Each Stage of Retirement Brings New Financial Considerations

For most people, security in retirement is a key financial goal. But once you reach retirement, the need for financial planning doesn't end. Effective planning will help ensure that you have the cash flow to meet your needs and that your assets will last as long as you need them.

After you retire, your needs and objectives may change, along with your lifestyle and financial circumstances. New issues are likely to arise and different priorities may come into focus.

This special report outlines some of the key considerations you're likely to encounter as you progress through your retirement years and explains how your financial strategy might change as a result.

Stage I — The early years

Leaving the full-time workforce, or winding down your business if you're self-employed, is a big step. You have the freedom to pursue activities of your own choosing. The challenge, of course, is that you'll no longer receive a paycheque.

Instead, your cash flow will come from what you've accumulated during your working years. So, when planning for your retirement, the starting point is to determine your cash flow needs and your sources of income.

- **Cash-flow needs.** After you retire, your basic expenses such as housing and food may stay the same. Other expenses, such as transportation and clothing, may go down as you no longer need to commute to work or purchase business clothes. However, you may find that you're spending more on travel, gifts and leisure, now that you have more free time.
- **Everyone's situation is different.** What's important is to determine the cash flow you need to support the lifestyle that you want.
- **Sources of income.** Your sources of retirement income are likely to include government benefits along with registered and non-registered investments. You might also receive

a company pension or own real estate that produces income. Increasingly, many people still earn employment income after they retire by working part time or taking on consulting work.

What to use first

The order in which you draw on these sources of income is important. In most cases, you will want to rely first on government benefits and any company pension you may have to meet your needs. Depending on your age, you may be required to take a minimum amount from a registered Retirement Income Fund (RIF).

If these sources, together with any part-time employment or consulting income that you may receive, aren't sufficient to cover all your expenses, you will need to decide the best way to cover any shortfall.

In most cases, it is best to delay drawing on tax-sheltered investments such as your RIF or RRSPs as long as possible. However, there are cases when it may make sense to use these assets first, even if you have non-registered investments available. Your RBC® advisor can help you evaluate your options and make the best choice for your personal circumstances.

What if there's a deficit?

If you have a sudden, unexpected need for cash, you will need to decide how best to meet it. Again, each person's situation is unique and it is important to consider all of the options available. Typically, most people will draw on their non-registered assets first for their immediate cash requirements. There are cases, however, when it may make sense to draw on registered assets instead. Should you decide to draw on non-registered assets, be sure to take taxes into consideration.

For example, if you sell investments that have appreciated in value since you bought them, the sale may trigger a taxable capital gain.

One option to consider is borrowing. Taking a loan to meet unexpected expenses may enable you to preserve your assets for greater flexibility in the future. Borrowing may be a good alternative if you expect to be able to repay the loan quickly, or have plenty of surplus cash available to make loan payments.

CPP/QPP: Go early or go late?

Canadians who have worked in Canada and contributed to the Canada or Quebec Pension Plan (CPP/QPP) are entitled to payments once they retire.

Both the CPP and the QPP are designed to begin making payments at age 65. However, you can choose to begin receiving payments as early as age 60, or as late as age 70.

The earlier you choose to receive your CPP/QPP, the less you will receive each month. If you delay receipt of this income, you will receive more. In deciding the best time for yourself, you should consider some of the following items:

- What you expect your cash flow needs will be at each stage of your retirement
- What other sources of retirement income you expect to have
- How CPP/QPP will affect the amount of tax you pay in the current year and future years

Your RBC advisor can help you determine the best time to begin drawing your CPP/QPP in the context of your overall retirement.

Adjusting your portfolio

Your investment objectives change gradually as you make the transition to retirement. Because you are likely to be drawing on your assets soon, your portfolio will need a greater allocation to security and assets that generate income.

At the same time, however, growth is still important. Your retirement could span 30 years or longer. Without growth investments, such as equities and equity mutual funds, your portfolio won't have the return potential you need to stay ahead of inflation.

The precise mix of security, income and growth that's right for you will depend on several factors, including your time horizon and your willingness to accept volatility. Your RBC advisor can help you determine the best mix for you throughout your retirement years.

Stage II — Adapting to change

As you grow older, your lifestyle is likely to change. You may find that you have less desire to travel and prefer to spend time closer to home with family or friends. Drawing income from your retirement assets as tax-efficiently as possible and making your savings last continue to be priorities. However, you may also begin to look at effective ways to preserve your wealth and pass it on to the next generation.

Revisit your cash flow needs

In retirement, your sources of income are relatively stable. Your income needs, however, are likely to change. For instance, you or your spouse may be facing health issues that give rise to expenses not covered by government health plans.

You may find that the family home is larger than you need and requires too much upkeep, prompting a move. Depending on where you live and where you move to, downsizing to a smaller home or a condominium may generate a sizable capital gain. Under current income tax rules, a gain earned on your residence will likely be exempt from tax provided you have not claimed such an exemption on another property you have owned over the same time frame. The additional funds can represent an important asset that you can invest and draw on for many years.

Review your estate plan

Having an up-to-date Will and power of attorney (known as a "mandate" in Quebec) is important at every stage of your life, including now. Through your Will, you can transfer your assets to your beneficiaries or the charitable organization of your choosing in a tax-efficient manner. Powers of attorney for property and personal care, or mandates in anticipation of incapacity, will help ensure that your property is managed appropriately and you receive the care you need should you become unable to make personal-care decisions yourself.

It's important to review both documents periodically to ensure that they are valid and accurately reflect your current wishes and circumstances. Changes to your finances or your family (the loss of a loved one, for example) can affect the arrangements you've made, and need to be addressed.

A living legacy

During your retirement, you may want to give a family member a gift of cash or property rather than leaving it to them in your Will. This gives you the pleasure of seeing the impact of your gift and how it helps them during your lifetime.

If you give away a capital asset (such as vacation property) to anyone other than your spouse, the transfer is generally treated as a sale at market value for tax purposes. Any increase in the asset's value since you purchased it may be subject to capital gains tax.

Before gifting assets of any substantial value, it's advisable to consider the tax implications and seek guidance from a tax professional where appropriate.

Stage III — Security and comfort in your later years

For many retired Canadians, health becomes a greater priority at this time of life. Many expenses, such as drugs and physiotherapy, may not be fully covered by provincial health care. As your health-care costs rise, you will need to adjust your income to meet them.

It's also important to consider the possibility of long-term care for you or your spouse. Many seniors need some kind of assisted living at some point, ranging from help with household duties to full-time residential care.

Long-term care insurance can be a cost-effective way to ensure that you and your spouse can afford the level of care you need for as long as you need it. To ensure that you have sufficient funds available to cover any potential new or increased living costs, it's a good idea to hold a proportion of investments that provide income, and that are liquid.

Communicating your estate plan

As in your earlier years, keeping your Will and powers of attorney (or mandate) current is essential. You may also want to share the contents of these documents with your family and any other beneficiaries. Making your wishes known, and explaining them to your loved ones, may reduce the likelihood of family conflict in settling your estate or managing your affairs should you become incapacitated by illness or injury.

Your estate may well have grown over the years. As a result, it could attract substantial capital gains tax upon your death. Depending on where you live, provincial probate fees may also be substantial. Your RBC advisor can help you explore effective strategies for reducing potential income tax and probate fees while preserving the desired plan for distributing your estate.

Choosing an executor

Your executor can play a key role in minimizing the taxes that your estate has to pay. It's crucial that the person you appoint as your executor knows the responsibilities involved, and is willing and able to fulfill them throughout the settlement process. For example, the executor's responsibilities may include taking the Will through probate (not required in Quebec for Wills prepared by a notary) settling debts, preparing the final tax return, selling or managing assets, distributing assets to beneficiaries – even arranging the funeral.

You may want to consider naming RBC Estate and Trust Services as your executor or co-executor so your estate

Leaving a legacy for charity

If supporting charitable organizations is important to you, be sure to investigate the many tax-effective ways to donate both during your lifetime and through your estate. These include:

- Cash donations made during your lifetime or as a bequest in your Will
- Donations of eligible securities, in which case no capital gains tax is payable
- Gifts of life insurance, which may provide tax benefits during your lifetime or a benefit to your estate
- Charitable remainder trusts, where you donate property that you can continue to use in your lifetime

Seeing your money helping those who need it most can be a rewarding experience. Your RBC advisor can help you decide if these strategies are right for you.

benefits from professional handling. At the very least, make sure that your executor is aware of our Agent for Executor services to assist with the estate settlement process.

Retirement is a journey, not a destination. With the assistance of your RBC advisor, you can look forward to many fulfilling years with the financial security to meet your changing needs.

Prior to implementing any strategies contained in this article, individuals should consult with a qualified tax advisor, accountant, legal professional or other professional to discuss the implications specific to their situation. Please speak with your advisor.

Financial Planning

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