility for OAS as well as the application process are outlined on the Government of Canada website. In addition to having lived in Canada for a number of years (10+ for partial benefits, 40+ for full benefits), the most important eligibility criteria is your income level.

Using 2019 data and figures, here is a chart of OAS Eligibility:

Yearly Net Income	0 - $75,910	$75,910 - $125,696	$125,696 +
OAS Eligibility	Full OAS	Partial OAS	No OAS

For those who qualify for receiving full OAS payments, the 2019 maximum amount is $601 per month or $7,210 per year. OAS payments to retirees are clawed back (reduced) for every dollar of income that the retiree earns above $75,910. Essentially this clawback is a 15% reduction, i.e. if a retiree earns $82,809, she receives only $6,007 in OAS payments, a reduction of $1500 per year. If the retiree earns more than $125,696, she receives no OAS payments (effectively a clawback of $7,210 of potential government payments).

Based on the table and description above, you might initially think that you will not likely qualify for OAS; however there are ways to maximize your Old Age Security. *You just need to be able to minimize your yearly taxable income below the thresholds.* Some key ways of doing this would be to draw down RSP funds before you turn 65, but after you finish working. This will reduce the amount of required RRIF payments. Others include changing your investment mix for your non-registered investments so that they are generating less income (both interest and dividends). You would instead focus on generating most of your investment income within your RSP or TFSA. You might also choose to use specialized life insurance to allow funds to grow tax sheltered outside of an RSP. Flow-through investing may also be used to reduce income, but this strategy invests in very high risk junior resource investments. At TriDelta, we have a strategy that can help you receive the tax benefits of flow through shares without taking on any investment risk. Contact us to learn more. These will all lower your taxable income without impacting your wealth – other than possibly adding as much as $7,210 in OAS payments to your annual income stream.

OAS payments may also be delayed. For every month past age 65 that you delay OAS payments, you receive an additional 0.6%, up to a maximum of 36% if you delay all the way to age 70. As a result, the maximum monthly OAS payment climbs from $601/month at age 65 to $817 ($9,806 per year) if you delay taking OAS payments until age 70. Remember, even if you choose to delay applying for OAS, you are still subject to the same clawback rates. Before deciding if you want to delay your OAS payments, you should look at income tax rates, potential for clawback, longevity and the impact on your income when your RRIF payments begin. In our analysis, it rarely makes sense to delay receiving your OAS – in small part because unlike CPP, the OAS is most likely to become less valuable over time. It is usually best to take it as soon as possible rather than to delay.

1c There is another source of retirement income from the government known as **GIS** or **Guaranteed Income Supplement**. This is meant as an additional income source for lower income Canadians. In general, based on 2019 levels, in order to qualify, maximum combined income for a couple would be $24,096. This combined household income includes CPP, but not OAS income. If your spouse does not receive OAS, the combined income threshold is $43,728. If you are a single, widowed or divorced pensioner, maximum income would be $18,240.

Did you know?

A report from the federal Task Force on Financial Literacy in 2011 stated that roughly 160,000 eligible seniors do not receive Old Age Security (OAS) benefits. This represents almost $1-billion in unclaimed benefits.

2. Your Investment Portfolios

For many retirees, their investment portfolios held in RRSPs, RRIFs, TFSAs, Defined Contribution Plans and Non-Registered accounts is often the largest component of their retirement income. Many retirees assume that the total value of their portfolio pre-retirement is of most importance, but according to research from Russell Investments, it is the portfolio growth during their retirement years that provides the bulk of their income. Approximately 60% of a retiree's total retirement income comes from investment returns during retirement.[i] As a result, investors should continue to hold investments in stocks, bonds, preferred shares and alternative assets while in retirement to meet their spending goals. We typically recommend that retirees create an income focused portfolio, comprised of the following assets:

Income Investments

1. **Dividend Paying Equities:** Stocks (equities) that pay a dividend tend to have more stable earnings and lower market volatility as well as providing a predictable income stream and the opportunity for capital growth. In Canada, dividend paying equities tend to be concentrated in the financials, utilities, and telecommunication sectors. We highly suggest that retirees include US and International stocks in their retirement portfolios as well. International stocks provide investors with access to some of the world's biggest, most stable and cash rich companies, as well as some of the most predictable cash flows from companies in the health care (Pfizer, Johnson & Johnson, Merck), technology (Apple, Microsoft, Intel) and consumer sectors (McDonald's, Walmart, Nestle and Unilever) and diversification benefits as well. A well designed equity (stock) portfolio can generate yields of over 3% and historical returns of 9%+ per year.

2. **Bonds:** Even with current historically low interest rates, bonds should remain a key component of a retiree's portfolio. Bonds still provide higher yields than comparative GICs and protection when equity markets decline. By focusing on corporate bonds (bonds issued by companies, such as Royal Bank or BCE), investors can own a relatively safe investment and attain higher yields. High yield or junk bonds should also be considered as historically they have provided a high level of income, and a return very similar to equities with only about 60% of the volatility.[ii]

3. **Preferred Shares:** For retirees with a significant portion of their investments in non-registered accounts, preferred shares should be a significant component of their overall portfolio. Preferred shares pay quarterly or monthly distributions, typically at higher rates than comparable bonds and they are taxed at the much more favourable dividend tax rate. Canadian preferred shares generally trade on the TSX, so they are easy to buy and sell, but their overall returns tend to be more volatile than bonds, but less so than stocks. Because there are so many different issues, investors should seek out professional managers or an ETF to make this investment.

4. **Alternative Investments:** Investments in real estate, mortgages, hedge funds, infrastructure, private debt and equity, and the like, continue to grow as a percentage of overall assets for some of the biggest pension funds. They comprise over 30% of the overall portfolio at pension plans, such as the Ontario Teacher's Plan (OTTP), Harvard Endownment Fund and the Canadian Pension Plan Investment Board (CPPIB), which manages the funds for CPP payments. The reasons for their growth are that these investments often provide: (i) a more predictable income stream (ii) with less volatility and (iii) help reduce risk in your investment portfolios. TriDelta Investment Counsel works with a select group of alternative investment managers to provide similar benefits to our clients. Click here to find out more.

2a Investment Accounts

RRSP/RRIFs

Often the largest investment account and greatest source of retirement income is your RRSP or RRIF. RRSPs grow in tax-sheltered accounts, but when you start to withdraw from them, the funds are fully taxed as income. At the age of 72, your RRSP must evolve into a RRIF (retirees can choose to convert their RRSP to a RRIF at an earlier age as well). At age 72, the government mandates that you must withdraw at least 5.4% (or more at older ages) of your RRIF yearly and pay taxes on it. One potential option to help reduce required minimum RRIF withdrawal amounts is to base the withdrawals on your spouse's age – if your spouse is younger.

In 2015, the required RRIF withdrawal rate was amended to reduce the yearly withdrawal percentage for those aged 71 – 94. Please visit http://www.taxtips.ca/rrsp/rrif-minimum-withdrawal-factors.htm for the updated withdrawal rates. For those aged under 71, who choose to draw from their RRIFs, the withdrawal factor is calculated as 1/(90-age).

When it comes to your RRSP investing and RRIF withdrawals, be as tax smart as possible. The very basic idea is that you want to minimize your overall tax bill during your retirement years (less tax means more spending money) and increase the potential to receive at least partial OAS payments. Effectively managing the drawdown of your RRSP and RRIF can provide significant after-tax savings. We can help you reduce taxes and improve after-tax cash flow in retirement.

Some proven ways to reduce taxes and improve cash flow in retirement are:

a) If retired, potentially start withdrawing early. If you wait until 72 to start drawing out of your RRSP/RRIF, you might leave your estate a massive tax bill.

b) If you have lower income years during your retirement, withdraw larger amounts of RRSP in those years. In higher income years, withdraw less. Typically this would be most effective in the years between retirement and age 72 – especially before age 65 when you are eligible for OAS.

c) There are specialized strategies like the RRSP meltdown to effectively draw out money. This requires you to create a tax deduction equal to the amount of money withdrawn. Because it requires leveraged investing, you should seek professional advice before undertaking these types of strategies.

d) Split your RRIF income and CPP with a lower income spouse. Any non-registered assets can be held in joint name or the name of the lower income spouse to further reduce taxes on dividends, income and capital gains, although if the accounts were previously held in the name of the higher income earner, moving to a joint account, may trigger tax.

Did you know?

If you pass away and have a spouse as the beneficiary, your RRSP/RRIF rolls over to them tax free. However, the year the second spouse dies, the entire value of your RRSP/RRIF is taxed as income. If you have $500,000 in your RRIF at the time of second death, the government could take $221,000 of it in taxes or even more depending on the size of the estate! For single seniors with RRIFs of $500,000+, we may have a tax strategy that can help with this problem. Contact us to learn more.

2b Tax-free Savings Account (TFSA)

TFSAs should be a central part of retirement planning, particularly with the recent increases in annual contribution rates. For those who have not yet contributed to a TFSA, the maximum cumulative limit in 2019 is $63,500 per Canadian resident who has lived in Canada and were above the age of 18 since 2009. The new limit is $6,000 per year, beginning 2019. As a result, the account can have a meaningful impact to generate tax-free income or growth. For example, if a couple puts in $63,500 this year (the cumulative limit) each into their TFSAs and each year contributes the $6,000 limit into their separate TFSAs that grow by 6% a year, in 25 years, their TFSA assets will be over $1,242,944 combined.

As a reminder, the TFSA is a tax sheltered account, just like an RRSP. The difference is that a TFSA is funded with after tax money. There is no tax refund to put the money in.

The benefit is that, unlike the RRSP which taxes every dollar that comes out as income, any **withdrawals** or growth in the TFSA are **tax free**. Also, when you take money out of a TFSA, you still have the ability to contribute that amount back to your TFSA in the next calendar year (in addition to the annual $6,000 contribution). Consequently, it is a great vehicle to reduce your amount of taxable investments, thereby increasing after-tax cash flow and after-tax estate value.

For individuals earning $87,500 or less, careful consideration should be given to whether a TFSA or RRSP is the best vehicle for retirement savings. For further information, please see (list link to Ted's articles)

To take full advantage of the TFSA, look at any non-registered assets that you have. Other than a modest month to month cash balance, any extra should be moved into a TFSA. This will save you tax, and has virtually no downside. If you need the funds, you can draw them out.

From the perspective of retirement income strategy, the ideal asset structure at the end of your life would be to have as many of your assets in a TFSA as possible, and/or your principal residence. Other than probate fees, there would be no taxes upon death. In order to achieve that goal, you would want to continue to fund TFSA accounts during every year of retirement, and draw on other assets before drawing down from TFSAs if you are able.

2c Non-Registered Investment Accounts and Tax Efficiencies

Cash flow generated from your non-registered investment accounts can come from five sources:

- Capital losses (this is from when you sell an investment for a loss).
- Return of capital (this generates no tax in the current tax year as it is effectively withdrawing your own money from an investment. If an investment is generating positive returns, but has been structured to generate return of capital payments, you may have capital gains to pay in the future).
- Dividends (these are generated by stocks that pay a dividend and all preferred shares).
- Capital Gains (this is from when you sell an investment for a gain).
- Interest (this is generally from GICs, Bonds or mortgage corporations).

If you were earning $93,210 a year in Ontario, your tax on each dollar of the investments above would be:

Investment	Capital Losses	Return of Capital	Dividends (eligible)	Capital Gains	Interest
Tax Amount	0% or refund	0%	25.4%	21.7%	43.4%

While you can take money from your non-registered account 'tax free', keep mind that any income or gains will be taxed. The best tax decision on non-registered accounts is to try to avoid interest income as much as possible. Use your registered accounts to hold investments whose returns are taxed as income.

For Ontario residents, link to our simple Income Tax calculator that will provide a quick estimate of your annual taxes, marginal tax rates on various forms of income, and net take-home. If your income is in excess of $200k take note of the potential tax savings highlighted in the bottom section of the link.
https://www.tridelta.ca/resources/canadian-tax-calculator-ontario-resident/

2d Defined Contribution Plans

Many companies offer their employees defined contribution (DC) plans, where the employer invests a percentage of the employee's annual salary, often matching the employee's contribution, within a group of pre-selected mutual funds. Depending on how generous the plan is and how long the employee worked for that company, their investments within this plan can be quite substantial, with values often over $100,000. Many investors do not realize that if they are unhappy with their current DC Plan that these investments can be transferred to a Locked-In version of their RSP (LRSP or LIRA).

3. Defined Benefit Company Pension Plan

If you are fortunate enough to have a company pension plan, this certainly eases some of the strain on retirement income; however, you still have decisions to make. For example, prior to retirement, you may be given the option of whether you should simply take the monthly pension or take the cash (i.e. a lump sum amount in a locked-in account). For more information please read this article and this article.

The value of the lump sum payment is typically based on current interest rates or bond yields; so, in this current low yield environment, it is often quite advantageous to take the cash payout. For those considering this option, we can help by providing a comprehensive financial analysis and recommendation. To find out more or to discuss your options, click here.

Below are some additional questions to ask to determine whether to take a monthly or lump-sum amount:

How long will you (and your spouse) live?	If you predict a long life-expectancy, the monthly benefits are fine, but if you predict shorter life expectancies, the lump-sum payment is often better as your pension is worthless upon death.
How safe is your pension? Is your pension indexed?	If you think your company might not survive 25 to 30 years (or till the end of your retirement) or if your pension is not indexed to inflation, a lump sum might be smarter. Analysis is required. We can help you with this review.
Survivor Benefits	Will your spouse receive the full pension amount on your death? Most plans pay a survivor's benefit of only between 50-75%. A permanent insurance policy may provide a means of protecting the value of a pension for the surviving spouse.
What are your tax planning goals?	A monthly pension is inflexible for tax planning. You may want more income at one stage of retirement, less at another. The lump sum amount can give you more flexibility.

Even if taking the company pension is the right decision for you, likely there are decisions around pension guarantees (for example, 10 years of guaranteed pension even if you don't live very long), or having anywhere from 0% to 100% spousal benefits after you pass away.

One pension strategy (if you are allowed to do so) that is often beneficial is to take 0% spousal benefits, and therefore maximizing your monthly payment. With this extra payment, put some or all of it towards a permanent life insurance policy on the pension holder. In this way, if the pension holder dies first, and leaves no pension for their spouse, the spouse will instead receive a large insurance policy that will more than cover the pension in most cases. If the pension holder dies second, rather than leaving nothing to family (as the pension would also end on the spouse's death), they will still leave the proceeds of life insurance – paid for from their employer pension.

4. Your Home

4a Tapping in to Existing Home Equity

This is often the largest untapped source of retirement income. Many retirees own their homes and most homes have appreciated significantly in value. Instead of letting the money sit and go unused within the house, think about taking out a line of credit or a mortgage against the house at low interest rates. You can use this cash to generate a stream of monthly income. We suggest that the amount borrowed stay below 30% of the total value of the house, in case house prices plunge or interest rates soar. When you sell your house in 5, 10 or 15 years, you will have paid off the debt anyway. The important thing to remember is that your home is simply an asset. You can choose not to spend any of that asset or you can choose to use it to help provide retirement income. It is important to know that you have an option to access this value. Otherwise you might be real estate rich, and cash poor – for no good reason.

Do I need to downsize to maintain a standard of living?

Financial considerations should not be the only reason you downsize your home. If you are depending on the value of your home for retirement income, using home equity with a mortgage or a line of credit can be a good option. You might also look into some of the other retirement income streams first. Think about the personal factors when it comes to selling your home as well. Are you interested in keeping up with maintenance work after retirement? Would you like to move to a different neighbourhood, perhaps more friendly to your retirement lifestyle or closer to public transit?

Did you know?

Your home equity loan interest can be structured to be tax deductible in many cases, and costs less than non-secured debt. Contact us for more information.

4b Downsizing Your Real Estate

As your lifestyle changes, downsizing or changing your current real estate can make a lot of sense. The financial key is to truly understand how your overall budget will change in your new residence. In some cases, high condo fees eat up much more cash than the maintenance costs of running a home. Also, it is important not to underestimate real estate commissions, land transfer taxes, and other moving costs.

Sometimes it isn't even downsizing, but simply changing locations. There are many Canadians who sell their house in an urban area and move to a smaller city or rural location while unlocking a great deal of money from their homes.

4c Renting vs. Owning

Selling your home and moving into rental accommodations may be a worthwhile option for many retirees. By selling your home, you can free up the capital that is currently locked in your home to invest those proceeds in stocks, bonds, preferred shares and alternative investments to provide an income stream o supplement other sources of income. For many retirees, they may also prefer the lifestyle of being a renter, letting someone else worry about the work and costs to maintain the property. Please visit "Why older seniors should rent instead of buy" for further discussion of renting vs. owning for retirees.

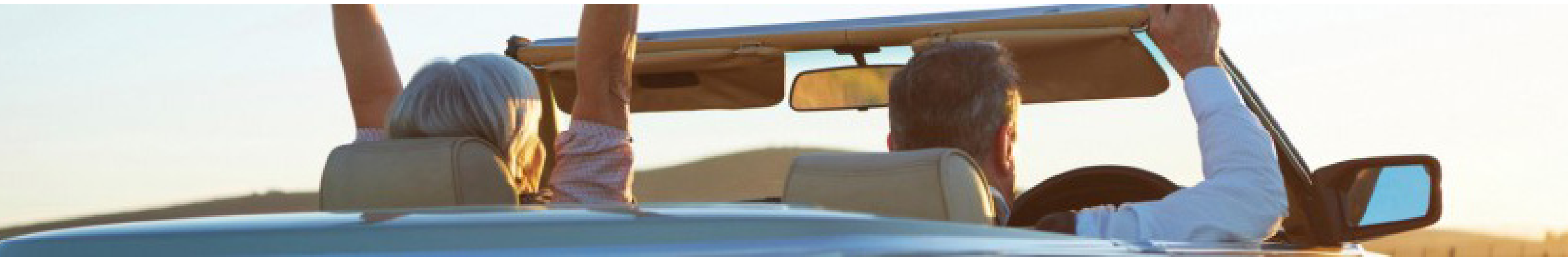
5. Insurance Policies

An unlikely, yet effective source of retirement income can be insurance policies. If you are nearing retirement already, there are other strategies to use insurance policies as retirement income. Policy holders can often access cash by withdrawing assets from the cash surrender value of the policy, without impairing the coverage terms. Some policies also have a contractual provision that allows you to borrow funds against the value of the insurance policy. This loan is payable after you pass away and is subtracted from the benefit paid by the insurance policy.

In a different approach, investors in their mid-30s to early-50s can take out a policy on their parents. They pay the premiums during the parent's lifetime. When the parents pass away, the payout can become a core part of their retirement income. When seeking out retirement income, revisit your existing insurance to see if you are able to use any of these strategies. We can help you to explain your insurance policies – and to better understand your options.

6. Your Kids (or other family)

While not the first choice of most parents, sometimes your children are in a very good financial position, and willing and able to 'gift' to their parents. It worked the other way around for many years.



Conclusions

As one moves to a new stage where the steady paycheque comes to an end, it shouldn't be a time of financial worry. The key is to truly understand your needs or wants in retirement, review your current net worth picture, and put the plan together that will allow for steady and tax smart cash flow to allow you to achieve your goals. At TriDelta Financial, our focus is on planning and helping with retirement income and tax planning strategies – this is what we do for clients. If you have questions in this area, we are here to help.

About TriDelta Financial

TriDelta Financial is an independent, comprehensive financial planning firm. We start with developing a complete financial plan so that your entire financial health is considered when offering advice and recommending solutions. We offer the very best investment, insurance, retirement, debt and mortgage solutions in the market with complete independence.

> "I have been a client of Canada's largest bank for 37 years, but decided to research my options given my imminent retirement and was pleasantly surprised to find a rather unique business model designed to meet all my financial needs and guide me through this key phase in my life. TriDelta Financial has managed to improve on the bank model by offering comprehensive financial planning combined with unbiased advice and services on investments, insurance, estate planning and more."

TriDelta Investment Counsel

TriDelta Investment Counsel (TIC), a fully-owned subsidiary of TriDelta Financial, is a discretionary investment manager. Its investment solutions have provided strong returns (significantly outperforming the market), while offering customization, transparency and tax efficiency. In particular, TIC has designed many income focused investment solutions for our retired or near retirement clientele.

If you liked this guide, please let us know. If you think we can help you with your retirement income or other financial planning needs, please contact us to have an introductory conversation.

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[i] Collie, Bob and Matt Smith, "The 10/30/60 Rule: Where Do Defined Contribution (DC) Plan Benefits Come Form? It's Not Where You Think", Russell DC Insights, Source: January 2008
[ii] Source: AllianceBernstein LP, High Yield: Equity-Like Returns..with Half the Risk,?, Distenfeld, G and Shah, A, May 2014