Retiring Soon?
The Planning You Need to Consider is More Complicated Than You Think.
By Kurt Rosentreter, CPA, CA, CFP, TEP, CLU, FCSI, CIMA, FMA, CIM

Retirement thirty years ago for our parents was easier.
Spend your career working for one company. Retire with a guaranteed pension for life at a fixed date you knew a decade in advance. Company health benefits for life. We married one spouse for life. Children moved out at age 18. We died in the house we paid off by age 50.

Thirty years ago you didn't have to save – and the words "retirement planning" didn't exist for Canadians where retirement was largely taken care of by employers.

Today in 2015 70% of Canadians no longer have defined benefit pensions and many more plans are under threat of termination, reduction or grandfathering.

<u>You are more on your own than ever before.</u>
You absolutely need a well thought out, comprehensive retirement plan today if you are going to have a hope of fading into the sunset on your terms – with the money to have all the fun you do deserve.

This article is to "open your eyes" to the complexity of retirement planning. Why you need to get it started now. All the considerations you need to think of. Why the planning needs to be updated regularly. And why, if you seek help, not any old financial advisor will do.

Understanding the Variables That Go Into Your Retirement Plan

<u>Forget Age</u>

In the past, we thought about retirement at a certain age. Today, only folks with defined benefit pensions can still do this. If you don't have a guaranteed pension, retirement is no longer about an age – it is about when you have enough money to retire. I am seeing too many Canadians following this out-of-date thinking and then ending up with too little money left by age 70. You need to crunch the numbers, figure out what your income and expenses will be, forecast it to age 100 and then make a judgment call about the retirement date – praying you are right. No one wants to be poor at age 80. Make sure the dollars add up and then retire.

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Your Big Ticket Real Estate

House. Cottage. Condo in Florida. I don't care how well you have done in real estate investing in the last decade in Canada because unless you are selling the property to unlock the money so we can pay for retirement trips, the real estate is nothing more than lucrative assets for your kids when you die. Worse, you have two sets of operating costs, two sets of property taxes and even less money for fun and vacations. Real estate has been good to you in Canada but the question is: what will you do next? In the past our parents were able to keep their houses for life and lived off their pension. Today many Canadians have most of their net worth locked up in real estate and no pensions or savings. Since we cannot buy food with your eaves trough, you appear to be facing huge decisions about what to do with all that land? Sell which one? Downsize to what? Where? Tax issues. Legal considerations. The kids want the cottage. Winters in retirement were supposed to be in Florida. Condo maintenance costs that are already crushing retirees. My son still lives with me. Probate taxes on death. My house will pay for my nursing home. So many real estate issues – issues that will be different in your 50's, 60's, 70's, 80's and 90's. A lot of emotion is often tied up in real estate too. And what if there is a 30% correction in the next decade? You better have a plan for your real estate transitions over time, understand the tradeoffs, be on the same page as your spouse (and your kids?) and evolve the plan as you age. For Canadians with so much money tied up in real estate today, proper decisions about the real estate may make or break their retirement overall.

How Your Career Fits In

Thirty years ago your career and employer were the answer to your retirement needs. Today they are merely a factor.
For most Canadians who work for someone else, your career continues to provide an income, health and dental insurance, perhaps some matching RRSP savings plan and mostly financial security to you right now. Be careful though – if you are 50 you are likely the most expensive income earner in your department and ripe for termination. Sadly, too many middle aged Canadians are too comfortable – they make good money and are spending most/all of it. They are not saving enough. They rely on employer life and disability insurance that can be taken away at any moment. In 2015 you may have three or more employers before you retire over a thirty-year period. Naïve employees still think their employer is taking care of them. What cave are they living in? While you are employed you need to take advantage of your big income and pay down debt, save and buy proper private insurance. Don't waste these good earning years!

And if you are self-employed (e.g. lawyer, consultant, doctor, dentist, accountant) you are truly alone in your planning. You literally need to double your efforts – twice the savings each year. At least you control your own destiny and can work to age 75 if needed. Seriously, haven't you wondered why your doctor or real estate agent is age 75? They don't have pensions folks….

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Overall, your career is another one of the most important "cogs" in your retirement planning. It is the engine of all your money coming in for more than 30 years of your life. Don't shut down this engine until you have looked at the retirement math overall (discussed below) and clearly have it all in hand.

Supporting Loved Ones

As a baby boomer you were likely out the door at age 18. Now at 55 you are wondering when your 28-year-old will ever leave. And he eats $300/month in meat. How are you going to afford that in retirement? Whether it is students that cannot get jobs, kids that cannot afford home ownership, kids that move back after a divorce, supporting a spouse going back to school, elderly parents who need money for their nursing home or a re-opened old divorce agreement that has a spouse looking for more support, personal family matters can be some of the most explosive and financially costly. Paying $4,000 a month for mom's eldercare or buying a house for your divorced 38-year-old daughter with two kids can destroy your retirement quality of life. And you are going to do it because you love them right? This is one area of planning that can change widely over thirty years of retirement and where you can benefit most from an outsider's perspective. You are too emotionally close to it.

Retirement Cost of Living

I teach a course across Canada on retirement planning and the cost of living or what you will spend each year in retirement is too big of a topic to fit into a few sentences. Thirty years ago our parents retired and lived off their new lower, pension income. Today people don't think that way – we want the same cash flow in our retirement to afford the nice cars and big trips. The age of living off less in retirement is gone for white collar Canadians and more. So with that in mind, you need to start by knowing what you spent last year – do you know? Adjust the number for expenses that will disappear in retirement (savings, debt, kids, insurance costs) and add back new expenses in retirement (more travel, healthcare costs, etc.). Take this number and forecast it out over 40 years of retirement. Adjust it for a 2% inflation factor yearly (more on this below) and reduce the cost by one third when the first spouse dies at age 80 (usually the guy). Don't forget money for occasional expenses like home repairs and car upgrades. Add a 10% cushion for costs you don't see coming.

Think of what we are trying to do here: predict your annual spending for almost half a century after your pay cheque stops (40 years, age 60 to 100). We don't even know what gasoline will cost next week but you need to determine the costs decades away. Yes, we must try. It is actually not that hard to get "in the ball park" if you turn to an expert with years of experience doing exactly this. Frankly, this data is most useful while you are still working to gauge if you have enough retirement savings before you stop working. Once you stop working, the importance shifts in monitoring and updating the retirement expenses vs. your after-tax income yearly. In other words, stay on top of your plan as your life evolves.

Inflation

Inflation is the percentage annually by which items like the cost of milk and eggs rise. The Bank of Canada targets an annual 2% inflation rate. While it is important that you factor inflation into your cost of living throughout retirement you don't need to overdo it. Since your cost of living will likely rise most years by some inflation factor, you will want your income to also rise by at least the same factor, after tax. Therefore, you need to look at all your various retirement income sources (potentially CPP, OAS, pensions, GIC interest, stock dividends, part time work, rental income and more) and determine which have inflation adjustments built in and is it enough. You don't need them all to be inflation indexed but you definitely need some exposure.

Fixed Costs vs. Variable Costs

During the depths of the stock market crash of 2008 one of the biggest disasters I saw was people on the verge of retirement that had all of their savings in the stock market. While this was wrong on so many levels that are beyond this article, the most common sense point is that you don't ever risk the assets that are vital to your very being. In English, this means you never put that portion of your savings in the stock market or any risky venture that could compromise the money you need for essential living costs. I call these costs your fixed costs. Costs like property taxes, utility bills and food. Money for these fixed, core expenses needs to always be there. While some of it can be paid for by CPP and OAS pension cheques, they likely won't total enough. Whether you buy an annuity, buy GICs or bonds or have other guaranteed, non-volatile income, you need to divide your expenses according to these two categories (fixed, essential core expenses you always need money for and variable, discretionary expenses you can flex with) and then build your retirement cash flows (and your investment plan) to address both sides. Crucial, crucial piece of the overall plan!

Designing Your Retirement Math – Starting at Age 40

Everyone serious about retirement planning needs a one-page retirement cash flow forecast prepared on Excel by an accountant. Period. This one-page forecast will look at your net worth today (value of your home, pensions, savings, debts) and your cash flows (incomes, taxes, savings, spending), make some assumptions about investment returns, taxes and inflation and forecast all of this out to age 60-70. From this valuable exercise you will learn what you need to save to retire on your terms, what age you will reach the goal and what cash flow it will generate in retirement each year. Pay your accountant $2,000 once to get this work done. Update it every five years for a cost of $1,000 each time. This "dashboard" of your financial health will act as your guiding light, your benchmark for new savings and your measuring stick for progress towards the retirement goal. It literally ties together your career earnings, taxes, investment

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portfolio and returns, savings levels, spending levels, inflation, real estate plans, support of the kids and more. This one-page document is clear and essential. You needed to get this started at age 40. Next best time is right now.

Same Retirement Forecast Charts – Age 60 to Age 100

Continue to have the cash flow forecasts discussed above after you retire. They now play an equally vital, but different role: as you retire and start to draw out the money from your savings the report will guide you on whether you are spending too much or too little savings. The report will help you to plan your income taxes. It will help you plan ahead for big costs like a daughter's wedding or a new car. You can factor in downsizing your home or how cash flow will change after the death of a spouse. Mark my word, the most important thing you can do in preparing for retirement are these charts – get them prepared by smart people, pay good value and update them regularly. They are your roadmap to what otherwise may feel like a black hole called retirement in the 21st century.

How Investments Fit Into Your Retirement Math

There are three ways to build an investment portfolio: based on your brain, your stomach or a common sense plan. Your brain is greedy and always wants more. This means you have a habit to take more risk than you should and this can lead to bigger losses – something you need to avoid in retirement. You don't have a career income to fall back on anymore! Your stomach is all about fear – how you feel when the market drops 20%, something that happens regularly over time. Your stomach is the reality check but can also keep you so conservatively invested that your quality of life becomes very limited. The common sense plan is to invest a bit on what the brain wants to see, always respect how the stomach feels (and your spouse's stomach!) but really build a plan that addresses all the factors in this article. Build an investment plan that jives with your cash flow needs, your tax rates today and in the future, your estate plan, your real estate, your spending desires and more. When you invest according to your needs and wants, it becomes a more balanced investment plan that limits risk – yes, limits risk, to what you need the plan to deliver.

For example, if we complete a retirement forecast that shows you only need 5% investment rate of return per year to achieve your goals, overall that means you could put half your savings into GICs paying 2%/year and half your savings into equities (hoping to generate 8%/year over time) and together your portfolio should deliver the 5% that your master plan calls for. Of course, monitor both plans over time and adjust as needed. But tying your investment portfolio design to real math will keep the plan logical, understandable, measurable and realistic. The math doesn't lie. People lie.

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<u>Designing Your Retirement Cash Flow</u>

Ok you retired last week. Your final pay cheque comes in next Friday. Then what? How will you generate cash flow to feed yourself? Where will money come from when you need a new car? How exactly will all this be set up in retirement? Believe it or not, some of these basic structure questions can cause you the most stress and be some of the most complicated work! Your Investment Advisor stating they will send you money monthly now doesn't even begin to touch on the complications that should go into proper planning. In my practice, we purposely spend a lot of time with clients helping them to set up cash flow design and understand how it will work and change over time – as we have found most advisors do not and this creates unnecessary stress, cost and work for the client.

Here are some examples of the complexity that can go into basic cash flow design in retirement:

- How much money will you need to draw each month to live off? The answer should be based on a summary of all your other income sources (CPP, OAS, pensions, rental income, part time work, etc.) and then adjusted for taxes. If these income sources add up to $3000/month after tax and you want $4,500/month after tax, then the investment portfolio needs to provide another $1,500/month after tax to make up the difference.
- Do you draw the money out of your RRSP, TFSA, investment account or other source? The right answer is usually based on the most tax efficient route – while also looking at the tax impact in 20 years of your decisions today. More on this important step below.
- Do you draw the money out of your investment accounts, your spouse's investment accounts or joint investment accounts? Again, the right answer is mostly tax based, as you will want to take the lowest taxed route. But it is never that simple and other factors like how couples spend and their relationship with money in the past can sometimes get in the way of the best tax smart planning.
- If you have sixteen RRSP, TFSA and investment accounts between the two of you at four banks or brokerages, this can be a nightmare for planning now that you are retired. You need to simplify your finances to make retirement planning easier – you let your finances get out of control over thirty years – now is the time to clean it up to make the planning easier.
- Then you get into investment products in each of your sixteen accounts. If we decide we need to draw $1,000/month out of your spouse's RRSP at the bank across the street, we now need to plan what investments to hold in each of your sixteen accounts so that overall we have access to the monthly money you need while still achieving our overall investment plan and goal across all accounts. You should not be building your investment portfolio until AFTER you have completed your retirement income design.

There are just a few of the steps that you should take that inevitably ends up getting you the right amount of cash in your bank account in retirement to replace your pay cheque. Start this planning a good year before you retire as you will need to make dealer / account / product changes to get the new retirement plan in place in time. Broader retirement planning where you actually assess if you can afford to retire and what it will take should start ten years before a planned retirement. The next best time is right now.

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Designing Your Retirement Cash Flow – Part Two

A completely different dimension and equally relevant component of retirement cash flow planning is to examine the actual sources of cash flow that you will need to get. There are six and you need to combine them in a way that matches your after-tax cash flow goal, matches your investment risk tolerance, matches your investment fee preferences and understand it all. The six sources of your retirement cash flow are:

- Government pensions such as Canada Pension Plan (CPP) and Old Age Security (OAS). You may also qualify for the Guaranteed Income Supplement (GIS).
- Private pension plans such as a defined benefit pension, defined contribution pension or group RRSP from your former employers – if you changed employment a few times you will need to sort through several plans.
- Rental income if you have tenants in a rental property.
- Investment income such as dividends, interest and realized capital gains. How much and what type of return you get will be a function of what type of investment products you own, fee levels, taxation and what accounts you hold the products in (RRSP, TFSA, taxable, corporate, trust, etc)
- Insurance cash flows from products like segregated funds, annuities or the very complex guaranteed withdrawal products.
- Part time work that you do – whether it is self-employment income or a pay cheque as an employee.

All of these income sources above need to be sorted out, sequenced, tax-effected and adjusted over time as your plans change and rules change. Optimizing all of your cash flow sources to meet your spending needs, each year, factoring in taxes and more, can only be done on a spreadsheet by someone who knows you, knows income taxes, knows retirement planning and knows investing.

RRSPs vs. TFSA vs. Taxable Savings – Pre-Retirement

Retirement planning should start around age 35. That's when Canadians should get serious about savings for retirement alongside other life goals like raising a family and owning a home. But with so many different ways to save another dimension of planning is to sort out what vehicles to use for saving over the next thirty years (age 35-65) and then follow that up with how to draw out the savings from these various plans from age 65 to death. See more on the latter below.

Today, RRSPs offer a tax deduction for contribution, tax deferred growth inside the plan. Limitless types of investment products can be held inside the RRSP and you can have an RRSP for you, your partner or a spousal RRSP which sort of combines both. Generally, an RRSP should be your first choice for saving when you are young and assuming you are in a higher marginal tax bracket (varies by province). But as you age, savings accumulate and your tax rates change, the first choice for savings may change to a TFSA. A tax free savings account offers no tax deduction for contributions, tax free growth and tax free withdrawals. The amount you can put into a TFSA is generally smaller than RRSPs.

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Third choice for saving is taxable savings vehicles – this may be a rental property, a small business, using a corporation or trust to hold passive investments, a joint investment account and many more options. Generally, these investments produce income that is taxable as realized yearly.

From age 35 to retirement around age 65 you want to keep all the above investment options on the table, track your contributions and growth of each vehicle yearly, gauge your personal tax rates yearly for you and all family members to see if any of these vehicle options gives you a better bang for your buck, measure investment results of what you buy inside each product vehicle and have an idea of how big you need each vehicle to be by the start of retirement. For example, many find an optimal RRSP account size to minimize taxes in retirement is an RRSP no bigger than $1 Million. Similarly, self-employed professionals (doctors, lawyers, dentists, etc.) have found since about 2010 that forgoing an RRSP and saving inside their corporation structures is better for creating after-tax wealth in retirement – or at least it was. These strategies change as the tax rules change. Someone needs to stay on top of this for you.

RRSPs vs. TFSA vs. Taxable Savings – Post Retirement

Just as you may find there is a prioritization to how you save before retirement there is an even more important prioritization to how you draw down your savings after you retire. Should you pull money from your RRSP first? TFSA first? Taxable savings first? How much? When? Same next year? After retirement the stakes are much higher to getting this wrong. Create too much taxable income and you can put yourself in a high tax bracket, or claw back OAS or both.

Again, you need to look at your annual potential income year, before the year unfolds and structure how to draw from your different account types based on cash flow needs, tax impact, product flexibility and more. Multiply this by the number of accounts you have at different banks and brokerages. Multiply this again by two for your spouse's money, savings, tax rates and spending needs.

Optimizing after-tax cash flow in retirement considering all these variables is complex and adds huge value to an advisory relationship. A knowledgeable tax expert working within your retirement income plan can save you more than $10,000 a year.

RRIFing

One of the most common questions we get from Canadians age 65 to 70 is what is a RRIF, how does it work, when do I do it, how do my investments change, how does it affect my taxes, my cash flow and my overall retirement plan? Will I run out of money if I RRIF, do I declare income from my RRIF and which of the three RRIF product options is best for me?

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The decision about converting all of your RRSPs, employer group RRSPs and LIRAs into RRIFs and LIFs is one of the most significant dimensions of income, tax and investment planning for Canadians. It has to happen as late as age 71 but can start sooner if you want – usually if there are tax benefits to doing so.

RRIFing means drawing a minimum amount of money from your tax deferred registered accounts each year. This is taxable income. The government sets the minimum withdrawal amount starting at age 71 and the percentage amount of withdrawal gets higher as you age. You can also choose to base the withdrawal percentages on a younger spouse's age.

A popular angle of tax smart retirement planning today is playing the game of RRIFing earlier or drawing out of an RRSP earlier in one's 60's to incur taxable income at a lower tax bracket than you may at age 80, or at death, where you or your estate may pay the highest tax on your registered assets. You can go further and even withdraw from an RRSP before age 65 because it may avoid more OAS clawback after age 65.

At a minimum, a retiree just after age 60 needs a good education on RRIF planning, tax planning, income design and how the investments will need to change under a RRIF. RRIFing is just a date in the future – it is a complex, important aspect of your retirement planning too.

Income Taxes

It is impossible to do effective retirement planning without having a client's tax returns (both spouses) open beside me.
So far in this analysis you have heard me talk a lot about income tax – provincial and federal. Income tax planning is a huge part of your retirement planning, investing and cash flow design – it is arguably more important than what investment products you buy. Are you taking it seriously? Is your accountant giving you tax planning advice on retirement topics? Or are they just doing your tax return and nothing else? Tax return preparation is not tax planning.

And please do not turn to your Investment Advisor or Insurance Agent for tax advice!

There are seven dimensions of tax planning to consider for your retirement planning:

1. Tax planning and people you love – because you can split income with spouses and children, you can impact the amount of income tax you pay through annual income splitting strategies. Some of the more effective income strategies exist for retirees but you have to know where to look and how to implement them.
2. Tax planning and assets you own – real estate is taxed differently from GICs which are taxed different from stocks which are taxed differently from RRSPs which are taxed differently from mutual funds which are taxed differently from private businesses and so on. Paying attention to taxation of asset types matters a lot in the game of tax minimization.

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3. Tax planning and the income you earn – interest income is taxed differently from Canadian sourced dividends which are taxed differently from capital gains which is taxed differently from rental income which is taxed differently from RRIF income. The nature of the income you earn and how you combine the sources at different income brackets will have a large tax impact each year.
4. Tax planning and account structures – RRSPs are taxed differently from Tax Free Savings Accounts which are taxed differently from real estate which is taxed differently from a joint bank account and more. How you set up your investment behaviours twenty years ago better be right given the tax impact it will have on you twenty years later.
5. Tax planning and global positioning – assets from Canada can be taxed differently from assets from overseas. Income sources from Canada sent abroad can face departure tax. Investment income from US sources will have withholding taxes. In our global society today, positioning your wealth around the world can have multi-jurisdictional tax implications that change yearly.
6. Tax planning and death – taxes on death can be different than taxes you pay each year of your life. You likely have estate goals just like you have retirement goals. Both need to balance – see more on this below.
7. Tax planning and fees – some investment and advisory fees you incur are tax deductible. Others are not. Why wouldn't you want more fees that are tax deductible?

How much of this tax planning are you getting for your retirement and investment planning today?
Not enough, I bet.

What Did You Put in your Will?

People laugh when I say I need their Will to plan their retirement. But they quickly realize I am serious. Your Will contains your final wishes for giving your assets to your heirs. If someone leaves specific wishes (eg. Give $100,000 to my oldest son, leave the cottage to my daughter, leave my coin collection to my niece) then we need to make sure there is money and assets existing at your end of life.
That means to some extent we need to work backwards from your estate plan (outlined in your Will) and sort out what you can spend during your retirement years and still have these assets left. This is tough to do – retirement may last 30 years or more, we don't know what your healthcare in old age will cost, portfolio investment returns can be all over the place and more. One of the biggest challenges we have seen lately is real estate. More Canadians are needing the money tied up in their real estate to pay expenses in retirement. At the same time, they had promised their home or the cottage to their kids. This can lead to difficult discussions that need to happen – but we are far from done with your estate impact on your retirement planning. There are more complicated variables like life insurance proceeds on death, income taxes and probate fees, family members that require specialized planning and second marriages. Do not under-estimate the need to weave your estate plan into your retirement plan and vice versa. They need to be done together and have little to do with a lawyer.

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CPP

Canada Pension Plan or "CPP" is a big part of retirement planning and affects so many other areas – your decision to take CPP at a certain age (between age 60 and 70) will affect when you retire, it affects your tax rates today and throughout retirement, it affects Old Age Security benefits, it affects how you draw money out of your RRSP and RRIF. Taking your CPP after 30 years of a career is a key planning point setting up your retirement. And multiply that by two if you have a spouse who will also get CPP. Different size pensions, income splitting tax rules and what happens to each cheque on the death of one spouse can be crucial planning aspects of setting up your retirement properly.

OAS

Old Age Security is another government pension, indexed for inflation annually, available per spouse and clawed back if your income is too high. Some of the most creative retirement planning consist of how to avoid the OAS clawback each year. That means you need to look at your many income sources (pensions, CPP, OAS, investment income, part time work, RRSP/RRIF income and more), look at the tax impact, meeting your spending goal and also avoid OAS clawback. Again a spreadsheet is required to do this correctly, each year, along with an understanding of all these programs and taxation.

Advisory Fees in Retirement

Almost every day I am flabbergasted at how little the public knows about the investment fees they are paying.

Here are two powerful examples of excessive fees I saw recently:

1. Married 70-year-old couple have a broker who charges them 2% fee per year to manage a $1,500,000 portfolio of dividend paying stocks. First, paying a $30,000 annual fee for this kind of work is outrageous. Second, I looked at the stocks he holds and they pay dividends of 2%/year. This means his fees completely offset the dividend income they were hoping to live off in retirement. There is nothing left!
2. 65-year-old widow with $2,000,000 invested in government and corporate bonds where she is paying a high end portfolio manager 1% fee per year to manage the bonds. In this case, paying $20,000 a year in fees to manage bonds is even more outrageous – there is nothing to do for bonds! Worse, I checked her bonds and the yield of many of the bonds is around 1%/year. Again, the fee is sucking up all the interest income, leaving the client with no return! Almost none at all! How can you retire when there is no income? Easy answer: the money manager doesn't tell you they are taking all your income – instead they pay you a monthly cash flow that is your own capital – yes, they give you your own savings back and you think it is return when it is not.

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Death of the First Spouse

Losing your partner is a catastrophic experience emotionally even before the money impact is considered. Financially the survivor may be in for some big changes. Here is a sample of a few planning points to consider on the death of a partner – all of which affect your retirement planning:

- Your deceased partner's retirement pension from a past employer may be gone entirely now, or more likely you will get a reduced survivor benefit.
- Your partner's Canada Pension Plan will stop - so will their OAS pension – and whether you get some of these pensions will depend on certain conditions that need to be explored.
- Single life annuities will stop; investments in their name alone will be frozen for a period of time.

The death of a spouse or partners may have serious financial implications for the survivor – all of these "what if's" need to be explored when both of you are alive and well. You need to take steps to plan your retirement finances under three scenarios. When there are two of you alive, if one dies and if the other dies. You need to examine all the components of your income sources, see how they are impacted by the first death (whomever it is) and make decisions across your finances in your 50's and 60's to minimize the impact.

Second Marriages

More and more people today marry, divorce and remarry again. Sometimes after a partner dies their spouse also may remarry again. Remarriage, formally or common law, warrants special attention in your retirement planning. Poor planning in your Will or in structuring your retirement assets when you are alive can lead to lawsuits and hatred between your children from your first spouse and your second spouse. Second spouses can be kicked out of the house you were living in. Children from the original marriage can end up getting nothing of their parent's assets. If your goal is to take care of your second spouse then items like RRSP/RRIF beneficiaries, life insurance beneficiaries, joint ownership (or not) of major assets (homes, investments, etc.) pension beneficiaries and much more need to be thoroughly examined and quantified to provide the level of retirement income for your new spouse until their death while also preserving the assets for your original children. Failure to plan this well during your retirement may destroy your family.

Employer Pension Plans

If you were fortunate to work for an employer that offered a defined benefit guaranteed pension with a survivor benefit to your spouse you may find retirement will be easy street if the pension is large enough to fund your cash flow needs. Note with this type of pension the kids get none of the asset on your death.

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But most Canadians today do not have this golden egg. Instead they merely have an RRSP or a group RRSP or defined contribution pension with no guarantees. Know the difference. I have seen a couple spend all the money in their 60's with a DC plan, one spouse dies and there is an inadequate amount left for the survivor. Pension legislation is complicated and it can vary by province. Throw in a few changes of your employer over 30 years and you may have three or four pension plans – you need to figure out how they all fit together, which to draw on when, what happens when you die and what is left. Yet another complex part of your overall retirement planning.

Survivor Pension Amounts

Defined benefit pension plans sometimes provide a variety of options on how much the survivor will get after you die. The question is: should you select a survivor benefit of 50%? 60%? 70%? 80%? 90%? Or 100%? All of these choices will affect the amount you will get for your entire retirement together and after as a widow or widower. To figure this out you need to examine everything in this article together to see what you need.

Inheritances

This paper is about all the things you need to consider to properly plan your retirement. Inheritances do not belong on this list. Never "count" on an inheritance such that you save less money during your working years. We have seen too many examples of where people didn't get what they expected. Always exclude inheritances from your retirement math until you actually get the inheritance – not before.

Charitable Giving Plans

Today there are many ways to leave a legacy after death: one time bequests, establishment of a family trust, donor advised funds, life insurance, annuities and more. You can also donate securities, vehicles, real estate and other valuables instead of cash.

It is common to find charitable bequests, setting up of scholarships, donations to past educational institutions and more built into one's estate plan.   Give the often large financial cost of these wishes, the planning for them needs to start well back in your retirement.

Money during retirement needs to be carved off for these special purposes. Products like annuities and life insurance may be purchased now and can involve some lucrative tax breaks. Endowments and foundations can be set up now or on death through the will. All of this will have an impact on your

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retirement as it involves giving up money for a noble purpose important to you, tax planning, estate planning, cash flow planning and more.

Charitable giving has come a long way since our grandparents simply used to list a number of charities in their will to give to. Don't under estimate the complexity of good planning. Worse, make a mistake and risk the potential of a charity suing the estate to collect on your gift at death.

Joint Ownership

Owning assets together with one or more other people is a bees' nest of complexity yet we all do it every day. Joint ownership of a home, mutual funds, a bank account, cottage and more complicates your tax filings (during life and at death), legally puts the asset at risk against lawsuit or divorce, can mess up an estate when only some assets are jointly held and overall can destroy a family if not carefully planned out.

Some of the biggest mistakes we see related to joint ownership, often in retirement, include:

- Making a cottage property jointly owned with children – this triggers the historical tax bill now.
- Making a bank account joint between son and elderly mother – now means the son needs to declare one half of the income tax on annual interest earnings.
- Making a bank account joint with a spouse and you have them declare 100% of the taxable income on the account on their tax return.
- Making investments joint with children resulting in your second wife getting zilch on your death.

Joint ownership of assets can cause a series o harmful results over the course of your retirement. It affects your assets, your income, your legal situation, your tax position and more. Don't quickly or casually ever put someone else's name on any assets you own without first getting tax and legal opinions.

Gifting

Perhaps nothing more than gifting can wreak havoc on one's retirement planning. It means you are giving assets (rarely selling) assets like a cottage to the kids before you die. Gifts may also take the form of commercial real estate, fine art, a lot of money and more.

While we all like to get financial gifts, and even when the giving is a wonderful feeling and you enjoy seeing your children's faces, your first concern should be your own financial wellbeing. We have seen individuals and couples incur long term healthcare costs exceeding $160,000/year in their 80's. How do you know you won't need this money during your retirement? Small gifts perhaps – but the rest needs to wait until your estate unless you are 150% sure you have enough money otherwise.

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One of the most corrosive aspects of having enough money in retirement is when the family has their hand out or worse, bullies their parents or grandparents into giving them money or assets. Add marriage breakdowns of the kids later and there goes your money or real estate to the ex-spouse.
Slow down. If you have emotional reasons to help out a kid make sure you get good advice on how much to consider before it is too much and what legal structuring, you can put in place to protect yourself. We have heard it all before: everyone has "good kids". Don't fall for it.

Overall Conclusions

The fact that this paper is more than 7,000 words long and ten pages should be a clear message to you that retirement planning is complicated, warrants serious attention and requires experts in the field to guide you. If you have been working for thirty years and now face another forty years with no career income any longer, surely this warrants professional help to plan your money issues before you pull the plug – long before you pull the plug.

Who is Your Retirement Planner Today?

Inevitably you have turned to your Investment Advisor or a banker for guidance on products – stocks, GICs, mutual funds anything else you want to buy in your RRSP, TFSA, RRIF or more. Product purchases and investing are only a small, small portion of retirement planning and frankly, come at the end of the process once you have built a plan. You need to build the plan before you know what products to buy.

Who Should Your Retirement Planner Be?

Retirement planning takes knowledge of many financial concepts (pension plans, assets, career income and pensions) and combines it with tax legislation and tax planning, laws and legal planning and investments and investment planning. It requires an inter-disciplinary approach that includes a psychiatrist because so much about money is emotional too. Retirement itself, loss of a spouse, divorce, helping children, worrying about the stock markets make this process just as much about managing your expectations as managing your finances. I often tell my staff I was "80% psychiatrist today and 20% finance guy. We are all humane and this process needs to recognize that retirement is one of the biggest evolutions we go through as people.

If I had to name one type of professional for you to engage to help plan your retirement finances, it would be a Chartered Accountant. They have all the core training to do the work – but they may be light on the investments and insurance section. As well, many accountants choose not to provide broader financial advice unfortunately. This is an easy fix however as you can find accountants that will offer retirement advice for an hourly fee or flat fee – and this single fee approach is the most objective and best way to always get financial advice.

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I would prefer to see you manage your investment and insurance product needs yourself – you can definitely do a fine job. However, if you don't want to put in the time or don't' have the confidence or interest, then hire a fee-based professional financial advisor and put them through the following questions:

http://kurtismycfo.com/document/Questions%20for%20your%20Advisors.pdf.

Final Words

With the aging of the baby boomers in North America we are about to see the greatest percentage of people move into retirement. A lot of people will be looking for answers to the types of questions raised in this paper. I hope you found my information useful to plan your own financial future. You can read more of my writings at http://kurtismycfo.com/enewsletters.htm.

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