MEMBER

Financial Fitness

Planning For Your Retirement

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Introduction

The retirement years are assuming a new prominence in our society today. Most of us can look forward to spending at least one-quarter of our lives in retirement, thanks to improved standards of living, advances in medical care, and trends toward early retirement – either voluntary or forced.

Making the most of those years calls for thoughtful planning before retirement day. Financial matters, as well as decisions regarding lifestyle, must be considered to ensure that you make a successful, rather than stressful, transition to retirement.

When to Start Planning

It's never too early to start planning for your retirement. The sooner you start, the more choices there are open to you and the more flexibility you have in making adjustments to reach your eventual goal. Ideally, you should start planning your retirement finances in your early 30s and be fully involved in carrying out a well thought-out plan by your early 40s.

Planning for your retirement years is as important as planning your finances. Developing leisure interests and activities early in life will lay a good foundation for meaningful, stimulating retirement years.

How to Begin Planning

There are three basic areas to consider in planning for retirement:

- Your finances, including your needs, and resources such as savings, investments, and pension income,
- Your proposed retirement age,
- Your personal goals and planning activities for retirement.

Personal values affect these considerations, so planning should be a family matter.

To help you through the planning process, your credit union offers this booklet. Whether you're fast approaching retirement, or whether you're starting now on a long-term plan for your future, you'll find useful information and advice here.

Use of the Term "Spouse"

Throughout this booklet, the term "spouse" includes other individuals who have been given similar rights under the applicable legislation.

Determining Your Financial Needs

Considerable energy and effort goes into developing a social “safety net” for retired people in Canada. Governments provide publicly funded pensions, set standards for private pension plans, and offer tax incentives for pension saving. Employers design and fund employee pension plans. A whole financial planning industry is available to provide advice and services.

Nevertheless, it’s up to you to provide for your own financial security by setting your long-term retirement goals and developing a plan for achieving them.

The first step in any plan is determining where you are and where you want to be. This means analyzing your present financial position and projecting it to the time in the future when you want to retire.

As part of your plan, you must determine your needs during retirement, considering such things as your spending habits, whether you’ll own or rent your home, and how much of a reserve you’ll want for unexpected expenses.

Budget Summary for Retired People

EXPENDITURE CATEGORY	1 Person Household (Person Aged 65 & Over)		Couple Household (Both Persons Aged 65 & Over)	
	Average $ per household	% of Total $	Average $ per household	% of Total$
Shelter	8,435	29.4%	9,861	19.4%
Transportation	2,920	10.2%	8,262	16.3%
Food	3,539	12.3%	6,817	13.4%
Recreation	1,090	3.8%	2,771	5.5%
Household Operation	1,590	5.5%	2,359	4.6%
Health Care	2,151	7.5%	2,916	5.7%
Clothing	803	2.8%	1,780	3.5%
Household Furnishings and Equipment	584	2.0%	1,600	3.1%
Tobacco Products and Alcoholic Beverages	447	1.6%	935	1.8%
Personal Care	595	2.1%	858	1.7%
Miscellaneous Expenditures	486	1.7%	939	1.8%
Games of Chance (Net)	267	0.9%	400	0.8%
Reading Materials and Other Printed Matter	187	0.7%	293	0.6%
Education	17	0.1%	81	0.2%
TOTAL CURRENT CONSUMPTION	**23,108**	**80.6%**	**39,872**	**78.4%**
Personal Taxes	3,177	11.1%	6,872	13.5%
Gifts of Money and Contributions	2,005	7.0%	2,926	5.8%
Personal Insurance Payments & Pension Contributions	368	1.3%	1,166	2.3%
TOTAL EXPENDITURE	**28,658**	**100%**	**50,836**	**100%**

Source: Statistics Canada, "Survey of Househhold Spending in 2008", 62FPY0034, December 18, 2009 (revised January 27, 2010)

Inflation complicates retirement planning by decreasing the purchasing power of savings and pension income. Here's a simple example of the effect inflation can have:

Monthly income	Equivalent required, with inflation at 5% per year		
	IN 5 YEARS	IN 10 YEARS	IN 20 YEARS
$1,000	$1,276	$1,629	$2,653

On the positive side, most people don't need the same gross income after retirement to maintain their standard of living. The average middle-income person will likely do well on 60% to 70% of gross pre-retirement income.

Here's Where Retirement Income Comes From	Your Estimated Monthly Retirement Income
Your employer's pension payment	$
Your spouse's employer's pension payment	$
Your Canada Pension Plan	$
Your spouse's Canada Pension Plan	$
Your Old Age Security	$
Your spouse's Old Age Security	$
Your Guaranteed Income Supplement	$
Your spouse's Guaranteed Income Supplement	$
Your RRSP retirement income	$
Your spouse's RRSP retirement income	$
Profit-sharing fund payout	$
Any earned income in retirement, salary expected	$
Rental income (net)	$
Any other fees, payments for services	$
Disability and/or endowment/insurance payments	$
Business or real estate income	$
Savings account interest (credit union, bank, trust co.)	$
Canada Savings Bond interest	$
Term deposits, guaranteed investment certificate interest	$
Tax-Free Savings Accounts (TFSA)*	$
Income from stocks, bonds, mutual funds, etc.	$
Investment income from any expected inheritance	$
Other net worth property, investments, which you expect to create income	$
Other income sources: alimony; social welfare; disability insurance; EI	$
TOTAL EXPECTED MONTHLY INCOME	**$**

* *The TFSA is another tax sheltered product for investment earnings and gains. Unlike RRSPs, withdrawals of contributions and income/gains are not taxable. The TFSAs are available since 2009. Contact your Credit Union for additional information on this new registered product.*

Here's Where Retirement Income Goes

Estimate Your Monthly Cost of Living

	Need Now		Needed in Retirement	
	$ MONTHLY	$ ANNUALLY	$ MONTHLY	$ ANNUALLY
Budget Need: (excluding savings and income taxes)				
Food: (including meals out)				
Housing: (utilities, rent/mortgage, furnishings, property taxes, maintenance, homeowner's insurance)				
Transportation: (gasoline, auto insurance, licence, maintenance, public transportation)				
Clothing & Personal Care: (dry cleaning, cosmetics, toiletries)				
Medical Care: (drugs, dental, health insurance, other medical expenses)				
Entertainment: (recreation, books, magazines)				
Other Items: (gifts, donations, life insurance)				
TOTALS				

Strategies for Saving

Without a definite savings strategy, most people find there's never anything left over after expenses to save. The trick is to build saving into your budget, rather than leaving it as an afterthought. If the cash has a way of disappearing before it reaches your savings account, try a payroll savings plan so that the money can't take a detour. Make sure you're realistic about your savings budget – if you aim too high, you'll soon find your good intentions are unworkable.

You can earn the best return on your money by following a few basic techniques:

- Channel all idle money into a savings account that will earn interest, even if only for a few days or weeks. For example, if you make monthly mortgage and car loan payments, keep the funds in a daily interest savings account and transfer them to chequing just before you write the cheques. (Check first to make sure transfer costs don't apply.) Or use a chequing savings account.
- Transfer savings that won't immediately be needed from your regular savings account into higher-paying term deposits. To cover yourself in emergencies, stagger the maturity dates of the deposits so that one is always coming due shortly.

The cornerstone of many retirement savings strategies is to put your savings into a registered retirement savings plan (RRSP).

RRSPs are designed specifically to help you save for your retirement. Qualifying contributions made to an RRSP can be claimed as a tax deduction. No tax is paid on the interest and other income earned from these contributions until the funds are withdrawn. At retirement, the funds held in your RRSP can be converted to your own personal pension. This pension can take the form of a Registered Retirement Income Fund, Life Annuity or Term Certain Annuity. For further information about RRSPs, refer to the credit union booklet: ***Understanding All 'The Basics' – RRSP, RRIF, LIF, LRIF, ANNUITY.***

Another retirement savings vehicle is the Tax-Free Savings Account (TFSA). This new registered product is available since 2009. Unlike RRSPs, the contribution limit is not tied to your income and the contributions are not tax deductible. Interest and other income earned on the contributions accumulate tax-sheltered. A withdrawal of contributions and/or income is not taxable. For further information, contact your credit union or refer to the credit union leaflet: ***Tax-Free Savings Account: A Fresh Approach to Your Savings***.

Savings ultimately are not only a source of financial security, they also earn income for you. The following chart demonstrates the amount of savings that you need to accumulate to produce a specific monthly income at various rates of interest. For example, to earn $200 per month when interest rates are 4% requires $60,000 of savings.

Annual Interest Rate	Monthly Income Earned				
%	**$100**	**$200**	**$350**	**$500**	**$1000**
	REQUIRED SAVINGS AND INVESTMENTS (IN THOUSANDS)				
3.00%	40.00	80.00	140.00	200.00	400.00
3.25%	36.92	73.85	129.23	184.62	369.23
3.50%	34.29	68.57	120.00	171.43	342.86
3.75%	32.00	64.00	112.00	160.00	320.00
4.00%	30.00	60.00	105.00	150.00	300.00
4.25%	28.24	56.47	98.82	141.18	282.35
4.50%	26.67	53.33	93.33	133.33	266.67
4.75%	25.26	50.53	88.42	126.32	252.63
5.00%	24.00	48.00	84.00	120.00	240.00
5.25%	22.86	45.71	80.00	114.29	228.57
5.50%	21.82	43.64	76.36	109.09	218.18
5.75%	20.87	41.74	73.04	104.35	208.70
6.00%	20.00	40.00	70.00	100.00	200.00
6.25%	19.20	38.40	67.20	96.00	192.00
6.50%	18.46	36.92	64.62	92.31	184.62
6.75%	17.78	35.56	62.22	88.89	177.78
7.00%	17.14	34.29	60.00	85.71	171.43
7.25%	16.55	33.10	57.93	82.76	165.52
7.50%	16.00	32.00	56.00	80.00	160.00
7.75%	15.48	30.97	54.19	77.42	154.84
8.00%	15.00	30.00	52.50	75.00	150.00
8.25%	14.55	29.09	50.91	72.73	145.45
8.50%	14.12	28.24	49.41	70.59	141.18
8.75%	13.71	27.43	48.00	68.57	137.14
9.00%	13.33	26.67	46.67	66.67	133.33
9.25%	12.97	25.95	45.41	64.86	129.73
9.50%	12.63	25.26	44.21	63.16	126.32
9.75%	12.31	24.62	43.08	61.54	123.08
10.00%	12.00	24.00	42.00	60.00	120.00
10.25%	11.71	23.41	40.98	58.54	117.07
10.50%	11.43	22.86	40.00	57.14	114.29
10.75%	11.16	22.33	39.07	55.81	111.63

Investing for Profit

Successfully investing your savings takes thought. Do it in a hit-or-miss way and you'll end up with a mismatch of securities that has no relation to your objectives. A well-planned approach to investing, on the other hand, can be a profitable way to provide for your retirement.

Fundamental steps to success include:

Diversify

Don't put all your savings in one type of investment. While fixed term investments such as term deposits, guaranteed investment certificates (GICs), Canada Savings Bonds or provincial savings bonds will give you a guaranteed rate of return, their value will be eroded by inflation. It is desirable to have a portion of your portfolio in investments that increase in value, such as mutual funds or stocks.

For the small investor, mutual funds are the simplest way to diversify. They generally increase in value over time, but are not a method of getting rich quick. Because they may decrease in value on a temporary or permanent basis, people usually invest only a portion of their savings in mutual funds.

Learn the Risks Involved

Every investment entails some degree of risk. Ask questions before you invest.

Deposits at your credit union, trust company or bank are covered by deposit insurance to varying degrees. Canada Savings Bonds are guaranteed by the government of Canada. Other bond values can fluctuate considerably with interest rate changes.

Real estate has been a profitable investment in many parts of the country. But property values can be affected by factors beyond your control – mortgage rates, local business conditions, re-zoning, etc. Adding to its appeal is the fact that increases in value are considered capital gains, qualifying for favourable income tax treatment.

Shares and equity mutual funds offer the best opportunity for long-term growth because there's no limit to their future value or earnings. However, there are no guarantees and the shares of some very large companies became worthless in the past.

Match Your Investments to Your Objectives

Your investment strategy will change with your circumstances. When saving for a downpayment on a home or university expenses only a short time away, most people will use term deposits or bonds that will mature when needed. You would not want to try stocks or risky types of mutual funds in case they have a low value when needed. For long-range goals such as retirement, you can take more risks in stocks or mutual funds. As you get closer to retirement age, your portfolio will shift back to less risky investments.

Time Your Investments

Interest rates rise and fall over time. You don't want all of your term deposits to mature at once, in case that is a time when interest rates are low. Choose a variety of terms (one to five years) and maturity dates.

The following worksheets will help you keep track of and update your savings and investment program.

Worksheet for Planning Your Saving and Investment Program
– Present Holdings –

AMOUNT	SAVED OR INVESTED IN:	PRESENT ANNUAL YIELD IN DOLLARS	LOCATION OF SECURITIES OR DEPOSITS
$		$	
TOTAL $	 $		
AVERAGE YIELD IN % (DOLLAR YIELD ÷ AMOUNT X 100) =			
	OTHER ASSETS		
TOTAL $	 $		

Worksheet for Planning Your Saving and Investment Program – Revised Program –			
AMOUNT	SAVED OR INVESTED IN:	PRESENT ANNUAL YIELD IN DOLLARS	LOCATION OF SECURITIES OR DEPOSITS
$		$	
TOTAL $	$		
AVERAGE YIELD IN % (DOLLAR YIELD ÷ AMOUNT X 100) =			
OTHER ASSETS			
TOTAL $	$		

Public Pension Plans

A number of government programs provide retirement income. Specific provisions of these programs are subject to change – for more information, check with Human Resources and Skills Development Canada, "Income Security Programs", in the federal government section of your telephone directory.

Canada Pension Plan (CPP)

Everyone employed or self-employed in Canada is required to make payments to the CPP. Retirement benefits are provided by the plan if you have made contributions for at least one year. The amount of your pension depends on your income level while contributing to CPP and the number of years you contributed. The benefits are indexed annually based on the federal cost of living index.

Most people begin receiving benefits on their 65th birthday. However, you may start receiving CPP payments as early as age 60 if you stop working, remain substantially retired, and don't initially earn more than your CPP income from employment. If you retire early, you receive a lower monthly pension throughout your retirement: the monthly payment is decreased by 0.5% for each month you are under the age of 65 when you start receiving payments. For example, if you begin receiving your pension at 60, the payments you receive for the rest of your life will be 70% of the amount you would have received beginning at 65.

You may also delay receiving your pension until as late as your 70th birthday. For example, payments that start at age 70 are 30% greater than those that begin at age 65. The additional CPP contributions you make while you continue to work and defer your pension beyond 65 can increase the pension payments you'll eventually receive if you are not already qualified for the maximum pension.

CPP also pays survivor benefits to a spouse and dependent children and benefits to you and your dependent children if you are disabled.

You must apply to receive benefits. Do this several months in advance, because retroactive payments are not made.

Old Age Security (OAS)

People 65 and over who are eligible under residence requirements also receive a monthly pension from the federal government. The amount is adjusted quarterly, in January, April, July and October, based on the federal cost of living index. You should apply for benefits several months before you turn 65 to ensure your payments begin on time.

The 2010 annual amount is approximately $6,222.12. OAS monthly payments are reduced if net income on the previous year's tax return exceeds $66,733. Payments are reduced to zero if income exceeded $108,152.

Guaranteed Income Supplement (GIS)

If you are 65 or over, have little income other than the Old Age Security, and live in Canada, you are eligible for GIS. This supplement is adjusted quarterly based on the federal cost of living index, but benefits do not decrease if the index drops. When your OAS application is approved, you will be sent an application for GIS.

OAS Spouse's Allowance

An OAS pensioner's spouse may be eligible for a Spouse's Allowance if the spouse is between the ages of 60 and 65 years of age and meets OAS residence requirements. The amount is based on the combined monthly income of the couple. If your spouse is between the ages of 59 1/2 and 65, an application for Spouse's Allowance will automatically be mailed to you with your Guaranteed Income Supplement application.

Provincial Government Programs

Additional retirement supplements are available from provincial governments. These vary from province to province – ask your provincial government information centre for more information.

Private Pension Plans

Private pension plans – usually called registered pension plans – are established by employers for their employees. Registered pension plans take the form of either money purchase plans or defined benefit plans. Each has its own advantages and disadvantages you should be aware of in making decisions about your retirement.

Money Purchase Plans

Money purchase plans (sometimes called defined contribution plans) link pension benefits to contributions made to the plan during your employment. The contributions, together with accumulated earnings, are used to purchase a pension for you at retirement. The size of the pension will depend on the amount of money in your fund at retirement and the annuity yields available at the time.

The pension contributions are usually calculated as a percentage of earnings and are paid by you and your employer or sometimes by your employer alone.

Advantages of a Money Purchase Plan are:

- The plan is simple for both employee and employer to understand.
- The contribution required is always known by both employee and employer.
- It's easy to determine the amount due to an employee who leaves the company before retirement.
- Employers cannot withdraw any surplus.

Disadvantages of This Kind of Plan are:

- Employees can only estimate their eventual pension, since it depends on the contributions accumulated to retirement, and the yields available at retirement.
- Inflation may dramatically reduce the purchasing power of accumulated funds – a problem with any plan that isn't indexed to the cost of living.

Defined Benefit Plan

A defined benefit plan links pension benefits to earnings during specific years of service. For example, your annual pension might be equal to 2% of your average annual earnings during your last five years of service, multiplied by your total years of service. Or it could be the average of your highest years of earnings. An actuary estimates the level of contributions by employer and employee needed to fund the benefits. Any shortfall in the fund over the years must be made up by the employer.

Advantages are:

- Because the eventual pension can be specifically calculated, employees can carry out more accurate financial planning for their retirement.
- The future pension rises with salary increases during employment, which helps lessen the effect of inflation.
- The employer bears the risk of a shortfall in the fund.

Disadvantages Include:

- Employees who enter the plan at an early age and contribute until they retire may fund their own pensions entirely, with little or no benefit from employer contributions.
- If pension benefits are tied to earnings many years before retirement, subsequent years of inflation could create a substantial gap between an employee's income just before retirement and pension income.
- Employees retiring early may find their pension is based on an income level too low to meet the effects of later inflation.
- Vesting and portability are more complicated than in money purchase plans.

Key Details about Registered Pension Plans

It's important to be aware of certain details about the pension plan where you work, so you can make informed decisions in planning your retirement. Things to consider are:

Vesting. Employer's contributions are vested in an employee when they belong to the employee and can't be retracted by the employer. If the employee leaves the company before full vesting, he or she loses part or all of the employer's contributions. Vesting occurs over or after a certain time period; an increasing number of plans provide for full vesting after two years, regardless of age.

Locking in. Pension funds are locked in when an employee cannot withdraw them for any other use.

Portability. A pension is portable if vested contributions can be transferred to a new plan when an employee leaves the job before retirement. In this case there are three main alternatives: transfer to the new employer's plan, transfer to a registered retirement savings plan (part or all may be locked in), or leave the funds in the old plan to provide a pension on retirement.

Spouse's Benefits. A pension plan should continue payments to the spouse after an employee's death. Many plans pay the survivor at least 60% of the deceased's entitlement.

Early Retirement. Many plans provide for pension benefits starting as early as 55, but at a reduced level, because they are made over a longer time period.

Adjustments for Inflation. High inflation rates in the early 1980's seriously eroded many pensions. Ideally, a pension plan provides benefit adjustments to compensate for inflation. Otherwise, the employer may or may not make voluntary increases in pensions to compensate for inflation.

Deferred Profit-Sharing Plans

Deferred profit-sharing plans (DPSPs) are similar in many ways to registered pension plans. However, because the employer's contributions are based on company profits, no contributions need be made in a loss year.

Employer contributions are limited to half the contribution limit for defined contribution registered pension plans.

Amounts received from a DPSP must be included in your taxable income; before the end of the year you attain age 71 you may transfer them to an RRSP, to a RRIF, or use them to buy an annuity.

Personal Pension Plans – RRSPs and More

Because you make the decisions regarding them, personal pension plans – based on savings, registered retirement savings plans, or sometimes life insurance – give you the most flexibility in planning for your retirement.

Registered Retirement Savings Plans (RRSPs) are one of the most popular personal plans. Contributions to your RRSP are tax deductible to allowable limits and the plan's earnings are tax-sheltered. You pay tax only when you withdraw funds from the RRSP – often at a lower rate after retirement.

Credit unions, trust companies, life insurance companies, banks, investment brokers, and mutual fund companies all offer RRSPs, with a choice of investment options.

You may have any number of RRSPs, but your total deductible contributions can't exceed specific limits based on income, as set by government regulations. You may also be able to make contributions to a plan for your spouse, which can help reduce the family income tax in your retirement years.

RRSP Maturity Options

Your RRSPs must mature before December 31 of the year in which you reach age 71. This means you must make some arrangements by that date for your RRSP funds.

Retirement income options include:

- Transferring the RRSP funds to one or more registered retirement income funds (RRIFs).
- Buying a Term Certain Annuity to age 90 (TCA 90) (also called Fixed Term Annuity – FTA).
- Buying a life annuity.

Or any combination of the above.

If you don't choose one of these retirement income options, you have the alternative of withdrawing your funds in lump-sum amounts. These withdrawals will be subject to immediate taxation at the applicable rates.

You don't have to have your RRIF or annuity with the same institution as your RRSP – shop around for the best rates and options.

Registered Retirement Income Funds (RRIFs)

RRIF payments are based on a schedule of your choice. Payments from a RRIF can continue throughout your or your spouse's lifetime.

A RRIF is flexible enough that you can have the payments made for a specific payment amount (e.g. $400 per month) or paid over a specific period of time (e.g. all payments made over 10 years).

Regardless of which payment option you choose at first, the schedule and amount may be altered to meet your changing needs in retirement. However, you must receive a legislated "annual minimum amount", calculated as a percentage of the RRIF balance at the beginning of the year. The formula for calculating the annual minimum amount can be based on your spouse's age. For example, if your spouse is younger, the amount will be smaller than if the payment was calculated based on your age.

RRIFs are the most popular choice today for people whose RRSPs are maturing.

- You control your payment schedule.
- You control the investment of your RRIF funds, with the option of placing your funds in fixed-term investments, variable accounts, mutual funds or self-directed RRIFs.
- A RRIF allows you to react to unexpected expenses that you can't meet with your other sources of income. In addition to your regular payments, you can also withdraw lump sums from your RRIF to deal with emergencies.
- The balance in your RRIF is paid to your estate or beneficiary when you die, or the contract can continue in your spouse's name.
- Subject to the terms of your RRIF investments, you can convert all or part of your RRIF to an annuity.
- Depending on the type of investment you select, your RRIF may be covered by deposit insurance. Prior to setting up a RRIF with any financial institution, be sure to inquire about their deposit insurance coverage for RRIFs.

Term Certain Annuities to Age 90 (TCA 90)

A TCA 90 provides income to age 90. Generally, payments are made in equal amounts, but you can also choose a variable rate annuity, in which the payments may change with interest rates. As with a RRIF, you can base the annuity's term on the age of a younger spouse.

Depending on the terms of your annuity, if your needs change, you may be able to cash in your annuity before age 90, although a substantial cost is usually involved. Tax is payable if you die before age 90, the remaining principal balance (subject to withholding taxes) is paid to your heirs, or payments can continue to your surviving spouse.

Life Annuities

A life annuity provides income until you die, in amounts based on average life expectancy and interest rates at the time of purchase. Unless otherwise specified, no payments are made to your heirs. However, you may be able to cash in your life annuity before your death, depending on the contract's terms. As with term certain annuities, this move usually involves a substantial cost and you must pay tax on the cash you receive, unless you transfer it to a RRIF.

Life annuities can only be issued by life insurance companies, but can be arranged through most insurance agencies.

You can choose from a number of forms of life annuity, plus a number of options. Choices include:

Single Life. A single life annuity provides payments for your life only.

Joint and Last Survivor. These annuities make payments during the lifetimes of two people (for RRSP annuities, they must be spouses). Payments continue until the death of the second person.

Guaranteed Term. Ensures payments for a specific period of time (usually 10 or 15 years). If you die within the guaranteed term, the cash value at that time of the remaining guaranteed payments will go to other beneficiaries. The longer the guarantee period, the lower the annuity payments.

Indexed. Indexed life annuities provide an increase from 1% to 4% in the payments each year. The payments in the early years are much lower than a normal life annuity. Annuities linked to the consumer price index are rare because they are prohibitively expensive.

Life Income Funds (LIFs), Restricted Life Income Funds (RLIFs), Locked-In Registered Retirement Income Funds (LRIFs), SK RRIFs and MB RRIFs

If your RRSP is a Locked-in RRSP or Locked-in Retirement Account (LIRA), it contains money transferred from a registered pension plan and may not be cashed, under normal circumstances, until retirement. In the past, these amounts had to be used to buy a life annuity.

Over the past several years, the majority of pension jurisdictions eliminated the requirement to convert the remaining Locked-in RRSP or LIRA to a Life Annuity. Currently, Newfoundland and Labrador and Saskatchewan are the only jurisdictions that have not eliminated this requirement. LIF governed under Newfoundland and Labrador must be converted to a Life Annuity or a LRIF by age 80. LIF governed under Saskatchewan must be converted to a Life Annuity or a SK RRIF by age 80. In 2008, Ontario eliminated the LRIF option; LRIF opened prior to 2009 will continue uninterrupted until depleted or transferred to a LIF.

Under the Federal *Pension Benefits Standards Act, 1985 (PBSA, 1985)* pension jurisdiction, a Locked-in RRSP is transferable to a Restricted Life Income Fund (RLIF). The RLIF functions like a LIF; however, the RLIF provides a one-time 50% unlocking option.

The SK RRIF is available under Saskatchewan pension legislation. There are no maximum payment or conversion restrictions with this option.

The MB RRIF is available under Manitoba pension legislation to permit a "one-time" transfer of up to 50% of a MB LIF and/or MB LRIF to a MB RRIF; subject to pre-approval from the Manitoba Superintendent of Pensions.

If you have a LIRA, Restricted Locked-in Retirement Savings Plan (RLSP)* or Locked-In RRSP, inquire whether the above options are available as an alternative to Life Annuities for your funds.

** An RLSP is governed under PBSA, 1985 and is used to accept funds from an RLIF prior to the annuitant reaching age 71.*

Some Tax Considerations

RRSPs, RRIFs, LIRAs, LIFs, RLIFs, LRIFs, SK RRIFs, MB RRIFs and RRSP annuities all act as a form of tax shelter, in that you only pay tax on amounts withdrawn from the plans – usually at a lower rate after you retire.

There are additional ways you can reduce income tax– either during your prime earning years (which can add to your savings for retirement), or in your actual retirement years.

Some opportunities exist for income splitting between spouses – that is, transferring future taxable income from a high-income spouse to a lower-income spouse. This means your total taxes will be lower and full advantage can be taken of available personal tax credits. Other possibilities include contributing to a spousal RRSP and paying your spouse a salary if you own a business.

The largest single investment of most people is a home. It is also a tax shelter because any gain realized when it is sold is tax-free.

Remember that the only definitive authority on the subject of taxes is the *Income Tax Act* and its regulations. For complete information, contact your District Taxation Office.

Reference Booklets

RRSPs and Other Registered Plans for Retirement Guide, published by Canada Revenue Agency (CRA) and available through District Taxation Offices.

Understanding All The Basics and *Retirement Income Options,* published by the credit union system and available through many credit unions.

Tax-Free Savings Account: A Fresh Approach to Your Savings, leaflet published by the credit union system and available through many credit unions.

Income Action

Reminder Checklist	Yes	No
Have you determined what additional government pension benefits you can expect when you retire?		
Have you visited your employer's pension benefit supervisor to find out how much pension you can expect, and what choices are available to you?		
Did you ask if there are any special conditions regarding heirs? Have you worked out a simple but complete picture of your assets and liabilities? Do you know what you own and what you owe?		
Are you making the best use of services available to you through your credit union?		
Have you discussed your retirement with your credit union manager or retirement planning specialist?		

When to Retire

A sound financial plan for your retirement must take into account the age at which you'll retire. This defines the number of years you'll be able to accumulate assets and contribute to retirement plans, as well as the length of time you'll draw on these for retirement income.

In the past, 65 has been the usual retirement age, but people today are taking a more flexible approach. Some are preparing for earlier retirement, while others are continuing to work as long as possible. (Some employers have mandatory retirement ages – check your own situation.)

In determining your retirement age and date, consider the following questions:

Date/Year	Projected
When will your children finish their schooling?	
When will your mortgage be paid up?	
When will you know what you want to do in retirement?	
When can you get the maximum income from your accumulated RRSPs?	
When will you become eligible for Canada Pension Plan and Old Age Security payments?	
For how long are you likely to enjoy good health?	

Planning for Retirement Living

Where to Live

Your own home is one of the best investments you can make during your working life. Secure, satisfactory housing at a reasonable cost plays a large part in your financial security in retirement.

Most people continue to live in their existing homes when they retire. This avoids one major change when so many others connected with retirement are taking place.

In deciding whether to continue in your existing home, you and your spouse should ask yourselves these questions:

- Will you be spending more time at home after retirement; will your current home suit this lifestyle?
- Will you be able to meet existing home costs – taxes, insurance, maintenance and any mortgage payments – with your retirement income, or would a smaller, less expensive home be more practical?
- Should you sell your current home and buy a less expensive one or will you have more cash to meet your wants and needs during retirement?
- Is the size of your existing home suitable? Extra space can be helpful when a husband and wife are both at home most of the time – each can have a separate retreat for hobbies, etc.
- Is the layout of your existing home suitable? Are there too many stairs, for example?
- Are you willing to devote time and money to maintain your home and garden, or would you rather live somewhere with less responsibility?
- Are repairs and maintenance needed that should be handled before you retire on a reduced income?
- Are you located close enough to family and friends, activities that interest you, hospital and medical care, shops, and transportation?

If You are Thinking of Moving, Consider These Points:

- Ask yourself the same questions about a new home that you asked about your existing home (as set out on page 23).
- If you're going to move, you should consider doing it before retirement, to give yourself time to adapt to the change.
- Be careful about moving to a different type of housing. If you're used to a larger house and garden, an apartment or townhouse may be too confining for you. Talk to people who have lived in the type of housing you are considering. Try renting before you buy.
- Be careful about moving to a distant or remote location. Living permanently somewhere is different from going there on a holiday – the weather may not be as nice year-round or facilities may only be seasonal. Give special thought to the nearness of family, friends, health care, shopping, entertainment and recreation.

Activities and Involvements

While you're working, your job provides you with activities, challenges, and interaction with others. After you retire, you'll need other interests to provide a meaningful focus on your life and energies.

You'll probably find your relationship with the people you worked with will change considerably. You're in a different role after you retire, and being a visitor isn't the same as being part of the team. Of course, you'll want to continue close friendships with former co-workers, but this may become more difficult after your retirement, when you have less in common. To prepare for this change, you should begin planning your retirement activities and involvements well before you retire. In fact, it's wise to begin participating in some of these before you actually leave work, to give your life continuity.

Some Suggestions for Planning Your Retirement Activities Include:

- Maintain close family relationships, while keeping them in balance. Look after your grandchildren if you enjoy doing it, for example. But don't hesitate to set limits to the time you're willing to devote to helping your family.
- If you're married, consider developing some separate activities and interests – too much time together can sometimes lead to problems. On the other hand, you should share household tasks and be prepared for the time when one of you may have to manage on your own. Both of you should be able to cook and handle finances, for example.

- Use your existing skills and knowledge. Many organizations need volunteers where your abilities can make a real contribution.
- Gain new skills and knowledge. Adult education courses on a tremendous variety of topics are available from both public and private organizations, often at a very low cost for retired people.
- Join organizations of people interested in the same subjects as you. Look in the Yellow Pages under Associations, Clubs, and Social Organizations.
- Read for entertainment and information. Libraries have a wealth of books and other materials available at little or no cost.
- Keep up-to-date on current events. This will help you remain an active member of your community.
- Have regular holidays. They're not just a rest from your activities – they're healthy breaks from regular routines and surroundings.
- Take a part-time job. You may find the activity you need in part-time work, rather than by searching for some new interest.
- The extra income may also help, but look for enjoyment and satisfaction first.
- Start your own business. Research the field and obtain sound advice first – lack of planning causes most small business failure. Remember too, that running a business can be demanding financially, physically, mentally and emotionally.

Whatever you plan for your retirement living, make your motto "I'll do it now", NOT "One of these days I'll…".

With a realistic plan prepared well in advance, you'll find your retirement years a happy, fulfilling time of life. Enjoy them.

Other booklets available for consumer information include:
The Budget Book, The Credit Book, and Facts About Mortgages.
Ask for copies at your Credit Union.

Specific Activity Idea-Starter Exercise

Put an **E** beside each category you have experience in and excel at. Then put an **L** beside each you would particularly like to be involved in. This will identify activities for you to continue into retirement, as well as those you'd like to learn more about.

SELF	SPOUSE/ PLANNING PARTNER		SELF	SPOUSE/ PLANNING PARTNER	
		Hunting			Fishing
		Volunteer Work			Political Involvement
		Languages			Church Work
		Cooking			Travel
		Music			Carpentry
		Mechanics			Hairdressing
		Legal Work			Supervising
		Teaching			Accounting
		Crafts			Art
		Organizing			Public Speaking
		Retirement Counselling			Sewing
		Helping Handicapped			Nursing
		Assisting Elderly			Caring for Children
		Library Work			Writing
		Research			Gardening
		Photography			Typing
		Appraising			Selling
		Teaching Sports			Athletics
		Consulting			Continuing Education
		Other			

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