Module 8

AN INTRODUCTION TO RETIREMENT INCOME PLANNING

Module 8

AN INTRODUCTION TO RETIREMENT INCOME PLANNING

Let's Discuss…

- $ From Full Time to Part Time Work
- $ When Should You Think About Retirement Income Planning?
- $ The Stages of Retirement Income Planning
- $ Managing Situations Beyond Your Control: Involuntary Retirements
- $ Understanding How Retirement Income Is Taxed
- $ Understanding What Tax Bracket Your Income Falls Into
- $ Order of Withdrawal
- $ Converting Pension Savings into Pension Income

For most people, retirement income planning is about when and how to draw on their retirement savings. This generally begins in earnest when people reach their sixties, as discussed, as decisions about generating income benefits from the Canada Pension Plan (CPP) and Old Age Security (OAS) arise.

But when there are other sources of savings, for example from private or employer-sponsored pensions or investments, it is possible to think about building up funds in various retirement income "buckets" for several reasons:

- Taxes matter because you, rather than your employer, are responsible for remitting and paying them.
- Managing your taxes payable will give you more cash flow to spend
- You may also be able to withdraw less from your savings, and therefore preserve more of them

It is your right to arrange your retirement income within the framework of the law to pay only the correct amount of tax, no more. This is a basic principle of retirement income planning.

Together the combination of public and private pension plans and the investment income generated from investment accounts will help retirees transition from having an actively earned income to an income in retirement that is made up of a combination of sources.

While retirement income planning for lower income earners is somewhat

easier, as there are fewer sources of income to manage, whether your income is low or high, everyone needs to pay attention to the after-tax results of income generation in retirement.

The financial impact of retirement can be frightening for most people who have not done proper planning.

Think About It

- **Will I have enough?**
- **How much will I need?**
- **How long will I live?**
- **Have I planned well for unexpected expenses?**

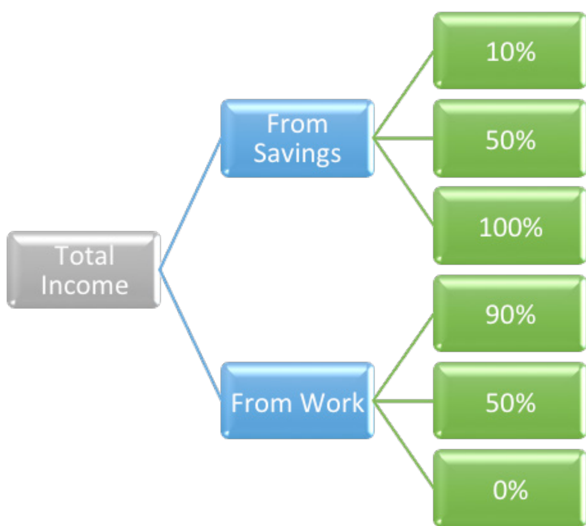
These are tough questions that are appropriate to ask at least annually. For these reasons a framework for understanding your income sources, how they are taxed and what can be done to preserve them is a satisfying exercise.

It can help to do this with a tax accountant and a financial advisor, too. Professionals who are trained in providing retirement income planning services can be of particular help to seniors with pension plans and financial investments and non-financial assets like homes, rental properties or business interests.

From Full Time to Part Time Work:

Analyzing and Assembling the Sources of Retirement Income

Retirement income planning is also about planning a transition in lifestyle funding. Can you break down the percentage of income that will come from your savings, including public and private pensions, compared to income generated from your work efforts? Can you do this for each spouse if you are not single?



It's a good exercise in thinking about how to structure your retirement income sources, controlling the amount of your withdrawals and preserving the savings you will want to tap into. That's important because there will be factors beyond your control.

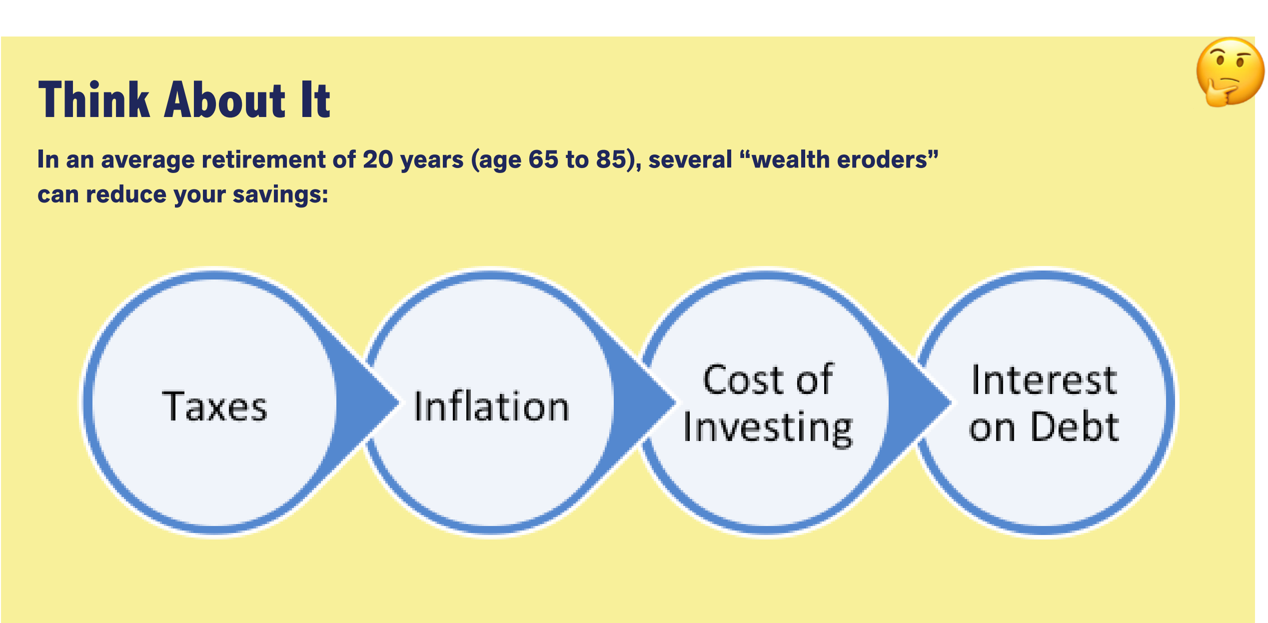
Action Item

Your savings can be preserved by

1. **taking advantage of ways to reduce taxes**
2. **earning returns that beat inflation**
3. **understanding what investment fees are charged on your investment activities**
4. **reducing interest paid on debt, and the debt itself**

Think About It

In an average retirement of 20 years (age 65 to 85), several "wealth eroders" can reduce your savings:



When Should You Think About Retirement Income Planning?

The correct answer is the earlier the better. That's because you can take advantage of options to withdraw taxable amounts from the public pensions, as well as private pensions at a time that you most need them, for example, while you are healthy and want to travel.

However, there are many good tax reasons to plan early as well. You have learned about the options in withdrawing public pension income from the CPP and OAS. Adding other pensions and investment income will increase your taxes, as you move into higher tax brackets.

Therefore, planning withdrawals around the receipt of other income sources matters.

Action Item

Budgeting in your pre-retirement period is important:

- **How much do you spend monthly?**
- **Will your spending change as you transition into retirement?**
- **Do you need to cut down on your discretionary spending (wants) to cover your non-discretionary spending (needs)?**

Think About It

What is your financial or life trigger for considering a transition to retirement?

Employed

- **My employer-sponsored pension is now available**
- **I have the opportunity to take a buy-out at work**
- **Something changed: new business ownership, work location, new technology, new assignment**

Self-Employed

- **There is an offer to buy the business**
- **The business is in decline, or the bank has called the loans**
- **Something has changed: labor issues, new investors or partners, the marketplace has changed**

Personal Issues

- **I have had a medical diagnosis that requires attention**
- **My spouse or parent is ill and needs care**
- **I have a new grandchild to care for**

Whatever the trigger, all of these scenarios will initiate a broader discussion about how to fund a retirement period which could include several decades.

The good news is that for most people, the transition from work life to retirement will come in stages:

Work Full Time

Work Part Time

Volunteer or Retirement

The Stages of Retirement Income Planning

You will likely experience three retirement income planning stages during your lifetime:

1. **Pre-retirement (Age 55 to 60).** This is when certain income sources may become available to you, such as employer-sponsored pension plans (Registered Pension Plans or RPPs).
   a. In the case of an RPP, it's possible to split that pension income with a spouse at any age.
   b. In the case of an RRSP, you can also split the income a spouse, but you must wait to age 65 and the RRSP must first be converted to a RRIF. It may also be possible to split RRSP income through a spousal RRSP.

2. **Transitional Retirement (Age 60 to 70).** At age 60, it's possible to take benefits from the Canada Pension Plan, and at age 65, the Old Age Security Benefits become payable. Which should come first? This is an important question, because there are many options, all of which are impacted by taxes. Taking retirement benefits from both the CPP and OAS may be pushed back to age 70 and this might be a good plan for three reasons:
   a. Retirement benefits from the CPP and OAS will be larger if you start taking them later
   b. It may make sense to mature your RRSP and take income from those savings instead
   c. Business owners, who are incorporated, may wish to generate income from dividends in this period of time

3. **Full retirement (Age 70 plus).** As you have learned, it is now no longer possible to postpone taking CPP and Old Age Security. Also, in the case of the RRSP, you must create a taxable pension benefit either in a new account called a Registered Retirement Income Fund (RRIF) or an annuity, after age 71.

Action Item

Taking the time to plan your retirement income sources in the first stage - between the ages of 50 and 60 - can help you put important income "layering" strategies into place.

This is because, not all income sources received are taxed alike.

For example, you have learned that income earned in a TFSA is not taxable at all. The gain on the sale of a principal residence is also exempt from tax, although if you flip your home to make a profit, the exempt gain status may be denied.

For these reasons, it helps to know more about your investments and how they will be treated for tax purposes.

Investment Income: This is income from income-producing assets in non-registered accounts. These accounts will produce passive investment income that is taxable in the form of interest, dividends, rents from property, royalties. In addition, capital gains or losses may occur when an income-producing investment is disposed of or from capital gain distributions from mutual fund investments.

Managing Situations Beyond Your Control: Involuntary Retirements

For some people, retirement is a voluntary decision that is more of a transition: they dream about free time, travel, and leisure activities and consider how and when to fund them, often in their early 50's and 60's while they ease out of the hours they are working.

Those dreams can be accelerated when an employer-funded pension becomes available, the CPP becomes available at age 60, the OAS is available at age 65, or, in the case of the self-employed, when a business is transferred to a new generation or a buyer for the business.

One of the biggest risks to your savings in this situation is failing to plan for the taxes on your income and capital – and that is in your full control.

Involuntary Retirement. When retirement is involuntary; that is, it is forced upon you, there are different issues and new financial decisions to be made. Generally a severance package must be negotiated, which, aside from the personal feelings about the matter, can be stressful.

Money Tip

A severance package is an amount of salary and benefits, or sometimes a lump sum, offered to an employee upon being laid off from a company. The receipt of a severance package requires the signing of a severance agreement. Proper planning is required to retain the most after-tax income. When an employee has RRSP Room, for example, a deposit of some or all of the severance into the RRSP can produce significant tax savings. RRSP room, in addition to room created by earned income, may be available from the payment of a retiring allowance if you were employed prior to 1996. It is important to get professional tax assistance from a qualified tax accountant in these situations.

Alternatively, there may be a personal change that triggers a transition from work life to a more fulsome personal life: a first grandchild, an opportunity to relocate, or the onset of illness or incapacity of a family member.

The difference is that in the absence of planning, when that "hard stop" happens, you may not be ready to negotiate for the best severance package or plan retirement income withdrawals.

Be sure to get advice from a tax accountant and a lawyer if there is a conflict about the termination package you are offered. Those fees may also be tax deductible.

Money Tip

There are some important decisions to be made about severance packages, because there can be significant tax consequences that can erode away this important income source.

1. **A lump sum will generally be subject to high tax rates in the year you receive it.**
2. **It may be possible to receive periodic income receipts instead**
3. **Be sure to negotiate for a continuation of group health and insurance benefits if that is to your advantage**
4. **In some cases, it is possible to rollover a portion of your severance to your RRSP above your RRSP contribution limit**
5. **It is usually a good idea to top up your RRSP contribution limit when you receive severance.**
6. **Legal fees paid to fight for a severance package may be claimed as a deduction, but only after subtracting any amounts transferred into an RRSP.**

Understanding How Retirement Income is Taxed

The following chart demonstrates the rate at which the next dollar you earn (your marginal tax rate) will be taxed in various provinces, when the federal taxes are also included. You will notice several types of income:

1. **Ordinary income:** this includes employment income, employment insurance, support payments, net rental income, net self-employment income, and income from pensions.
2. **Capital gains:** this is the increase (or decrease) in the value of an income producing asset such as a stock, bond, mutual fund, rental property, and so on. It is calculated when the asset is disposed of. This can be because of a sale or a "deemed disposition". A deemed disposition can be triggered by the following events
   a. The death of a taxpayer
   b. When ownership of an asset is transferred by way of sale or gift
   c. When an asset is expropriated
3. **Dividends – Ineligible.** These dividends are paid to shareholders from corporate income eligible for the small business deduction
4. **Dividends – Eligible.** These dividends are paid to shareholders from active income where no small business deduction has been claimed. All dividends from public corporations and dividends designated from large corporations are considered eligible.

Think About It

1. **The top marginal federal/provincial tax rate on ordinary income in many provinces is over 50%.**
2. **Capital gains attract the lowest marginal tax rates. This is because of the lower income inclusion rate. That is, 50% of the capital gain is included as income, which is then taxed at the taxpayer's marginal tax rates.**
3. **Dividends are taxed at a better rate than ordinary income, but dividends from a small business corporation are still relatively high at some tax brackets.**
4. **Low-income earners who receive dividends from public or large corporations pay little or no tax.**

Federal and Provincial Marginal Tax Rates for 2021 (Resident of Ontario)

	Taxable Income Range	Ordinary Income	Capital Gains	Ineligible Dividends	Eligible Dividends
ON	Up to $13,808	0%	0%	0%	0%
	$13,809 to $45,142	20.05%	10.03%	9.24%	-6.86%
	$45,143 to $49,020	24.15%	12.08%	13.95%	-1.20%
	$49,021 to $79,505	29.65%	14.83%	20.28%	6.39%
	$79,506 to $90,287	31.48%	15.74%	22.38%	8.92%
	$90,288 to $93,655	33.89%	16.95%	25.16%	12.24%
	$93,656 to $98,040	37.91%	18.95%	29.78%	17.79%
	$98,041 to $150,000	43.41%	21.70%	36.10%	25.38%
	$150,001 to $151,978	44.97%	22.48%	37.90%	27.53%
	$151,979 to $216,511	48.19%	24.09%	41.60%	31.97%
	$216,512 to $220,000	51.97%	25.98%	45.95%	37.19%
	Over $220,000	53.53%	26.76%	47.74%	39.34%

Compilation by Knowledge Bureau, Inc.

Understanding What Tax Bracket Your Taxable Income Falls Into

If possible, you will want to stay under the top of the tax bracket your income is in when withdrawing larger sums of money from your RRSP, for example, or generating investment income or capital gains. Ask a tax filing professional about this or use tax software to do "what if" scenarios to be sure.

Action Item

Consider drawing a gridline to answer the questions:

1. **What income sources are available to me?**
2. **From which income source should I draw first?**
3. **If there is a spouse, who should draw money first from each source?**
4. **How much tax will we pay on total income withdrawn?**
5. **How will this affect our social benefits and tax credits?**
6. **Is there an upper age limit for saving within any of these accounts?**

Order of Withdrawal

Keeping a close eye on the orderly withdrawal of taxable pension benefits (CPP, OAS, RPP and the RRSP) will help you stay within your current tax bracket and reduce your marginal tax rates on the next dollar of pension income you create.

For high income earners, planning will also be needed when generating investment income from savings in non-registered investment accounts.

Finally, unusual sources of income – the sale of an asset, for example – can also impact your income in retirement, including a clawback of your OAS.

Money Tip

Always keep in mind that money that is withdrawn from an RPP, RRSP or RRIF and subject to tax, may be reinvested in a TFSA (Tax Free Savings Account) if you have the contribution room and the money is not otherwise needed. In that way you can create a tax-free pension for the future. Consider this true-to-life example:

Mark, a wonderful saver, has invested $6,000 each year in a TFSA since it was possible to do so. He plans to invest his after-tax RRSP withdrawals into a TFSA. Assuming a 20-year lifespan (65 to 85) Mark's principal of $120,000 ($6000 x 20) will grow to just over $208,000 if he earns an average 5% return, as opposed to approximately $174,000 in a non-registered account (assuming an average tax rate of 32%).

Mark also speaks to his 18-year-old grandson Tom about the power of the TFSA, compounding over a longer time horizon. Assuming the TFSA is available in Tom's working lifetime of 47 years, earning a 5% return each year, Mark's savings at age 65 will be worth more than $1 Million; about $300,000 more than if the money was earned in a taxable account (assuming an average tax rate or 21%).

CPP	OAS	TFSA	RPP	RRSP	Investment Accounts
Taxable	Taxable	Not Taxable	Taxable	Taxable	Taxable
Draw between 60 and 70	Available at age 65 but can postpone to 70	Available at any time	May be possible to phase in at age 55	Available any time, must mature before age 71	Available any time (unless in a term deposit)
Based on contributions of employee and employer	Paid to everyone but high earners, who are subject to a clawback	Based on your contributions and investment returns	Based on contributions by employer and employee; may be locked in for a period of time	Based on contributions made; a deduction is claimed on contribution; later principal and earnings are taxed	No deduction on contribution; only income is taxable, Periodic capital withdrawals possible

TFSA Contribution Room

Year	Actual Limit	Cumulative Limit
2009	$ 5,000	$5,000
2010	$ 5,000	$10,000
2011	$ 5,000	$15,000
2012	$ 5,000	$20,000
2013	$ 5,500	$25,500
2014	$ 5,500	$31,000
2015	$10,000	$41,000
2016	$ 5,500	$46,500
2017	$ 5,500	$52,000
2018	$ 5,500	$57,500
2019	$ 6,000	$63,500
2020	$ 6,000	$69,500
2021	$ 6,000	$75,500
2022	$6,000	$81,500

Converting Pension Savings into a Pension Income

When it is time to transfer assets from savings to retirement income, most people will benefit from doing some retirement income planning, especially if they have savings in an RRSP (Registered Retirement Savings Plan).

The object of retirement income planning is to identify and disassemble all the sources of pensions – public and private - to create a periodic income flow that replaces your actively earned income from employment or self-employment. Done well, your savings will be enough to fund your consumption in retirement.

Private pension savings may include two types of registered plans: employer-sponsored plans also known as **Registered Pension Plans** or RPPs, and RRSPs or ***Registered Retirement Pension Plans.***

Registered Pension Plans (RPP)

RPPs will generally mature at age 55, however, each plan will have its own specific criteria. These plans are also regulated provincially (or federally), and some will be "locked in"; which means you will have to wait to access them in retirement. You will want to consult with your employer to understand when you can unlock the plan.

Money Tip

In some provinces, there may be an opportunity to unlock funds to transfer them into a more flexible retirement account. Some recent unlocking rules, by province, appear below. Check with your financial advisor for ongoing updates to these rules in the province in which you live. Another good resource is this landing page from Tax Tips: https://www.taxtips.ca/pensions/rpp/unlocking-locked-in-pension-accounts.htm

Province	When can Locked-In Funds be Unlocked?
BC	▪ Amount is less than 20% of CPP annual maximum pensionable earnings. ▪ Age 65 or older and amount is less than 40% of CPP annual maximum pensionable earnings ▪ Pensioner faces financial hardship ▪ Pensioner becomes non-resident ▪ Pensioner has a shortened life expectancy (as defined by physician)
AB	50% can be unlocked if the retiree is over 50 and ▪ Moving funds from RPP to LIF, annuity or DC RIA* at termination, retirement, death or divorce ▪ Moving funds from LIRA to LIF, annuity or DC RIA8* 100% may be unlocked if ▪ the amount less than20% of the CPP annual maximum pensionable earnings ▪ age 65 or order and amount is less than 40% of CPP annual maximum pensionable earnings ▪ Pensioner has a shortened life expectancy (defined by physician) ▪ Pensioner faces financial hardship ▪ Pensioner becomes a non-resident ▪ Funds are seized under maintenance enforcement orders
MB	Important changes to unlocking LIRAs and LIFs came into effect on October 1, 2021: ▪ Full unlocking (100%) of LIRAs and LIFs on or after reaching age 65 ▪ Unlocking all or part of the amount in the plan at any age for financial hardship reasons, including low income, uncovered medical expenses, mortgage foreclosure or rent eviction ▪ Possible to make a one-time 50% transfer from a LIRA to a prescribed registered retirement income fund (RRIF) after reaching age 55 ▪ On relationship breakdown, possible to split assets based on shared contributions 100% may also be unlocked if ▪ Pensioner has a shortened life expectancy (as defined by physician) ▪ Balance in account (after adding 6% to the balance for each year 'til the pensioner reaches age 65) is less than 40% of the CPP annual pensionable earnings ▪ Pensioner becomes a non-resident
ON	50% may be unlocked if balance transferred to Ontario Life Income Fund and withdrawal is requested within 60 days of transfer 100% may be unlocked if ▪ Life expectancy shortened to two years or less ▪ Pensioner 55+ and balance in account less than 40% of CPP maximum pensionable earnings ▪ Pensioner is non-resident for more than 24 months ▪ Pensioner faces financial hardship

Source: Knowledge Bureau * DC RIA – Defined Contribution Retirement Income Account (AB)

When you take a pension income from an RPP, you have several advantages:

1. You can elect to split income with your spouse **at any age**. Use form T1032 to do so.
2. You, and your spouse if you elect to pension split, will qualify for a federal pension income credit on the first $2,000 of pension income reported. The provinces also offer a credit but may be less than $2,000.

Registered Retirement Savings Plans

Like your CPP (Canada Pension Plan) and OAS (Old Age Security), withdrawals from your RRSP will be taxable. Those withdrawals can be made within a lump sum at any time before age 72. This is known as an *unmatured RRSP*.

However, an RRSP must be *matured* by the end of the year in which a taxpayer turns 71. At that time, you can open a RRIF (Registered Retirement Income Fund) or invest the money into an annuity; or both, to create a periodic retirement income.

When you take a pension income from an annuity or RRIF, you have several advantages:

- You can elect to split income with your spouse but only at age 65. Use form T1032 to do so.
- You will qualify for a federal pension income credit on the first $2000 of pension income reported

Understanding RRIF and Annuity Income Options

You can structure a retirement income to get the best after-tax results (that means you keep more of the money). Here are some things to think about with regard to the various retirement income vehicles.

RRIF Income Minimums

The minimum RRIF withdrawal rate before age 71 is 1/(90-age) and the minimum for age 95 and over is 20%.

For withdrawals between age 71 and 95 the required income withdrawal is based on a sliding scale. For example, at age 71, the minimum withdrawal rate is 5.28%; the percentage of income withdrawal increases as you get older, which means you have to add more to taxable income.

RRIF Income Withdrawal Rates

Age	Rate	Age	Rate	Age	Rate	Age	Rate
65	4.00%	73	5.53%	81	7.08%	89	10.99%
66	4.17%	74	5.67%	82	7.38%	90	11.92%
67	4.35%	75	5.82%	83	7.71%	91	13.06%
68	4.55%	76	5.98%	84	8.08%	92	14.49%
69	4.76%	77	6.17%	85	8.51%	93	16.34%
70	5.00%	78	6.36%	86	8.99%	94	18.79%
71	5.28%	79	6.58%	87	9.55%	95+	20.00%
72	5.40%	80	6.82%	88	10.21%		

Annuities

You can also plan to convert your RRSP savings, or at least some of them, into an annuity. These plans will offer a guarantee of periodic income either for your lifetime, or other specified period.

Some rules:

- There are no tax withholdings before the RRSP is converted to an annuity
- The annuity payments are taxable. The taxable amounts will be shown on a T4RSP Slip.
- Any tax deducted at source will be applied as payment of tax owing and any excess refunded on filing.

ALDAs

ALDAs (Advanced Life Deferred Annuities)[1] are a new type of annuity available to seniors to plan their retirement income.

It is now possible to transfer up to 25% of their RRSP up to a maximum of $150,000 into an ALDA. The object is to defer payments (and continue to shelter income within the plan from tax) until age 85. Remember, however, that if you are the last surviving spouse, or a single taxpayer, the full untaxed amount is added to income on the final return.

CRA will get 50% or more what is left for many people, as this pushes income into the top tax bracket.

1 Variable Payment Life Annuities (VPLA) are also new and specific to the transfer of Pooled Retirement Pension Plan (PRPP) and Defined Benefit (DB) Plan contributions only.

Money Tip

Average in" the taxes payable at a lower rate, over a period of time, by withdrawing funds in such a way that income rises only to the top of a bracket lower than the top bracket. It would be good to aim for this throughout your retirement period, and in planning your estate and how much tax will be paid on your final return.

Planning Your RRSP Withdrawals

Adding RRIF or annuity income to your income from work, CPP or OAS, or dividends from closely held corporations, will increase your overall income and often your marginal tax rate. There are some important tax strategies, however, that can reduce the taxes you pay and make your savings last longer.

In order to benefit the most, you will want to start planning early if you can.

Think About It

The following issues are important when thinking about structuring your retirement income:

- **Are you planning early enough?**
- **How will your retirement income be impacted by a voluntary exit or involuntary termination?**
- **Have you analyzed and assembled the sources of retirement income in your household?**
- **Do you understand the tax brackets income will fall into before withdrawal of your savings?**
- **Are you aware of clawbacks of Old Age Security and some of your tax credits as income rises?**
- **Can you control the order of withdrawals to increase your after-tax cash flow?**
- **How will an RRSP or RRIF withdrawal impact OAS and vice versa?**
- **Can you take advantage of income splitting opportunities with your spouse?**
- **Will you need to remit quarterly tax instalments?**

Take advantage of income splitting opportunities

If you have a spouse (married or common law, same or opposite sex), it is possible to split certain pension income sources:

- CPP (Canada Pension Plan) Benefits can be assigned to a spouse if both spouses have reached at least age 60 and have applied for and received CPP benefits. Apply to Service Canada for an assignment of benefits.

- Up to 50% of RPP (Registered Pension Plan) benefits can be split with a spouse at any age. Make this election on each of your tax returns each year.
- Up to 50% of RRIF (Registered Retirement Income Fund) benefits can be split with a spouse but only when the RRIF holder reaches age 65. Make this election on each of your tax returns each year.
- Spouses of business owners who are shareholders, but are not active in the business of the corporation, may be subject to the top marginal rate of tax on dividends they receive. When the business owner reaches age 65 years, the dividends paid to the spouse become taxable at the spouse's marginal rate and not the top marginal rate.

Money Tip

Income splitting on your tax return is very important, because it may:

- **reduce tax for the entire household**
- **preserve access to government benefits and tax credits**
- **preserve other savings, because cash flow will be higher with reduced tax**
- **make a $2,000 federal pension income credit available to each spouse (if RPP or RRIF benefits are split)**

Life Insurance

When an RRSP, RRIF or RPP holder dies, the value of the plan at the date of death may be transferred tax free to the surviving spouse provided that the spouse is the beneficiary. But what if there is no spouse? In that case, all untaxed money in both these plans must be added to income in the year of death. To the extent that income in the year of death exceeds the top tax bracket, 50% or more of those remaining retirement pension benefits will be paid to the government in income taxes.

One way to shore up the estate in this case is to be sure there is enough life insurance to pay for taxes on other assets that are deemed disposed of at death.

A financial advisor, together with a tax accountant and a legal advisor who helps you with your will, can help you project the tax bill at your death and consider the affordability of life insurance.

Again, it is worth noting that doing this type of planning earlier in life will generally result in lower costs of, for example, a life insurance policy.

IN SUMMARY

Retirement income planning, is necessary to answer some of the key questions most people have about transitioning from work to their retirement chapter: will I have enough and how much is enough?

By definition, retirement income planning involves making a blueprint for trading work time for more leisure time.

In the process, transitioning away from actively earning income from employment or self-employment to a reliance on periodic pensions and savings can be frightening.

Taking time to plan will help you enjoy a more worry-free full or temporary retirement.

Action Item

1. **Focus on Sources of Income:** The transition away from active employment or self-employment earnings to passive pension and investment income requires new budgeting, as your income stream will change.
2. **Focus on Preserving Capital:** Your savings, rather than your labor, will become the major source of income; so, you will need a strategy for withdrawals to supplement your periodic pension income; that is, when and how to draw from several pools of capital. The goal is to continue to earn income from both your pensions and savings accounts throughout your retirement period.
3. **Focus on After-Tax Cash Flow:** Your relationship with CRA (Canada Revenue Agency) will change as you transition to new income sources. For example, you may be required to remit quarterly tax instalments. Good news: household income taxes could be reduced if you live with a spouse because certain retirement income sources can be split on the tax return.
4. **Manage Risk.** One way to manage risk to your income and your estate is to consider buying life insurance to cover the taxes owing upon your death.

Glossary of Terms

Annuity: an annuity is a long-term investment that is issued by an insurance company based on a lump sum you have made to the plan. You will then receive a guarantee of periodic income payments either for your lifetime, or other specified period. These plans are designed to help protect you from the risk of outliving your income. They are typically used as an income option when an RRSP has matured.

Canada Pension Plan (CPP): this is a mandatory contributory plan to a public pension fund designed to provide older or disabled citizens a basic level of lifetime income after retirement. Both employers and employees contribute an equal premium to the plan based on contributory earnings that are capped at an annual maximum.

Capital Gains or Losses: A capital gain can occur on the sale, gift or other disposition (at the death of a taxpayer, for example) of an income-producing asset like stocks, bonds or real estate. It is the difference between the selling price or value at disposition and the adjusted cost base of the asset, less any outlays and expenses. A capital loss can occur when the adjusted cost base is higher than the acquisition cost.

Class of Shares: A class of shares of company stock, give the shareholders' of that stock specific rights with respect to votes, dividends, redemption, liquidation and conversion.

Clawback: Many government benefits are income-tested. When income reaches a pre-determined ceiling, there is a recovery of money the taxpayer has already received. An example of this is the clawback of the Old Age Security Benefits, or the Age Amount, which is a non-refundable tax credit available to those age 65 and up.

Defined Contribution Plan: Also known as money purchase plans, these employer-sponsored plans Registered Pension Plans (RPPs) require a defined contribution from both the employer and employee and depending on the performance of the investments, a retirement pension will result.

Defined Benefit Plan: these employer sponsored RPPs are pooled into a fund managed by an administrator who makes all the investment decisions. The resulting retirement income is calculated based on your salary and the number of years of contribution; rather than how well the investments have performed.

Dividends: is a sum of money paid, often regularly (typically quarterly), by a company to its shareholders as a distribution of its retained earnings.

Employer-Sponsored Pensions: This is a plan in which you and your employer (or just your employer) regularly contribute money in order to fund a retirement income.

Financial Advisors: These professionals are engaged to give you financial advice and help you execute a financial plan. They can assist with debt management, budgeting, investment, retirement, estate or succession planning. They can provide solutions in choosing investments to match those plans and build an investment portfolio for you, or sell insurance or other investment products. Many financial advisors will help you with banking, and tax needs in collaboration with other professionals.

Form T1032 Joint Election to Split Pension Income: This form is used when a pensioner wants to split eligible pension income with a spouse or common-law partner (the pension transferee). By splitting eligible pension income, it is possible to lower taxes payable and often receive more refundable and non-refundable tax credits too.

Group Health and Insurance Benefits: This is a health plan offered by an employer or employee organization that provides health coverage to employees and their families.

Employment Income Benefits: These benefits are generally included in an employee's gross income (however it is possible to receive tax free benefits of employment as well). If taxable, the benefits are subject to income tax withholding and employment taxes. There are special rules for reporting and valuation of some of these benefits.

Inflation: is the decline of purchasing power of your money due to the rising cost of goods and services. Usually expressed as a percentage, it means that your money buys less today than it did in prior periods. Keeping an eye on inflation is important, because it can help you make decisions about where to invest and how to spend your money

Interest: Borrowers will pay lenders a percentage of the principle in return for the use of the money. That interest, earned outside of a registered account such as an RRSP or RRIF, will be added in full to total income and taxed at the taxpayer's marginal tax rate.

Involuntary Retirements: This is a job termination that is often unexpected and with restrictions that the employee may or may not find acceptable. The big issue is that it is not within the control of the individual and therefore a change in financial planning is triggered by this event.

Lawyer: a person who practices or studies law; an attorney or a counselor who can help you with negotiation of employment or termination agreement, or important legal documents like a will or Power Of Attorney (POA) .

Marginal Tax Rate: The marginal tax rate is the amount of additional tax paid for every additional dollar earned as income.

Old Age Security (OAS): this is a monthly payment that you can get if you are 65 and older, provided you have lived in Canada for a period of at least 10 years after the age of 18 and are a Canadian citizen or legal resident before applying. High income earners may have some or all of the benefit clawed back when their income reaches certain income-testing levels on their tax return.

Private Pension Plan: These are private savings plans (as opposed to the public plans – OAS and CPP). This can be an employer-sponsored plan (also known as a Registered Pension Plan) that commits the employer to make regular contributions to a pool of money that is set aside in order to fund a regular pension benefit payment made to eligible employees after they retire.

Public Pensions: In Canada this is the Canada Pension Plan (CPP), based on required employer-employee contributions which can be accessed as early as age 60; and the Old Age Security, which is based on income for those age 65 and over.

Registered Pension Plans (RPP): This is a contributory plan offered to employees funded by both employer and employee to provide a periodic pension in retirement. These plans are often "locked in" with restrictions on when they may begin. The Income Tax Act allows deductions in respect of both employee and employer contributions.

RRIF: A Registered Retirement Income Fund (RRIF) is an account registered with the federal government to give a steady income in retirement after an RRSP (Registered Retirement Savings Plan) has matured. Under this plan a minimum amount must be withdrawn in each year after age 71.

RRSP: A Registered Retirement Savings Plan (RRSP) is a retirement savings and investing vehicle for employees and the self-employed in Canada, registered with the federal government. It is based on a taxpayer's "earned income" of the prior year, a figure which can be found on the Notice of Assessment or Reassessment received from the Canada Revenue Agency (CRA). The contributions are made on a pre-tax basis (that is, the contributor receives a deduction for the contribution, which in turn will reduce taxes payable based on the taxpayer's marginal tax rate). That deduction also reduces net income, the figure upon which tax credits are calculated. In addition, the investment earnings accumulate in the plan on a tax-deferred basis, which helps the plan grow more quickly than if tax is paid first on the investment earnings along the way. When money is withdrawn out of the plan, both the principle and the earnings are added to income in full and taxed at the taxpayer's marginal tax rate.

Severance Packages: A severance package is an amount of salary and benefits, or sometimes a lump sum, offered to an employee upon being laid off from a company. The receipt of a severance package requires the signing a severance agreement. Proper planning is required to retain

the most after-tax income. When an employee has RRSP Room, for example, a contribution of some or all of the severance into the RRSP can produce significant tax savings.

Tax Accountant: These are accountants and tax filing professionals that specialize in filing tax returns and preparing financial plans based on the laws, rules, and regulations of the Income Tax Act and regulations as well as specific provincial and territorial tax rules.

Taxable Pension Benefits: most pensions are funded with pre-tax income, and that means the full amount of your pension income would be taxable when you receive the funds. Payments from private and government pensions are usually taxable at your marginal tax rate. Certain pension withdrawals qualify for a non-refundable pension income credit on the tax return.

Tax Brackets: This is a range of income to which a rate of tax is assigned. Income falling above the top of a bracket, into the next bracket, will suffer a higher marginal rate.

TFSA: the Tax-Free Savings Account (TFSA) is an account in which contributions, interest earned, dividends, or capital gains, or other investment earnings accumulate and are withdrawn on a completely tax-free basis.

T4RSP Slip: this form is used to report money withdrawn from an RRSP and the income tax that was withheld and remitted to the Canada Revenue Agency.

Resources To Help You Plan Your Retirement Income

Canada Pension Plan Statement of Contributions
https://www.canada.ca/en/services/benefits/publicpensions/cpp/statement-contributions.html

Canada Pension Plan Benefits Overview
https://www.canada.ca/en/services/benefits/publicpensions/cpp.html

Employer-Sponsored Retirement Funds – FCAC
https://www.canada.ca/en/financial-consumer-agency/services/retirement-planning/employer-sponsored-pension.html

Qualifying for Old Age Security
https://www.canada.ca/en/services/benefits/publicpensions/cpp/old-age-security/eligibility.html

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

Registered Retirement Savings Plan – CRA
https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/rrsps-related-plans/registered-retirement-savings-plan-rrsp.html

Registered Retirement Income Fund - CRA
https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/registered-retirement-income-fund-rrif.html

Registered Pension Plans - CRA
https://www.canada.ca/en/revenue-agency/services/tax/registered-plans-administrators/about-registered-pension-plans-rpps/about-registered-pension-plans-rpps.html

__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.