TD Wealth

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, with options, should you face unforeseen challenges or decide to reset your goals?

There are plenty of recommendations to make your retirement income last longer. One popular withdrawal rule of thumb is to withdraw 4% per year. However, does that figure have any connection to you and *your* retirement? Estimating how much you will need during retirement will involve a blend of personal reflection and number-crunching.

If you're between ten to five years away from retirement, now more than ever is the time to sit down with your TD advisor and do some solid planning. This is when you need to work closely to estimate your spending and withdrawal patterns over the span of your retirement.

You'll need to shift from asset accumulation to asset utilization. You'll need to construct a flexible, tax-efficient cash flow to pay your fixed expenses, and have a solid sense of your ability to afford discretionary spending.

While putting together your plan, you should consider planning for unexpected events, for example, 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.

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Key questions

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 cost. This includes housing costs (such as property tax, maintenance, utilities and insurance premiums), food, clothing and transportation.

Second, what type of discretionary spending will you engage in? 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

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

Spending stages during retirement

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

- Active retirement years
- Slowing down
- Less active years

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.

During your **active** years, you may be spending more than in any other stage of retirement. For example, will you be travelling extensively?

Based on your family health history, what are the chances you will face some type of health challenge that will require you to slow down, and potentially incur expenses related to adjustments related to **slowing down.**

In the **less active** stage, you may have decreased discretionary costs but greater medical expenses.

Establishing a withdrawal strategy

You'll need to devise your **withdrawal strategy** based on your income and assets to meet your retirement goals across these three stages. There are many opinions and strategies as to what the best withdrawal strategy is during retirement. Will these strategies meet *your* retirement goals?

Let's look at some common withdrawal strategies, as well as an illustration that examines options when certain needs arise.

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 at the beginning of the 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 their 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. **Lowering taxes payable on your estate:** For example, if you wish to leave a legacy to your children, you could look at the benefit of purchasing a life insurance policy, rather than increasing savings in a registered plan.

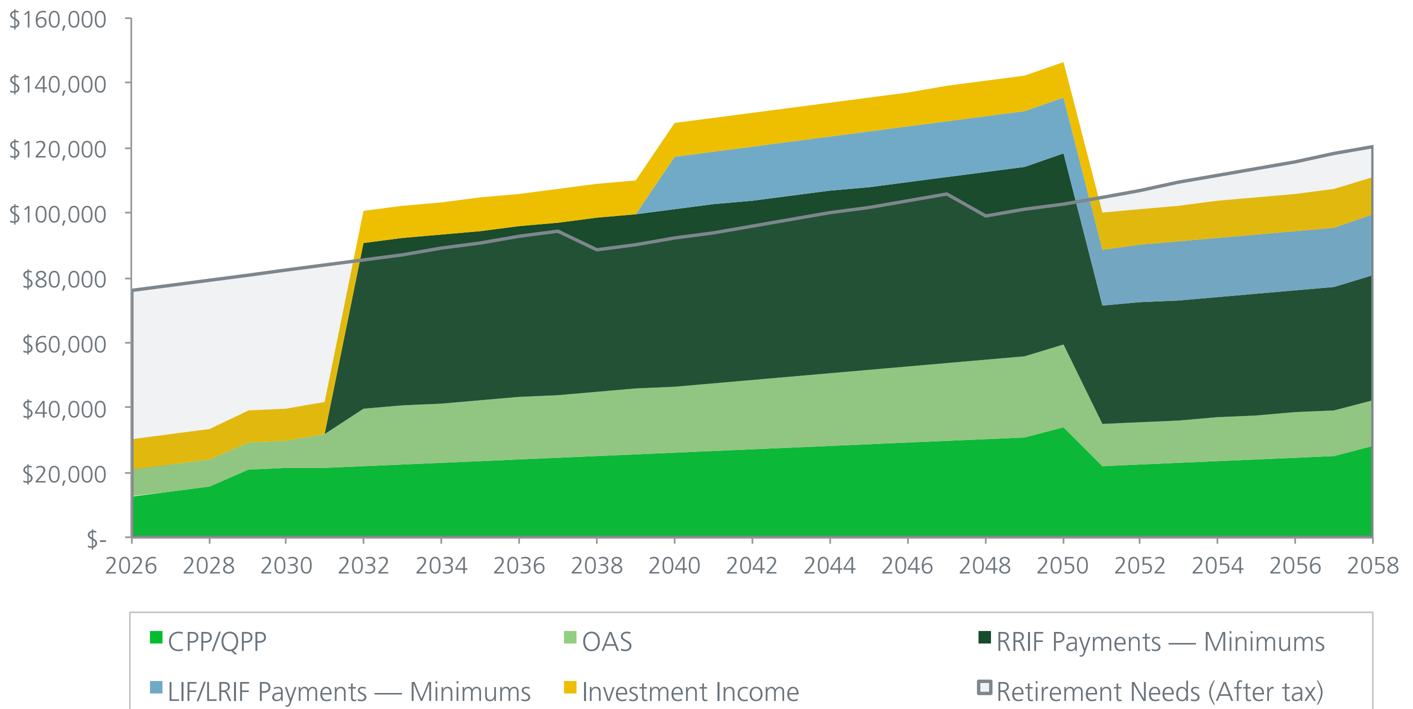
4. **Reinvestment strategy for investment income:** If you have significant non-registered assets that include dividend-producing equities, and you have set up your account to automatically reinvest the dividends, depending on your retirement income requirements, you might consider receiving the dividends in cash instead of reinvestment. 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. Taking the dividends in cash could mean you're diminishing withdrawals from your TFSAs or RRSPs, or selling stocks. Consider speaking with your TD advisor about the most tax-efficient way to manage your non-registered accounts, while striving to meet your retirement cash flow needs.

Withdrawal Strategy Scenario

Steve was born March 5, 1960 and his wife Lisa was born October 3, 1968. Their goal is to retire together in January 2026. Lisa's family owns a villa on the Amalfi Coast of Italy. The couple has already spent many wonderful vacations there and intends to spend two months a year there in the early years of their retirement. Steve has been very athletic, playing sports such as rugby. He has suffered regular injuries and expects in the long run to have no choice but to slow down significantly later in life.

The following graph illustrates their available income sources in retirement and their projected needs. They are expected to have greater income than what is needed in the slowing down stage of their retirement. However, they anticipate the need for additional sources of cash in the active stage and limited activity stage. By working with their TD advisor, they can incorporate some of the options discussed above to implement an effective withdrawal strategy.

Income Sources in Retirement



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 you have planned effectively for *your* retirement.

Consider:

- Taking a hard look at your retirement goals & needs, aiming to ensure you'll have enough funds to support your retirement lifestyle goals.
- Working with your TD advisor to build a solid retirement withdrawal plan that takes into account your spending estimates and any setbacks such as potential health concerns.
- Reviewing your asset allocation based on your goals/needs during each stage of retirement.

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01/2018