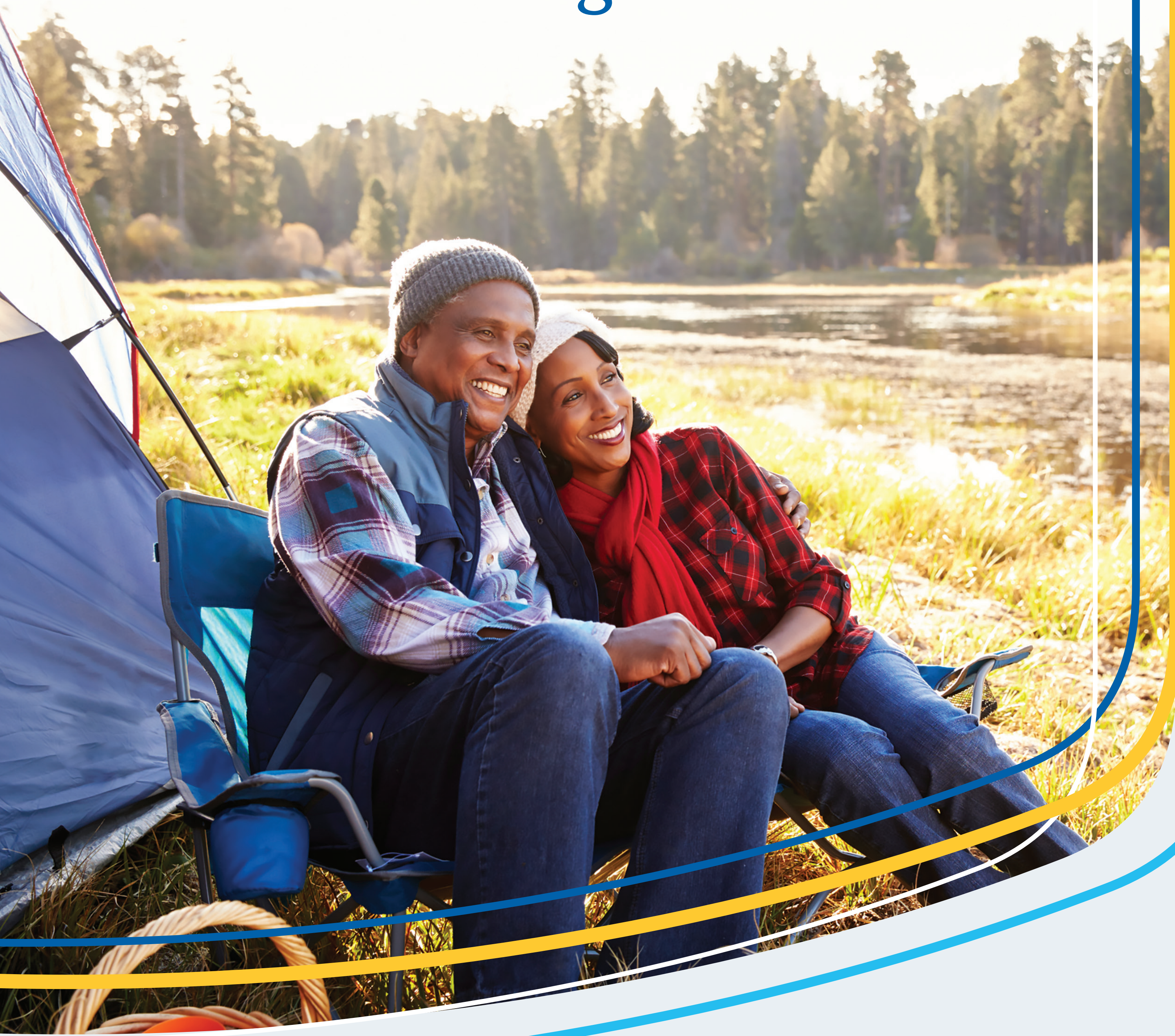
RBC Financial Planning

Your Guide to Retirement Income Planning



Your retirement income plan

How to create secure income in retirement

Your retirement will be as unique as you are. Travel, sports, hobbies ... no one will combine these and other activities the same way you will.

Your retirement plan should be just as unique. After all, no one has the exact same retirement benefit plans, tax considerations and preferences as you.

That's why you need a personalized approach to provide steady income when your regular paycheque stops. This is where your retirement income plan comes in.

Your retirement income plan will help you generate secure income in retirement. In this guide, you'll discover various aspects that will make up your plan.

Our goal is to make retirement planning easy. After reading this guide, you'll be on the path to confidently enjoying your retirement years. But right now, you have some important decisions to make, so it's a good idea to get some help.

We strongly recommend working with a qualified Financial Planner for expert advice on your retirement income plan. To help you prepare, we have included several "Points to consider" that will start you thinking about planning for your retirement. Be sure to bring this booklet and the completed checklists to your Financial Planner — it will help them put together a plan that's right for you.

Let's get started.

As you read this, you may want to jot down some initial estimates in the spaces provided below. Don't worry about accuracy — at this point a rough "back of the envelope" estimate is all you need. Your Financial Planner can help you fill in the details later on.

Your living, lifestyle and legacy needs

The first step is to determine how much income you will need in retirement.

1. Estimate your living expenses

How much will your basic monthly living expenses be in retirement? How much are you likely to spend each month on food, shelter, utilities, transportation, health care, taxes, insurance and other regular expenses?

2. Estimate your lifestyle expenses

Think about the "extras" you plan for in retirement. These might include a new car, travel, home renovations or school tuition. Make a quick estimate of the cost of each and how often it occurs. For instance, do you plan to spend a certain amount on travel each year? Give some thought to how important each item is, and which are your top priorities. Does travel matter more to you than a new car?

Take a moment to quickly rank these in the "Priority" column below. Put a 1 beside the item that's most important to you, a 2 beside the next most important item, and so on. Of course, you don't need to be precise, and you can always change your mind. This is just meant to give you a starting point.

3. Plan your legacy

As part of your legacy, you may wish to transfer assets to your heirs or make a charitable donation, either in retirement or as part of your Will. In fact, your legacy wishes may be more or less important to you than your retirement lifestyle expenses. Take a moment to rank the importance of your legacy plans.

Your retirement will last many years and, during this time, your expenses will change. They are likely to be higher earlier on as you are actively pursuing your dreams but may be less during mid-retirement. Later on, you may experience an increase in health-related expenses. Your advisor can work with you and take a long-term view.

Living expenses		Lifestyle expenses		Legacy funds to put aside	
	$ estimate	Priority*	$ estimate	Priority*	$ estimate
Rent/mortgage	______	☐ Travel	______	☐ Funds for my loved ones	______
Food	______	☐ Entertainment	______	☐ Bequests	______
Clothing/personal care	______	☐ Home renovations	______	☐ Charitable donations	______
Basic health care (medical, dental)	______	☐ Extended health care (travel medical, long-term care)	______	☐ Other	______
Utilities		☐ Hobbies/clubs	______		
Property taxes	______	☐ Other	______		
Car/public transportation	______				
Debt	______				
Other	______				

* Place a 1 in the box next to your most important item, 2 next to the next important, and so on.

Your retirement resources

While you're working, your income most likely comes from one place — a paycheque from your employer. When you retire, your income could come from at least four different sources:

1. Government retirement benefits, including Old Age Security (OAS) and the Canada Pension Plan/Quebec Pension Plan (CPP/QPP)
2. Employer pension plans
3. Registered retirement plans such as a Registered Retirement Savings Plan (RRSP) and a Registered Retirement Income Fund (RRIF)
4. Personal savings and investments that are held outside registered retirement plans

1. Government retirement benefits

Government retirement benefits replace about 30% to 40% of the average Canadian's pre-retirement income. Government benefits in Canada are a secure source of retirement income that will last your lifetime and increase over time to match the rising cost of goods and services. These programs are a solid foundation that you can top up with income from other sources.

The two main types of government retirement benefits are OAS and CPP/QPP. You must apply for each one.

- OAS is a monthly benefit available to most Canadians age 65 or older. Changes to the plan will gradually increase the eligibility age for those born after 1958.
- CPP/QPP retirement benefits are generally paid to people 65 years of age and over who have contributed to the plan. There is an option to start at age 60 with a reduced monthly payment or after age 65 with an increased monthly payment.

Quick facts about OAS and CPP

Old Age Security

To qualify

- you must have resided in Canada for at least 10 years
- your employment history is not a factor
- you don't need to be retired

Maximum monthly OAS benefit[1]: $707.68

Canada Pension Plan[2]

Your CPP benefits depend on

- the number of years you contributed to the plan
- the total amount you contributed

Maximum monthly CPP retirement benefit[1]: $1,306.57

[1] Government of Canada website, 2023 (https://www.canada.ca/en/services/benefits/publicpensions/cpp/old-age-security/benefit-amount.html and https://www.canada.ca/en/services/benefits/publicpensions/cpp/cpp-benefit/amount.html)

[2] Workers in Quebec contribute to a similar, but not identical, plan called the Quebec Pension Plan (QPP).

CPP/QPP — Go early or late?

If you start CPP before age 65, your payments will be permanently reduced by a set percentage for each month that you take CPP before age 65.

In 2023, the early pension reduction is 0.6% per month. This means that if you start receiving your CPP at age 60, the amount will be 36% less than if you wait until age 65.

If you start CPP after age 65, your payments will permanently increase by 0.7% for each month that you delay receiving CPP after age 65, up to age 70.

This means that if you start receiving your CPP at age 70 (60 months after age 65), your payment will be 42% more than if you take it at age 65.

For information about QPP, visit rrq.gouv.qc.ca/en/accueil/Pages/accueil.aspx.

You can request a personalized CPP Statement of Contributions from Service Canada at servicecanada.gc.ca or a QPP Statement of Contributions from Quebec's Régie des rentes at rrq.gouv.qc.ca/en. This tells you how much your monthly retirement pension could be at age 65. If you spot any errors on that statement, you should report them right away.

Be sure to bring your CPP/QPP Statement of Contributions to your Financial Planner, who will incorporate this information into your retirement income plan.

2. Employer pension plans

In addition to your government benefits, employer-sponsored pension plans are another potential source of retirement income. For your retirement income plan, it helps to know the type of pension plan (or plans) you belong to and the amount of income you might expect from each plan when you retire. If you are not sure what kind of employer pension plan you have, review your pension documents or contact your Human Resources department for details.

As part of an employer-sponsored pension plan, you may have the opportunity to transfer your pension assets to another investment vehicle. Or, you may have made this decision in the past and currently own assets in locked-in accounts. Depending on the province, you will have different options for drawing income from these accounts.

There are significant differences across employer pension plans and locked-in accounts. Your Financial Planner will help you make sense of it all. Be sure to keep your statements — these important documents will help your advisor put together your retirement income plan.

Points to consider	Yes	No	Not sure
■ I will receive CPP/QPP retirement benefits when I retire	☐	☐	☐
■ I am considering taking my CPP/QPP payments early (i.e. before age 65)	☐	☐	☐
■ I have my most recent CPP/QPP Statement of Contributions to bring to my Financial Planner	☐	☐	☐

Employer pensions are either Defined Benefit or Defined Contribution plans

A **Defined Benefit** plan pays you a certain monthly income for your remaining life based on your level of earnings, the length of time you worked and other factors. With a Defined Benefit plan it's the employer's responsibility to make sure that there's enough money set aside to pay your pension when you retire.

With a **Defined Contribution** plan, you and your employer contribute a set amount to the plan, which is usually a percentage of your earnings. These contributions go into an account in your name where you choose how to invest the money. The value of the account will fluctuate based on the performance of the investments you choose. When you retire, you will generate income by withdrawing assets from the account.

Points to consider	Yes	No	Not sure
■ I am a member of a Defined Benefit employer pension plan(s)	☐	☐	☐
■ I am a member of a Defined Contribution employer pension plan(s)	☐	☐	☐
■ I have a Locked-in Retirement Account(s)	☐	☐	☐
■ I have the most recent copies of my pension and locked-in account statements to bring to my Financial Planner	☐	☐	☐

3. Registered retirement plans (RRSP and RRIF)

You may have accumulated some of your retirement savings in an RRSP. While your RRSP is used to save for your retirement, a RRIF is used to systematically draw income from during your retirement. RRIFs offer the same investment options and tax-deferred growth as RRSPs. However, once an RRSP is converted to a RRIF, you can no longer make contributions, and you are required to make a taxable minimum annual withdrawal, as set out by federal regulations.

By the end of the year you turn 71, you must convert your RRSP to a RRIF, purchase an annuity or withdraw the funds in a lump sum. A RRIF delivers a regular stream of income based on a minimum annual withdrawal amount and is the most commonly chosen option. Your advisor can help you make the right decision for your personal situation.

Ultimately, the amount of retirement income you can expect from your registered retirement plans depends on how much you contributed, the length of time those contributions have been growing in the plan and how well your investments have done. The specifics will be unique to you, and your Financial Planner will help you integrate your registered retirement plans into your retirement income plan.

4. Personal savings and investments

On top of government, employer and registered savings plans, you may have set aside money for retirement in many ways. Outside your RRSP or RRIF, you may hold investments such as:

- GICs and mutual funds
- Stocks, bonds and other securities
- Employee stock savings plans
- Equity in a business
- Real estate rental property
- Tax-Free Savings Accounts (TFSAs)

Your advisor can help you incorporate these assets into a retirement plan that's designed to fit your unique situation and preferences.

And although they are often considered separately, it's worth thinking about your other assets, such as life insurance policies or the equity in your home or cottage, and how they might fit into your retirement income plan, either as a source of income or a part of your legacy plan.

Take a moment to assess all your retirement resources

Some sources of retirement income are more certain than others. Income from CPP/QPP, OAS and Defined Benefit pension plans is predictable just like a regular paycheque, and is paid for the remainder of your life. Other sources of income, like those from a Defined Contribution plan, RRIF or personal savings, are dependent on various factors such as the type of investment, how long you have invested, how much you withdraw and when. Your advisor will work with you to help you bridge any gaps between your needs and your income, if necessary.

Points to consider	Yes	No	Not sure
■ I currently have one or more registered retirement plans (RRSP or RRIF)	☐	☐	☐
■ I have personal savings and investments outside my government, employer and registered savings plans	☐	☐	☐
■ I have excess RRSP contribution room carried over from previous years	☐	☐	☐
■ I have one or more registered retirement accounts where the money is considered "locked-in" because it was transferred from an employee pension plan	☐	☐	☐
■ I have my most recent copies of my registered plan and investment statements to bring to my advisor	☐	☐	☐

Key considerations for your retirement income plan

During retirement, you want to make the best use of all your retirement resources. As you work with your advisor to build your retirement income plan, there are a number of key considerations that you will need to think about. Your advisor can help address these considerations by recommending the appropriate strategies that reflect your unique situation and preferences.

Considerations	Strategies to address key considerations
■ **Longevity** – longer and healthier life spans mean more years to plan income ■ **Inflation** – rising prices will impact your purchasing power in the future ■ **Health care costs** – these expenses are usually higher later on in retirement; you need to plan for them	■ **Sequencing your withdrawals from savings** – so your funds will last longer ■ **Tax planning** – so you achieve tax savings, leaving more for your expenses throughout your entire retirement

Longevity

Thanks to improving lifestyles and health care, people are living longer than ever. Today, a healthy 65-year-old has a good chance of living to 81. For a healthy couple, both aged 65, there's a strong possibility that at least one spouse will live past 90 years of age.

Of course, it's impossible to know exactly how long any one person will live in retirement. But it's certainly prudent to plan for a long retirement. In most cases, your retirement income plan should extend for 30 years or more to cover a wide range of possibilities.

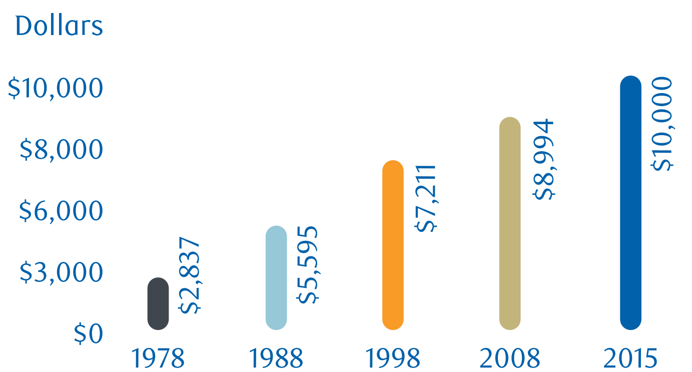
Inflation

Inflation refers to how the cost of goods and services rises over time. For an example of how inflation leads to higher living expenses over time, look at the cost of stamps: In 1943, the cost of mailing a letter in Canada was 3 cents. In 2023 it costs $1.07 (single stamp standard letter cost) to mail that same letter. Inflation rates change over time. In the 1990s and in the early 2000s, Canada's inflation rate was quite low, usually 1% to 3% per year.

In the early 1980s, by comparison, inflation was higher than 10% per year. Certainly, planning for inflation must be part of your retirement income plan. Based on long-term historical averages, 3% is generally considered a reasonable estimate for future inflation rates. With annual inflation of 3%, the average price of goods and services doubles every 24 years. To manage this, your advisor can help you identify investments with good long-term growth potential to help you outpace inflation.

Inflation at work

If it costs $10,000 today, what did it cost then?



Source: Statistics Canada

The Consumer Price Index (CPI) is the most commonly used gauge for measuring inflation. It tracks price changes for a wide range of items including food, shelter, energy, health care, education and clothing.

Health care costs

Your health is your most valuable asset. Unfortunately, the eventual diminishing of health is a reality that everyone should plan for. At some stage in your life, you may suffer from a critical illness (such as a stroke or heart attack) or you may simply reach a point where you need ongoing care either at your home or in a long-term care facility. It's important to plan for increased costs related to health care as you age.

There are ways to protect yourself, your spouse and your family from the added costs associated with these situations. A growing number of critical illness and long-term care insurance policies are available for this purpose, and you may want to discuss with your advisor whether the cost of these solutions makes sense for you.

Strategies to address key considerations

During retirement, the impact of longevity, inflation and health care costs will need to be taken into account. Your advisor will work with you to build a retirement income plan that considers your entire financial situation and employs a variety of financial planning strategies to maximize the value of your retirement resources in a manner that addresses these key considerations. An effective retirement income plan will always take into account the sequencing of withdrawals as well as tax planning aspects.

Withdrawals from savings

One of the biggest challenges in retirement planning is determining how much money to withdraw from your savings and when to do so. You need to take out enough money to live comfortably today, but taking too much could reduce the ability of your savings to generate the same level of income in the future.

In addition, a drop in the market value of your investments in the early years of retirement can reduce your portfolio's ability to generate the same level of income in the future. That's because it's particularly difficult for a portfolio to recover from a substantial decline in market value and a withdrawal in the same year.

Why the sequence of returns matters

Let's assume you have an initial investment of $100,000 and plan to withdraw $5,000 annually

	Portfolio A — Decline in early years			Portfolio B — Decline in later years		
	Rate of Return	Withdrawal	Account Value	Rate of Return	Withdrawal	Account Value
Year 0			$100,000			$100,000
Year 1	-10%	$5,000	$85,000	15%	$5,000	$110,000
Year 2	-5%	$5,000	$75,750	10%	$5,000	$116,000
Year 3	0%	$5,000	$70,750	0%	$5,000	$111,000
Year 4	10%	$5,000	$72,825	-5%	$5,000	$100,450
Year 5	15%	$5,000	**$78,749**	-10%	$5,000	**$85,405**
			Difference of $6,656 is more than one year's worth of withdrawals			

When taking withdrawals in retirement, the sequence of returns has a dramatic effect on your portfolio. As the table above shows, Portfolio A experienced poor returns early in retirement and is worth $6,656 less after five years than Portfolio B, which had strong early returns.

Your advisor will help you find the right withdrawal rate and manage the risk of declining markets in the early years of your retirement.

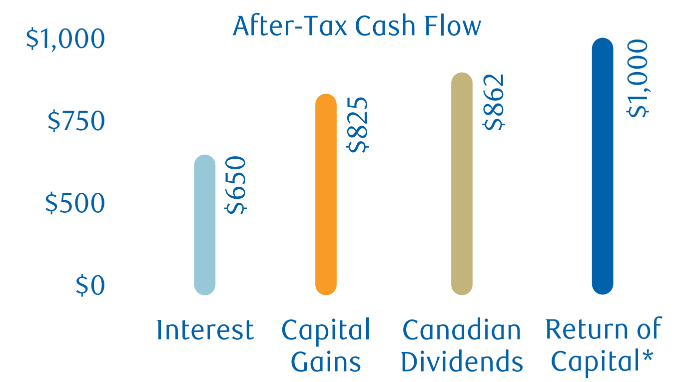
Taxes

While tax planning may not have been a major focus during your working years, it is certain to be an important part of your retirement income planning. This is because you may be generating more of your income from personal savings and distributions from various investments that are taxed at different rates. This can have a significant impact on the after-tax dollars that you have to spend in retirement.

The side chart shows the after-tax cash flow from different kinds of distributions.

It's not what you earn — it's what you keep

For every $1,000 in annual pre-tax cash flow, how much is left after tax?



Based on an investor with a 35% marginal tax rate.
* Return of capital distributions are not taxable in the year they are received, but do lower your adjusted cost base, which could lead to a higher capital gain or smaller capital loss when the investment is eventually sold.

With careful planning, you may be able to reduce or defer tax on income from your personal savings. When developing your retirement income plan, your advisor will help you identify strategies to produce the income you need in the most tax-efficient manner. These strategies may include a focus on tax-preferred income sources such as dividends, capital gains and return-of-capital distributions (shown on the previous page), the use of income-splitting opportunities and the use of income from various sources in the most tax-efficient order.

Your Financial Planner's recommendations

Your retirement income plan should be as unique as you are. With the guidance of a qualified Financial Planner, your retirement income plan should accurately reflect your situation today and your personal plans for the future. Your advisor will start by helping you create a realistic forecast of your retirement needs. You might also need their help to put together a complete list of your retirement income sources and personal investments.

Next, your advisor will create a plan to generate the most tax-efficient income to meet your needs while keeping your legacy plans in mind.

After your initial plan is in place, it's important to review your plan on an annual basis so that you can make adjustments as your priorities or circumstances change.

If you haven't done so already, you may want to go back and quickly fill in the "Points to consider" in this guide. Feel free to leave any areas blank if you don't know the answer. Your Financial Planner can help you decide how to handle those areas later on.

The next step is to arrange a meeting with your advisor to go over this information and create your own unique retirement income plan.

Congratulations. You are well on your way to making the most of your retirement experience.

In retirement, you can enjoy your time and money and not worry about it. With the right information, the right guidance and the right plan for your situation, you can feel certain your retirement will truly be one of the best times of your life. It's never too soon to start thinking about it.

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