



Reflections



Message from the Editor

RPI's new schedule of seminars for 2005/6 is now available online at www.rpi-ipr.com.

Tax season is fast approaching. You might want to review Malcolm Fletcher's articles related to tax issues in the last two editions of Reflections which you can find on RPI's web site at www.rpi-ipr.com. On page 2, he tackles the issue of the Old Age Security **claw back** and how those over 65 with retirement income between \$60,806 and \$98,546 can minimize the tax impact.

Jim Nininger, former CEO of the Conference Board of Canada, offers you on page 3 the first of his six lessons—*Retirement is a Journey not a Destination*—that emerged from his study of people who have experienced retirement.

In this edition we haven't reviewed any new resources but check out the job opportunity and the great new half-day **Ready to Retire** seminar.

*Nancy Conroy, Editor
(Nancy Conroy, President of The Conroy Group Inc. is creator of LifeScape, a web-based retirement planning tool.)*

If you are not the original recipient of this newsletter but would like to receive future issues, contact ltouchette@rpi-ipr.com.

RPI launches brand new *Ready to Retire* seminar

Getting close to retirement? Then this is the seminar for you. Take this half-day seminar and equip yourself with the knowledge you need to maximize your entitlements. The presenters will help you to:

- Pick the best retirement date
- Understand your pension calculation
- Determine if you are eligible for buyback of service
- Find out what you need to know about CPP and OAS
- Explore the financial and tax implications of your retirement
- Understand how your benefits work post-retirement.

Seminars will run in English on June 6, September 6, November 14, January 9 (2006) and March 6 (2006) and in French on October 3 and March 7 (2006).

Don't wait. Visit the RPI web site at www.rpi-ipr.com and sign up now!



Planning to work in retirement?

RPI is looking for a professional with knowledge and experience related to superannuation. This part time training opportunity would involve sharing your knowledge about superannuation with our course participants. If you are interested and want more details, please contact Leon Touchette at ltouchette@rpi-ipr.com.



The Experts Speak.....

Old Age Security (OAS) Claw Back Re-visited: Saving Tax in Retirement

by Malcolm Fletcher

We wrote about the tax impact of RRSP contributions and withdrawals in the October 2004 edition of *Reflections*. That article recommended that retirees who may face the OAS claw back, consider de-registration of their RRSP's before age 65. This month, we provide some examples; please note that the 15% OAS claw back is effectively a surtax, which in 2005 will be levied on taxable income between \$60,806 and \$98,546 (for a taxpayer who is 65 or older).

Scenario A: conventional wisdom, dip into RRSP's last

1. Assume Bob retires at 60, with taxable income of \$62K (PSSA and CPP pensions).
2. Due to the "integration" of PSSA pension with CPP, he anticipates taxable income of \$60K at age 65 (sum of PSSA + CPP + OAS). To avoid the OAS claw back, he chooses to leave his \$100K RRSP in place until forced to draw upon it at age 70. By then, it will be worth \$134K (*in today's dollars, based on a 3% per year pre-tax real rate of return*).
3. At age 70, he will then be required to draw about \$6,700 a year from the plan, which will be taxed at 48% (sum of 33% marginal tax plus 15% surtax). Thus, he will net about \$3,484 a year of additional after-tax income.

Scenario B: avoid OAS claw back by de-registering RRSP early

1. Assume that Bob's twin sister Barb has the same income and RRSP, but decides to de-register her RRSP in \$20K annual increments between age 60 and 64, to avoid any OAS claw back after age 65.
2. She pre-pays almost 40% tax on each \$20K de-registration, so is left with \$12K of after-tax assets each year. These after-tax proceeds (\$12K X 5 years = \$60K) are invested in equities that benefit from capital gains and Canadian dividend tax treatment, so she earns an *after-tax* real rate of return of 2.04% a year and owns a tax-paid portfolio worth over \$69K at age 70 (because she kept saving until then, as her brother Bob did).
3. Thereafter, based on her age and the size of her portfolio, she can safely spend \$3,450 of tax-paid funds each year, essentially the same amount as Bob nets from his RRIF.

Advantages of Scenario B over A:

1. Barb is free to start spending part of her tax-paid investment pool anytime she likes without paying further tax, due to her decision to "pre-pay" prior to 65, whereas brother Bob faces a 48% tax rate when he dips into his RRSP after

65, due to claw back.

2. Upon death, Bob's estate will face a tax bill on the balance of his RRIF, whereas Barb's tax-paid investment pool will face none.

Scenario C: Couple with mix of defined benefit pension, RRSP, and tax-paid investments

As we've just seen, the conventional wisdom about "leaving RRSP's until the end" is not always the most tax-effective strategy. Another situation that sometimes arises is a couple with several different sources of retirement income. Assume that Peter and Paula have just retired at age 55, with the following finances:

1. Peter receives \$50K defined benefit pension and holds \$250K in his RRSP;
2. Paula receives \$20K defined benefit pension and has \$100K in her LIRA (a locked-in RRSP); and
3. The couple holds \$100K in tax-paid investments.

In such a situation, there are several tax-based themes for the couple to explore:

1. Recognize that Paula will probably outlive Peter (based on actuarial life expectancies). So when he dies, she will receive a survivor pension of \$25K, which along with

...continued on page 4



Jim Ninger's Six Lessons

Lesson #1: Retirement is a Journey, not a Destination

Dead end. Case closed. End of the line. Oh, and how about, over the hill. All common ways of thinking about retirement. I'll never forget that great scene in the Jack Nicholson movie "About Schmidt". Schmidt has just retired and is sitting glumly in his stripped down office, surrounded by boxes and boxes of old files – a life's worth of career artifacts – packed up. And a few scenes later, we see those same boxes, stacked up in the alley, ready for rubbish removal. Thanks very much Schmidt. Good work. But time to clear out and let someone else move into that office.

You can't help but feel for poor old Schmidt and ask "is this what it's all about?" Unfortunately, for too many people retirement is an end game. The career gets played out, the chess pieces are all off the board, and what's left is called retirement.

Why do some people tend to think this way? I think there are several reasons. First of all, it's been a common practice to spend an entire career with one employer. When that employment ends, it can certainly feel that you're not only finished with a job but with your life.

And who hasn't heard stories of this person or that person retiring and then dying a short time later. Pension statistics indicate that "retire, then die" is really a myth. But certainly there is enough anecdotal evidence to show that, for some people, retirement stress hastens death, maybe by exacerbating existing health problems.

Another reason is simply that retirement as a social institution is somewhat new. For a large part of the last century, life expectancy was shorter. And it was a fact that in many cases, you died not long after completing work.

Then there are the stereotypes, supported by media and popular culture. They may be negative (the bored golfer with nothing else to do), or they may be positive (deliriously carefree, strolling the surf and sand at sunset). These images often reflect a retirement existence that is almost infantile in its self-absorption and isolation from the real world. Like all stereotypes, there are elements of truth there. But there is also exaggeration and distortion.

The stereotypical view of retirement seems to suggest that, for good or ill, one's life has somehow come down to *this*. And yet we all know that life's kaleidoscope keeps turning: family and societal matters engage us, financial issues draw our attention, new interests and activities arise, the list is endless. But what the stereotypes seem to suggest is: retirement is your reward for once having been productive in the economy, so time to scamper off to the adult playpen and let the socially useful get on with running things.

Even the word "retire" suggests withdrawal and pulling back. But from what? From your life? Interestingly, in aboriginal cultures the concept of retirement does not exist.

I think that of all the reasons why retirement is seen as the end of the road is that we too often over-identify with our jobs. It's hard not to. Who can resist the ego inflation of a title, good job perks, or simply the satisfaction of doing a job well and thoroughly and knowing that by doing it, you're making a difference? The tough part is accepting that you're not defined by your job.

And why would you want to be? If you'll permit the use of some old clichés here...if your life is a book, would you want it to have only one chapter? Or if life is a journey, should it have only one stop along the way?

A woman I interviewed for my retirement study hit the nail on the head. She had been suffering from real anxiety. "I was thinking that retirement was out there like a train station and it's time to get off. But a coaching instructor said, 'you know, retirement is not a destination. It's a milestone on your whole life journey.' This just shifted my thinking. Now I realize I'm not getting off. What I am doing is taking a turn in the road."

And that's the first lesson I drew from the people I talked to. Retirement is not an end in itself. It's a transition, one of many. We transit from university to the work world, from the single state to marriage, into parenthood, into various life stages. It helps if you think about your life as a continuum, rather than chopped up, compartmentalized.

Retirement is part of life's journey and not a destination in and of itself. It's just one more transition. Now it's true that we do manage these transitions in our lives in different ways. But that's another lesson.

Stay tuned for Lesson 2, *Get a Life While You are Still Working*.

her pension income will put her into a 31% tax bracket versus the 22% rate she enjoys today on taxable income up to \$34K. The locking-in rules will allow her to access 6.5% of her plan, so she should take this \$6,500 from the outset, rather than letting her LIRA grow.

2. Peter projects about \$54K of PSSA + OAS pension income at 65, so will have only \$6,800 of room to de-register his RRSP after 65 and avoid the OAS claw back. Given the size of the plan, he'll want more income (and at age 70 be forced to take more), so he should consider early de-registration of a chunk of the plan, to reduce its size. But he should probably only de-register about 50% to 60% of the plan, given his \$6,800 of room and the fact that Paula will have much more room in the future if she outlives him.
3. Ensure that any fixed income investments are concentrated within the tax-deferred plans, and that

equity investments (intended to produce tax-advantaged capital gains and dividend income) form the majority of the couple's unregistered investments. If an Ontario resident, Paula only faces 4.5% tax on Canadian source dividends, so this more conservative asset class would be ideal for her unregistered assets.

Conclusion

As you prepare for your retirement, be sure to consider the impact of taxes on your finances! Even if you're already enjoying retirement, your investment strategies should also consider the tax themes explored in this article.

Malcolm Fletcher, CA, CFP, CMC is a financial planner and Managing Director of RocheBanyan Inc. in Ottawa. He can be reached at mfletcher@rochebanyan.ca or 613.842.4229



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Contact Us

Léon L. Touchette, President
 210 - 5310 Canotek Road
 Ottawa, ON
 K1J 9N5

Phone: (613) 749-0009
 Fax: (613) 745-5552
 E-Mail: ltouchette@rpi-ipr.com
 Website: www.rpi-ipr.com



Upcoming Seminars

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2005:	Mar 22-24	Mar 29-31	Apr 13-15
	Apr 27-29	May 11-13	May 25-27
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	Oct 19-21	Oct 26-28	Nov 16-18
	Nov 23-25	Nov 30-Dec 2	Dec 7-9

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Contact the Retirement Planning Institute for more information on its pre-retirement planning seminars.