

Retirement is Coming

How much will you withdraw? Will you have enough?



For years you've been saving for retirement. How much do you think you will spend during retirement? Will you have enough? Do you have a withdrawal strategy? Have you planned for potential unforeseen challenges?

Estimating how much you will need during retirement will involve a blend of personal reflection and number-crunching. If you're between five to ten years away from retirement, now is the time to sit down and review your planning. This is when you need to estimate your spending and withdrawal patterns over the span of your retirement.

You'll likely be shifting from asset accumulation to asset utilization and look at constructing a flexible, tax-efficient cash flow to pay your fixed expenses, and have a sense of your discretionary spending.

Consider planning for unexpected events, such as a diagnosis of a long term illness. This, plus economic and market factors could have an impact on your ability to withdraw from your retirement income sources.

Key Issues to Resolve

Establishing whether you will have enough, and what you may need to do to ensure security in retirement starts with asking some key questions about your retirement goals. Here are some questions to work through with your TD advisor:

- When do I want to retire?
- What are my retirement income sources (government benefits, pensions, registered and non-registered investments)?
- Will I have debts when I retire?
- Will I have sufficient health insurance coverage?
- Will I sell my home because I may not be able to maintain it, or will I need the sale proceeds to fund my retirement?
- Will I be leaving a legacy for my children/grandchildren?
- Will I be leaving a gift for charity?

The next step is review your retirement cash flow. Will your retirement income meet your retirement goals? Dive into your financial files for the following information and speak with your TD advisor:

First, establish what your fixed expenses are likely to be. This includes housing costs (such as property tax, maintenance, utilities and insurance premiums), food, clothing and transportation.

Second, estimate your discretionary spending. Will you be travelling more during retirement? Will you throw your energy into a hobby that may involve expenses? What about entertainment?

Retirement Income: Sources & Assets

Like most Canadians, you may have more than one cash flow source for your retirement. You will have discretion about when and how much you wish to draw from your retirement assets and savings. Here are some of the common retirement income sources and assets:

Income

- Canada Pension Plan/Quebec Pension Plan (CPP/QPP)
- Old Age Security (OAS)
- Defined Benefit or Defined Contribution company pension plans
- Life Annuity

Assets

- Registered Retirement Savings Plans (RRSP)
- Registered Retirement Income Funds (RRIF)
- Tax-Free Savings Accounts (TFSA)
- Non-registered investments & savings accounts
- Home equity

Consider speaking with your TD advisor to review your asset allocation based on your financial/personal goals, estimated life expectancy, and attitude toward risk.

Establishing a withdrawal strategy

Your retirement plan will be unique to the sources of income you've accumulated, your goals and projected spending. Your withdrawal strategy needs to fit your needs, and be flexible should unexpected situations affecting your retirement spending arise. Sit down with your TD advisor to develop a withdrawal strategy, and potential contingency plans, that will work for your retirement.

Here are a few common withdrawal strategies:

1. Convert your RRSP to a RRIF before age 71:

Let's assume you have amassed a large RRSP and intend to convert it all to a RRIF at 71. However, if you expect lower amounts of retirement income prior to 71, you might consider converting your RRSP earlier to spread out the tax impact of the RRIF withdrawals. Remember that your RRSP contributions were tax-deductible and accumulated on a tax-deferred basis, and upon conversion to a RRIF, you are required to make annual minimum withdrawals which are included in your annual taxable income.

2. Base RRIF minimums on your spouse's age:

If you have a younger spouse or common-law partner, you can decrease your required minimum RRIF withdrawals by basing them on your spouse's or common-law partner's age. The required annual minimum RRIF withdrawal is based on a prescribed percentage applied to your age on December 31st of the previous year multiplied by the value of your RRIF assets at the beginning of the year. This percentage increases as you age, thereby forcing larger amounts of RRIF withdrawals in later stages of retirement. However, if your spouse or common-law partner is younger than you, you can base your RRIF minimum on his or her age and prescribed percentage and, therefore, reduce the annual withdrawals required. Please note you must elect to set your minimum based on your spouse's/common law partner's age before you begin making RRIF withdrawals.

3. Reinvesting investment income:

If you have significant non-registered assets that include dividend-producing equities, and you have set up your account to automatically reinvest the dividends, depending on your retirement income requirements, you might consider receiving the dividends in cash instead of reinvesting them. Generally, tax is payable on the dividend income in the year it is received regardless of whether it's reinvested or paid out in cash. Perhaps you will need cash flow. If you take receipt of the dividends in cash it may result in diminished withdrawals from your TFSAs or RRSPs, or selling off investments. Consider speaking with your TD advisor about tax-efficient management of your non-registered accounts, while striving to meet your retirement cash flow needs.

Spending Stages During Retirement

Let's assume there are four broad — sometimes overlapping — spending stages of retirement:

- Adjusting to retirement (e.g., 60-63)
- Active retirement years (e.g., 64-70)
- Slowing down (e.g., 70-80)
- Less active years (e.g., 80-90)

The starting point for your planning will be to sit down to revisit your goals as well as any potential life events that could affect your spending.

Let's assume you are looking to retire early. During your adjustment period, you will be looking to construct a flexible, tax-efficient cash flow to meet your discretionary and non-discretionary expenses for the rest of your life. After years of building the income sources for your retirement you will be shifting to a de-accumulation mindset.

In the active stage of retirement you may be spending more, for example, by traveling extensively, visiting your grandchildren, spending more on hobbies and entertainment, or donating to charity.

Then, however, you may begin to slow down due to health issues. You're not traveling so much and have increased health expenses for treatments and/or renovations, and home care.

Finally, your health may limit your ability to be active. Your discretionary spending may decrease significantly.

Conclusion

Planning for retirement is crucial and you should work with your TD advisor to look ahead. Assess your retirement needs over time. Speak with your TD advisor about your asset allocation to review whether it's appropriate to meet your needs. Active planning can give you confidence that you have planned effectively for your retirement.



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