Module 3

BUDGETING AND MAINTAINING FINANCIAL CONTROL

MONEY AND YOU SENIORS EDITION

Module 3

BUDGETING AND MAINTAINING FINANCIAL CONTROL

Let's Discuss...

- $ Why Budget?
- $ What to Keep Track Of?
- $ Types of Income
- $ Types of Expenses
- $ Ongoing Savings: Paying Yourself First
- $ $ow to Keep Track of Your Money
- $ Resources to Help You Budget Better

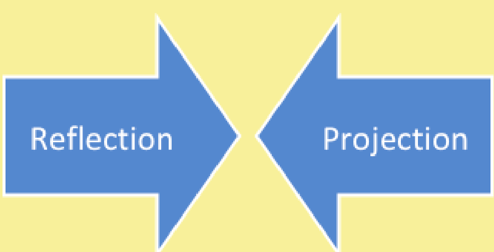
Introduction

After a lifetime of earning, spending, saving and protecting your financial resources, why should you go to the bother of creating a budget?

First there are the lifestyle realities for a large period of time – 50 to 100 – and in that time, there will be physical, cognitive, emotional and spiritual changes which will require rethinking in terms of your financial resources.

Think About It

This is a special period for. . .



From a financial point of view, it is important to rethink your budget too.

Tracking income and expenses is the first step to ongoing financial wellness, reflection and projection and that's critical in the latter third of life for one reason: income sources and spending requirements will naturally change.

You will likely rely less on your own labor and more on your savings and other income sources like government and private pensions. You need to monitor if your changing income is keeping up with your expenses and your savings goals.

According to Employment and Social Development Canada, you could face increased vulnerability as you age: seniors tend to have lower incomes, experience higher poverty rates, and often face health-related expenses because of the onset of illness or disability.

Seniors are also more likely to face the possibility of outliving their life savings and are more at risk of widowhood.

Budgeting in the senior years will help you through several financial transitions:

- adjusting to receiving different sources of income,
- tapping into savings to pay for new goals and
- paying new costs: from quarterly income tax remittances to new travel and living costs, to medically-required assistance.

In short, as Canadians age, budgets must evolve. And it's not difficult to budget. You are simply tracking your income and allocating it to pay your expenses and meet your financial goals - and there are plenty of tools to help you. So, let's get started talking about budgeting.

Why Budget?

By tracking your income and allocating it to various expenses, you can keep on top of your bills and manage your day to day finances more successfully. There are good reasons to do so:

- According to the Financial Consumer Agency of Canada's *Canadians and their Money: Key Findings from the 2019 Canadian Financial Capability Survey*, compared with non-budgeters who are time-crunched or feel overwhelmed, Canadians who budget are less likely to fall behind on their financial commitments (8% vs. 16%).
    - Also see the National Financial Strategy, Strengthening Seniors' Financial Literacy, Page 8[1]
- In terms of managing monthly cashflows, budgeters are less likely to have spent more than their monthly income (18% vs. 29% for non-budgeters who feel time-crunched or overwhelmed).
- Budgeters are also less likely to need to borrow for day-to-day expenses due to running short of cash (31% vs. 42%).
- And, budgeting helps you with setting and meeting new goals.

Once you track your money for a few months you can start to realize where you might be able to make some changes.

- You can put dollar limits on certain expense categories after you have identified areas where you might be overspending.
- You can change your behaviour and your spending habits to help you meet your changing goals and priorities.
- You can invest more money to meet future goals, too.

What to Keep Track Of — Income, Expenses and Savings

Types of Income

The first section of any budget is where you keep track of your income. There are numerous types of income you can be receiving. Here are some to consider:

- **Active Income**: This is income that you are currently earning from employment or self-employment.
- **Government Benefits**: This will include any income received from government sources. This could include the following, which also require filing an income tax return.
  - Employment Insurance (EI) if you are still employable and looking for work.
  - If your income is below certain income thresholds, you could be receiving GST/ HST tax credits on a regular basis .
  - In addition, if you are still working and making a low net income (below $24,573 as an individual and $37,173 as a family) you could apply and qualify for the Canada Workers Benefit which could give you up to $1,381 for an individual and $2,379 for families more income each year.

- **Government Pensions**: Many seniors rely on government pensions including the Canada Pension Plan (CPP), or Quebec Pension Plan (QPP), Old Age Security (OAS) and the Guaranteed Income Supplement (GIS).
  - **CPP (Quebec Pension Plan in Quebec)** is based on your contributions over the years as an employee and your employers' contributions. The maximum anyone can receive per year is $14,445 (2021). These amounts are indexed annually.
    - You may also be receiving a CPP disability pension from the government which would be a regular periodic income to track on your budget.
    - Most seniors apply to receive CPP benefits at age 65. But, you can choose to start receiving your CPP as early as age 60 (at a lower rate) or you can wait until you are 70 to start receiving a higher amount. This was discussed in more detail in another module.

Money Tip

You may wish to opt out of contributing to the CPP if you are still working at age 65-70 and receiving a retirement benefit from the plan. The premiums you would have paid, rising steeply over the next several years, could be used to fund a tax free retirement benefit in the TFSA (Tax Free Savings Account) instead. You may wish to discuss this strategy with a financial and/or tax advisor.

- **OAS (Old Age Security)** is a universal pension benefit (which means it is not income-tested) paid by the federal government to all seniors age 65, based on the length of time resident in Canada. The maximum annual payment is $7,486.71 (2021) if there is no deferral of OAS benefits. Also,the monthly amounts are indexed quarterly. An example of this follows:

Eligibility. You may qualify to receive OAS if you are a 65 year old Canadian citizen or permanent resident for over 10 years after turning 18 (if you live in Canada) or 20 years if you don't live in Canada.

Monthly	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Year Total
2021	$615.37	$618.45	$626.49	$635.26	$7,486.71
			$500.00*		$7,986.71
2022	$642.25				

*Note that seniors born before July 1947 received an additional $500 payment in July 2021; this payment will not affect the OAS clawback for high income earners. In more good news, seniors over age 75 will begin receiving 10% more as of July 2022).

It is possible to delay the receipt of OAS to earn more later. Here is an example:

Old Age Security Payments (if deferred to age 70 and born after June 1947)

Monthly	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Year Total
2018	$797.86	$801.84	$811.47	$817.16	$9,684.98
2019	$817.97	$817.97	$826.15	$834.40	$9,889.47
2020	$834.40	$834.40	$834.40	$835.23	$10,015.30
2021	$836.90	$841.09	$852.03	$863.95	$10,151.30
2022	$873.46				

Money Tip

OAS payments may be reduced, or clawed back, based on the size of an individual's net income, if your worldwide net income is over $79,845 (2021) or $81,761 in 2022. Income splitting with a spouse or planning retirement income sources to stay under this threshold can help preserve access to the OAS.

- **GIS (Guaranteed Income Supplement)** helps very low-income earners. A single senior with a total annual income of less than $18,984 could qualify while a couple both receiving OAS and with a combined annual income of less than $25,104 (not including OAS and GIS income) could qualify. Beginning July 2022, seniors 75 and over will receive a 10% increase in their OAS payments.

  It could mean up to $11,228 (2021) annually for a single person and up to $6759 each for a qualifying couple. The amounts are indexed year-over-year.

Money Tip

Recent changes have increased the GIS by $500 for singles and $750 per year for a couple.

- **Company or Private Pensions**: Over the years, you may have been a member of a company pension or you may have contributed to a group or private Registered Retirement Savings Account (RRSP) or a Registered Retirement Income Fund (RRIF) or Tax Free Savings Account (TFSA).

  All of these sources of income (which you control in terms of planning when to include them in income; exception the RRIF which requires mandatory minimum periodic withdrawals) could provide monthly income or lump sum income that need to be tracked in your budget and be taken into account in financial plans. You'll need to take into account your after-tax cash flow, however.

Money Tip

Some of these periodic pension income sources will qualify for pension income splitting with those who have a spouse. Discuss this option with your tax accountant and if appropriate, make an election on form T1032 Joint Election to Split Pension Income.[2] This will reduce your tax liability and may also affect the quarterly tax instalment payments you may have to – or not have to- make.

2 https://www.canada.ca/en/revenue-agency/services/forms-publications/forms/t1032.html

Income from Business or Property. This can include:

- **Income from Private Savings Accounts & Investments**: You may also have savings in non-registered accounts that can be used as the need arises. This can include dividends that you receive on a regular basis from public company investments. You may receive interest payments from a bank account or other fixed income investments. Any regular income receipts should be tracked in your budget.
- **Income from Private Company Dividends**. You may have dividends that are payable from a private company. There are some important income splitting opportunities for couples in this case.

Money Tip

Before speaking to your tax, legal or financial advisors, draw up a net worth statement and do some homework. Are your assets properly valued? When is the last time you had an appraisal? Do you know the exact amount of debt you owe? Preparing an up-to-date net worth statement can help you have better conversations about your options should you decide to dispose of property.

- **Rental income from an investment property**: If you rent out an investment property or part of your home, you may have rental income. You should track that income against any related expenses and if there is surplus that is another source of income to be included in your budget.

Money Tip

Sale of Assets: If you need more cash flow, you may also decide to sell certain assets to increase your income. Such a sale may generate a capital gain or loss (the difference between your purchase price or adjusted cost base (ACB) and the sale price). In the case of depreciable properties, there may be recaptured capital cost allowances to add to your income as well. This can result in some expensive tax consequences.

Your budgeting process will help you determine whether this is necessary, so that you can better time the current market conditions rather than sell income-producing assets under pressure. Your tax specialist can help you estimate any potential tax consequences.

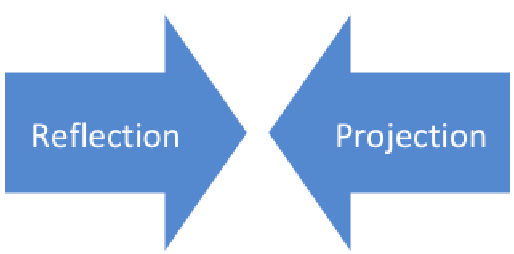
Impact of Government Benefits on Income

There are a number of government programs available and a great way to check them out is to go to a site called Benefits Finder:

https://benefitsfinder.services.gc.ca/hm

Types of Expenses

At the start of this module we asked you to reflect on your physical, cognitive, emotional and spiritual changes and to think about house these changes will impact the way your plan financially. It is helpful to bear these lifecycle changes in mind as we discuss the categories of expenses that may arise in different decades of your life as a senior.



There are a number of types of expenses you will need to track. Some are more controllable than others, some are regular and some are surprises. All of them need to be accounted for on the expense side of your budget.

- **Fixed Expenses:** These are expenses that you know are coming. The costs are the same each month, or each period you pay them (like quarterly tax instalment remittances or property taxes).
  For example, if you do equal billing for utilities like hydro, gas or oil, water etc. or if you have a regular mortgage or car payment you have to pay, you know that each month you pay the same amount for these costs. Car and house insurance payments, cell phone, cable TV and internet are all typically fixed costs.
- **Variable Expenses**: These are costs like food, entertainment, gifts, and gas which may change each month and which are much more controllable. This is the area of your budget where (after tracking for a while) you may find you are overspending on some "wants" and you may be able to change your habits to shift some money to new goals or to "needs".
- **Unanticipated:** It's hard to budget for unanticipated costs like a car breakdown or a house maintenance issue. You just never know when it's going to happen. But you should be

putting money aside every month in an emergency fund so that you have that money available and the surprise cost doesn't throw your budget out of whack.

An emergency fund is a fundamental part of everyone's financial wellness. Emergency funds should be parked where they are easily accessible when you need them and have minimal tax consequences, too.

Ongoing Savings – Paying Yourself First

One of the most important parts of any budget is the savings category. You have to look at savings like any other fixed expense. You should decide how much money you need to reach your short-, medium- and long-term goals and ensure that you put that money aside for those goals before you allocate your income to your other expenses – especially your "wants".

Especially early in retirement, continuing to save regularly will help to manage risk to your capital over time:

- against inflation and taxes, which affect your future purchasing power
- against increased interest costs
- against new expenses

How To Keep Track Of Your Money

There are many different types of budgets. You may have to try a few to determine which one is right for you. Here are some different ways to budget:

The Traditional Budget:

This is a good place to start if you haven't budgeted before. You simply list and add up all your income and all your expenses and see what the difference is. Once you have done this tracking for a while you can start to see if you are spending too much and where you might be over spending and then you can start to allocate your income to each of the expense categories. Doing this could lead you to a zero-based budget.

Zero-Based Budget:
With this budget, every penny is allocated to a category. When you finish adding up your income and expenses, there should be a zero balance because every dollar has been given a purpose – whether that is to pay expenses or for savings.

50-30-20 Budget:
This is where you allocate half of your income to covering your needs. That could be food, housing, transportation etc. Thirty percent of your budget goes towards your wants – entertainment, clothing, travel. And twenty percent of your budget goes towards savings.

Think About It

Everything you spend should go into one of your expense categories – fixed, variable or unanticipated - should be linked to income or savings sources - so you can be more precise about where your funding will come from for specific expenditures.

Remember, as you age, your percentages of expenditures against total income may fluctuate, so keeping track of these natural transitional moments from a financial point of view, is important.

For example, if you are on a limited income when you retire your savings portion may decrease but you should still always try to have an emergency fund to pay for unexpected costs instead of taking money out of existing savings.

Digital Budgeting Works Best.
No matter what type of budget you may want to use, there are lots of tools you can use to make it easier. Whether it's putting pen to paper or using a computer program like Excel or an internet-based resource, tracking doesn't have to be difficult.

According to *FCAC's (Financial Consumer Association of Canada's) Financial Capability Survey* the most common method of budgeting is the use of a digital tool, such as a spreadsheet, mobile app or other financial software (20%). This is followed by traditional approaches, such as writing a budget out by hand or using jars or envelopes (14%).

Interestingly, according to that survey, Canadians who actively use digital tools for budgeting (compared with other methods) are among the most likely to keep on top of their bill payments and monthly cashflow.

Resources to Help You Budget Better

Here are some online budgeting resources you can use:

- Credit Canada Budget Planner and Expense Tracker (excel)
- My Money Coach Budget Calculator and Spreadsheet (excel)
- Financial Consumer Agency of Canada – Budgeting During Retirement
- Get Smarter About Money – Retirement Budget Worksheet
- Mint Personal Finance App
- Greedy Rates: Best Budgeting Apps in Canada for 2021

Sample Budget For Seniors

Seniors Budget Worksheet (adapted from AARP)

Use this worksheet to track how much income comes into your household on a monthly basis. Add the columns and rows to an excel spreadsheet, or develop on a manual columnar form.

Action Item

Be sure to include all sources of income you receive, as well as your spouse or partner's income if applicable. You should use your take home pay, not your income before taxes, for the best results.

Action Item

Next, look at how this money is spent on both fixed expenses, like rent and groceries, and flexible expenses, like entertainment. While filling out the next worksheet, think of some ways you can cut costs and work towards a secure financial future.

BUDGETING YOUR INCOME

Income Source	Your Income	Your Spouse's Income	Total
Salary/Wages from Employment			
Income from Self-Employment			
Rental Property Net Income			
Alimony			
Monthly Investment Income – Dividends			
Monthly Investment Income - Interest			
Canada Pension Plan (CPP)			
CPP Disability Pension			
Old Age Security (OAS)			
Guaranteed Income Supplement (GIS)			
Company Pension A			
Company Pension B			
RRSP/RRIF Income			
TSFA Income			
Annuity Income			
Proceeds from sale of assets			
Inheritance/Trust			
Gifts			
Other			
TOTAL			

BUDGETING YOUR EXPENSES

Category	Expense Item	Column A Fixed Expenses	Column B Variable Expenses	Column C Rainy Day Fund
Housing	Rent/Mortgage			
	Property Taxes			
	Maintenance/Condo fee			
	Lawn/Garden			
	House/Tenant Insurance			
	House Cleaning			
	Utilities Electric			
	Gas/Oil			
	Water/Sewer			
	Phone			
	Internet			
	Internet Storage			
	Computer			
Food	Groceries (average)			
	Restaurants			
	Snacks (coffee, etc.)			
	Entertaining (food/beverages, alcohol etc.)			
Transportation	Car payment/Lease			
	Gas			
	Car Insurance			
	Subway/Bus/Parking			
	Maintenance			
Medical	Health Insurance			
	Prescriptions			
	Home Care			
	Fitness Programs			

	Medical Appliances or Devices (wheelchair, walker)			
	Prepayment of Funeral			
	Hearing Aids			
	Dental Care			
	Eye Care			
Appearance	Clothing			
	Dry Cleaning			
	Hair Care			
	Miscellaneous			
	Other			
Entertainment	Movies			
	Newspapers/Books			
	Cable TV			
	Sports (Golf, etc.)			
	Theatre, Concerts			
	Subscriptions (Netflix/Crave)			
Travel	Transportation			
	Accommodation			
	Entertainment/Activities			
	Food			
Savings	RRSP Contributions			
	TFSA Contributions			
	Other Savings			
	Emergency Fund Contributions			
Debt Payments	Credit Cards			
	Other			
Gifts	Birthdays			
	Christmas/other religious holiday			
	Events (wedding/showers etc)			
	Donations			

Professional Fees	Lawyer Accountant			
	Financial Advisor			
Pets	Food			
	Medical care			
	Grooming			
TOTAL EXPENSES				

Now that you have recorded your income and expenses, it's time to combine them to find your monthly savings or shortfall.

TOTAL INCOME	less	TOTAL EXPENSES	equals	SHORTFALL OR SURPLUS

Action Item

Subtract both your fixed and flexible expenses from your total income. If you get a negative number, it means you are not living within your means. You should find ways to cut your expenses to avoid going further into debt. If you get a positive number, you can use that extra cash to boost your savings or reduce debt.

Budgeting Priorities Through the Decades

As you age, your budget may need to change and evolve based on your personal financial circumstances. Here are some types of changes that you may need to consider for each decade.

The Fifties:

Typically, Canadians are in their peak earning years in their fifties. Based on data from Statistics Canada, the trend is that the average net worth of Canadians peaks from ages 55 to 65.

And while income is rising, costs will be changing too. If you have young teenagers, the cost of daycare and after school care is down as they become more independent. But, there may be extracurricular costs (like sports or arts) that you now need to budget for. And if you have older teenagers, they may need help paying for their post-secondary schooling.

If your income is increasing into your fifties, this is the perfect time to try to maximize your savings and lower your debt. Talk with your financial advisor about how you can find tax savings through maximizing contributions to a Registered Retirement Savings Plan (RRSP) where appropriate.

Action Item

Have you maximized your opportunities to use your RRSP contribution room to find new tax savings? If not, this is a good trigger for engaging a tax and financial advisor to help you with some planning. Find out how maximizing contributions to a Registered Retirement Savings Plan (RRSP) can help you increase cash flow and create more choices for your desired lifestyle.

At this point in your career, you should be putting more into the savings portion of your budget – and that includes your Tax Free Savings Account (TFSA). There is no tax deduction when you contribute here, but you will earn a completely tax free return on your investment, and, even if you withdraw the funds you never lose the opportunity to recontribute both earnings and principal. However, some timing restrictions will apply.

If you have any workplace savings programs offering free money (matching RRSP plan or buying company shares at a discount) you should be maximizing those opportunities as much as possible.

In addition, if you still have a mortgage on your home or a car loan or other debt, use your increased earnings to pay down that debt as quickly as possible.

Stats *Canada's Survey of Financial Security* (SFS), says in 2016 the proportion of senior families with debt was 42%, up from 27% in 1999. The proportion with mortgage debt almost doubled from 8% to 14% and accounts for about two thirds of the debt increase while the share of those with consumer debt increased from 24% to 37%.

Carrying consumer debt like credit card debt can also be very expensive. As you age and your financial situation changes, carrying credit card debt should be totally avoided if at all possible.

Money Tip

If you retire in your fifties, travel and leisure activities may be a big part of your budgeting activities. Be sure to budget enough money for rising costs of airfare, hotels and fuel. In addition, travel insurance may be a bigger part of your budget.

Think About It

Credit Card Costs[3]

$3,000 Credit Card Debt at 18%
Only pay minimum 3% amount each month ($90 to start)
16 years to pay off
$2,798.88 paid in interest
$5,798.88 total paid

But what if you paid off an extra $100 per month:
$3,000 Credit Card Debt at 18%
Pay $150 per month
2 years to pay off
$593.48 paid in interest
$3,593.48 total paid

3 Source: FCAC Credit Card Payment Calculator

The Sixties:

According to Stats Canada the average age of retirement in Canada is 64.5. You may be thinking about retirement in your sixties so the income side of your budget could change dramatically. There are lots of important options to think about, as discussed in other modules in this program, and there is a greater emphasis on the tax consequences of layering one income source above another in retirement:

Money Tip

The more you earn, the more tax you will have to pay, but for lower income earners, there is another issue: higher income may reduce certain social benefits, like GIS for low earners or OAS for higher earners. Consult with a tax accountant to help you understand the consequences of withdrawing money on other provisions you may qualify for.

Your regular work income may stop in this time – or slow if you choose semi-retirement. At the same time, new income sources will begin. In addition, you could apply for CPP as early as 60 and start receiving OAS at 65.

You may also wish to postpone government pension sources in favor of tapping other taxable income sources You can use the Canadian Retirement Income Calculator to see what your CPP and OAS will be when you are ready to apply.

You may also start taking a pension from employer-sponsored Registered Retirement Plans. This periodic income can be split for tax purposes, with your spouse at any age.

The rules are different for those with private registered retirement saving plan accumulations. You may also create a periodic pension income from your own privately funded sources within an RRSP, RRIF or annuity. These income sources can be split with your spouse at age 65.

Tax Tip

If 65 years and not receiving any pension income other than CPP and OAS, consider starting RRIF withdrawals of $2,000 per year to access the pension income credit. When a spouse who is age 65 elects pension income splitting with RRIF withdrawal, the lower earning spouse can also access pension income credit on first $2,000.

Taxpayers with employer-sponsored Registered Pension Plan accumulations may income split with their spouse at any age.

Business Owners. If you are a small business owner, you may be thinking about selling your business or start taking dividends from your business – or your investments – to replace your salary.

Tax Tip

Family income splitting has become more difficult in recent years with non-active family members because of a new "Tax On Split Income" or TOSI. However, when the active family member or "source individual" turns 65, it is possible to split income with the non-active spouse in any amount of dividend distribution. Speak to your tax specialist about this.

Money Tip

Your income will shift to new sources and ensuring that you capture those changes on your budget is key to maintaining financial health as you age. You may also have a new relationship with the CRA (Canada Revenue Agency). That is, rather than having tax deducted at source before you receive your pay at work, in retirement, you will have to be proactive about remitting taxes by instalment, if required.

But, it's not only your income sources that could change. Your expenses may also evolve as you begin to experience transitional changes in your life.

Some expenses, like commuting costs, business clothing, paying for lunches etc. could go down. However, if, like many retirees, you want to do more travelling while you are still young and active, your travel budget may increase dramatically compared to when you only had three weeks vacation to budget for. And escalating travel health insurance costs need to be included in your budget as well.

Whatever your retirement looks like, hopefully you have worked with a financial plan over the years to ensure you will have enough money to fund the lifestyle of your choice. But keeping track of your income and expenses by budgeting is still important. You will want to know exactly how your spending will change and the only way to do that is to keep track.

Think About It

Taking CPP early or late

You can choose to boost your income by receiving your Canada Pension Plan as early as age 60. However, if you do, payments will decrease by 0.6% each month (or by 7.2% per year), up to a maximum reduction of 36%. If you start receiving CPP after age 65, payments will increase by 0.7% each month (or by 8.4% per year), up to a maximum increase of 42% if you start at age 70 (or after).

Here's an example (using the 2021 calendar year)[4]

A 60 year old could receive up to $770.40 per month or $9,244.80 per year.

A 65 year old could receive up to $1,203.75 per month or $14,445 per year.

A 70 year old could receive up to $1,709.33 per month or $20,511.96 per year.

4 Source: https://www.wealthsimple.com/en-ca/learn/how-much-cpp-retirement

Take OAS Early or Late? If you are a high income earner, or expect to have unusual retirement pension income withdrawals prior to age 70, for example, from an RRSP or small business corporation, you may wish to postpone your OAS benefits to increase the size of the benefit at age 70.

The Seventies:

Most people have chosen to stop working full-time in their seventies – often due to physical and cognitive issues - so they are starting to live off alternative sources of income. This is where you need to work with your financial plan to determine what sources you are going to tap into first, second and third, to minimize any tax hit.

You may be receiving a company pension – which is taxable income – and/or CPP and OAS which are also taxable sources of income.

Money Tip

If you have a Registered Retirement Savings Plan you will have to convert it to a regular source of retirement income by the end of the year you turn 71. Most people will move their investments to a Registered Retirement Income Fund (RRIF) where the government mandates that you to withdraw a certain percentage of taxable income each year (increasing as you age). Another option is to put some or all of that money into an annuity that pays you a periodic pension for your life and/or your spouse's life or for a specific period of time.

Pension income splitting is also possible if you have a spouse, once you have turned age 65.

Money Tip

RRIF Payments

If you have an RRSP you must convert it to a retirement income stream by the end of the year you turn 71. You can buy an annuity from an insurance company which will give you a guaranteed income over time (to be included in your budget) or you can convert it to a Registered Retirement Income Fund (RRIF) where you can keep the same investments you had in your RRSP and withdraw the money when you need it. However, the government mandates that you withdraw a minimum percentage of your capital each year from a RRIF with the annual percentage payouts gradually increase to age 95. The percentage starts at 4% if you are 65 and rises to 20% for each year you are over 95.

For example, if your RRIF is valued at $500,000 when you're 72, at the start of the year your minimum annual payout will be $27,000 (5.40% of the value of the plan at the beginning of the year).[5]

5 Source: https://www.taxtips.ca/rrsp/convertrrsptorrif.htm

Or, you could start taking money from your **Tax Free Savings Account**, which are tax exempt sources or your non-registered savings accounts, where capital withdrawals are not subject to tax, but various income sources earned – interest, dividends and capital gains – will have a tax liability attached to them. You will want to take that into account in your cash flow budgeting.

Working with a financial advisor to ensure you are in a de-accumulation mode in the most tax efficient way is important when all these changes are happening. You will need to work with your budget to ensure your sources of income will cover your changing expenses.

Think About It

New expenses – the cost of hiring help, funding increasing medical costs, funding funerals, new professional fees (costs of accounting, legal fees for wills, powers of attorney, health care directives) all may occur in this time. Have you budgeted for this?

The Eighties:

When you hit your eighties, you may be dealing with new transitions such as declining health, accommodation issues or even death of a partner. These transitions will need to be considered in your ever-evolving budget.

Money Tip

For example, if you are living as a couple and one partner passes away, you may experience reduced income due to lower pension payments – from the government and/or from a company pension. Your taxes may also rise, because you can no longer take advantage of income splitting opportunities.

With declining health, your health care costs may go up – especially if you are living alone.

Employment and Social Development Canada says in 2017, among seniors living along, average annual health expenditures were $1,356 for those aged 75-19, $300 higher than 65-74 year olds. Those over 80 had annual expenditures of $1,807.

Depending on your situation, it may be time to think about moving to a retirement home if you are unable to continue to live independently. Hopefully your financial plan has included the potentially high cost of care in your later years. It might be time to start using your savings to pay for care in your home. Or, you might be in a position where the value of your home would be used to pay for a move to a retirement home or long term care.

When looking at your budget, some of your income sources may go up if you sell your home or tap into its value through a Reverse Mortgage, and some of your expenses may go down if you are still living independently but doing less travelling and other expensive activities typically associated with retirement living.

Money Tip

One way to generate more income but stay in your home is to apply for a reverse mortgage. A reverse mortgage is a loan that allows you to get money from your home equity without having to sell your home. You can borrow up to 55% of the current value of your home.

The maximum amount you're able to borrow will depend on your age and the value of your home. You pay back your loan when you move out of your home, sell it or the last borrower dies. This means you don't need to make any payments on a reverse mortgage until the loan is due. You will owe more interest on a reverse mortgage the longer you go without making payments. At the end of your loan term, you may have less equity in your home.[6]

6 Source: https://www.canada.ca/en/financial-consumer-agency/services/mortgages/reverse- mortgages.html

If it is time to look at alternative types of accommodation, your savings and the expense parts of your budget could take a hit. However, for others, selling a big home and moving into smaller quarters could result in tax savings.

Think About It

- **Elder care can be very costly depending on what type you choose or need.**
- **Your budget should be used as a tool to ensure that your income sources are tax efficient and are still enough to pay your bills each month.**

Finally, you may want to ensure that your estate plan (what's going to happen to your money when you die) is settled long before you hit your nineties.

The Nineties:

As you approach the end of your long life, you will want to have peace of mind. Budgeting may not be as important to you as long as you have the money to pay for the necessities of life and making yourself comfortable and/or as active as you can be.

If you have excess funds into your nineties and you know you are going to be able to cover your expenses, consider how you would like these funds disbursed. This might be through your will and/or as gifts to your loved ones while you are alive, for example. But be sure to keep track of any gifts to avoid surprises and hurt feelings when your estate is administered.

If money is tight, you may still need to budget to ensure your spending and your expenses are aligned.

As morbid as it sounds, you will want to ensure your budget includes saving for the cost of your funeral, if you haven't already put that money aside in savings.

Think About It

- **Funeral and burial costs in Canada can be as low as $1,500 or as high as $20,000, with the average being around $8,500.**
- **Costs vary based on personal preferences, culture and values.**
- **It is a good decision to preplan and even prepay for your funeral if you are able to, which allows your loved ones to deal with your death without the added stress of making decisions during their grief.[7]**

7 Source: https://lsminsurance.ca/life-insurance-canada/2017/11/funeral-cost-canada/

IN SUMMARY

1. It's important to think about budgeting priorities for seniors through the decades
    a. 50s: Accumulation: maximizing the savings section of your budget, and managing debt.
    b. 60s: Phasing in new sources of income (severance, income from business or property, CPP and OAS)
    c. 70s: De-accumulation: (spending your savings, adding private income sources – RRIF, etc.)
    d. 80s: Managing new transitions (new expenses to consider in your budget)
    e. 90s+: Peace of Mind – no money worries! (enough resources to be comfortable)

2. Tips on Maximizing Income and Reducing Expenses
    a. Always budget. Income sources and expenses can shift in retirement
    b. Taxes: take advantage of opportunities for income splitting with a spouse, and be sure you don't overpay instalments, property taxes, or insurance costs
    c. Where to save for emergencies: the TFSA is an excellent place to do so. You can withdraw principle and earnings on a tax exempt basis, and you can put the money back in, too: you never lose your contribution room. But there are time limits to observe when re-contributing to your TFSA
    d. Rethinking income support to family members – should you give more or less? It's an important way to take financial pressure off the senior or senior couple.

3. Here are some money management tips for both sides of your budget.

    Increase your income by:
    a. selling unused items on Facebook Marketplace or another online sales portal
    b. selling crafts or other items you make as a hobby
    c. working part time in an area where you have a passion

d. tapping into your home equity through a reverse mortgage or line of credit
e. applying for various tax credits and benefits such as
   - Ontario Guaranteed Annual Income System payments for seniors
   - Senior Homeowners Property Tax Grant
   - BC's Seniors Supplement

Decrease your expenses by:

a. Buying gently used items instead of new on online sales portals like Facebook Marketing place or Kijiji
b. Applying for various tax credits and benefits such as
   - Home and Vehicle Modification Program
   - Ontario Seniors' Public Transit Tax Credit
   - Ontario Electricity Support Program
   - Reduced copayment for low income seniors
   - Ontario Energy and Property Tax Credit
c. Calling your communications services companies and renegotiate your phone, cable and internet costs.
d. Evaluating your subscriptions (magazines, streaming services, cable channels) to see if you actually use everything you pay for
e. Using discounts available from seniors groups like CARP or Snowbirdadvisor.ca and benefitting from deals and discounts whenever possible. https://www.canadianseniorsdirectory.ca/canadian-seniors-deals-and-discounts/
f. Being tax efficient by using all tax mitigation strategies available (pension income splitting, claiming all medical expenses, pension income amount etc.) https://www.canada.ca/en/revenue-agency/news/newsroom/tax-tips/tax-filing-season-media-kit/tfsmk-seniors-money.html
g. Shopping around for financial products. There are free services you can use to reduce your fees and insurance premiums. www.lowestrates.ca, www.rates.ca, www.ratehub.ca

h. Learn how to save on general household expenses https://canadianbudgetbinder.com/2016/09/22/fixed-income-seniors-learn-how-to-budget/

Action Item

1. Track your income and expenses for three months to help you complete your budget
2. Review your budget to determine where you can make changes to your spending
3. Allocate each dollar of income to an expense/savings category
4. Evolve your budget as your situation changes
5. Take income taxes into consideration when budgeting your cash flow

Glossary of Terms

Active Income: This is income that you are currently earning from employment or self-employment.

Budgeting: Listing monthly income and expenses to keep track of where your money is going and to make sure your money is being used wisely

Canada Pension Plan (Quebec Pension Plan in Quebec): A government pension plan based on your contributions over the years as an employee and your employers' contributions.

Capital Gain: Is earned when an asset is bought at one price and sold at a higher price.

Carrying cost of a debt: The interest charges that you pay on debts that you carry on a credit card that you don't pay off right away.

Compound Interest: When savings earn interest and the interest is added to the savings, this enables savings to grow and earn more interest. Over the years more and more interest is added and this helps to build up the value of savings.

Credit Rating: A score that indicates your history of managing and paying your bills and debts.

Defined Benefit Pension Plan: A pension plan where the provider (company, government etc.) commits to providing a certain amount of income each year when the employee retires.

Defined Contribution Pension Plan: A pension plan where the provider commits to contributing a certain amount each year to a plan. There is no commitment to an annual payment in retirement.

Emergency Fund: A pool of savings that is put aside to pay for emergencies or unanticipated costs.

Equity: An asset that has value. The value of the asset may change over time.

Fixed Expenses: These are expenses that you know are coming. The costs are the same each month, or each period you pay them (like quarterly tax instalment remittances or property taxes).

Guaranteed Income Supplement (GIS): A government benefit that helps very low income seniors.

Inflation: A rise in the average price level of goods and services in the economy.

Irregular costs: Costs that you don't pay monthly. They should still be budgeted for over the year.

Liquidity: The ease with which an investment or asset can be converted into cash – and the certainty of its value.

Net worth: Your assets (what you own) minus your liabilities (what you owe).

Old Age Security (OAS): A universal pension benefit paid by the federal government to all seniors age 65, based on the length of time resident in Canada.

Registered Retirement Income Fund (RRIF): A registered account where you transfer property from an RRSP or other registered retirement account and payments are made to you. A minimum amount must be paid to you in the year following the year the RRIF is entered into. Minimum amounts each year are based on your age. Earnings in a RRIF are tax-free and amounts paid out of a RRIF are taxable.

Registered Retirement Savings Plan (RRSP): A means of saving for retirement. Money deposited each year is tax deductible up to a certain maximum. Money is taxed when it is taken out of an RRSP.

Tax Free Savings Account (TFSA): An account used to set aside money tax-free. Contributions to a TFSA are not deductible for income tax purposes. Any amount contributed as well as any income earned in the account is generally tax-free, even when it is withdrawn.

Unanticipated costs: Costs that are unexpected and unbudgeted for like a car break down or house maintenance issue.

Variable Expenses: These are costs like food, entertainment, gifts, and gas which may change each month and which are much more controllable.

Resource Links

FCAC Budgeting during Retirement
https://www.canada.ca/en/financial-consumer-agency/services/retirement-planning/budgeting-during-retirement.html

Canadian Retirement Income Calculator
https://www.canada.ca/en/services/benefits/publicpensions/cpp/retirement-income-calculator.html

FCAC Budget Planner
https://itools-ioutils.fcac-acfc.gc.ca/BP-PB/budget-planner

FCAC Making a Budget
https://www.canada.ca/en/financial-consumer-agency/services/make-budget.html

FCAC Sources of Retirement Income
https://www.canada.ca/en/financial-consumer-agency/services/retirement-planning/sources-retirement-income.html

FCAC Your Retirement Financial Checklist
https://www.canada.ca/en/financial-consumer-agency/services/retirement-planning/retirement-checklist.html

Get Smarter About Money – retirement budget worksheet
https://www.getsmarteraboutmoney.ca/calculators/retirement-budget-worksheet/

How seniors budget:
https://canadianbudgetbinder.com/2016/09/22/fixed-income-seniors-learn-how-to-budget/

Canadian guidelines for budgeting:
https://homefamily.net/canadian-guidelines-for-budgeting/

Resources To Help You Budget Better

Credit Canada Budget Planner and Expense Tracker (excel)

My Money Coach Budget Calculator and Spreadsheet (excel)

Financial Consumer Agency of Canada – Budgeting During Retirement

Get Smarter About Money – Retirement Budget Worksheet

Mint Personal Finance App

Greedy Rates: Best Budgeting Apps in Canada for 2021

__Money and You: Seniors Edition__ was written by award-winning financial educator and best-selling tax author __Evelyn Jacks__. Evelyn is the principal of the, __Knowledge Bureau™__ a widely respected financial education institute and publisher, which provides world-class continuing professional development to advisors in the tax, accounting, bookkeeping and financial services. It has welcomed tens of thousands of students to its virtual campus to earn new credentials and enhance career opportunities, and also provides customized learning solutions for large and small enterprises and associations. For more information visit __www.knowledgebureau.com__ or call 1-866-953-4769.