This article originally appeared in
The Canadian Immigrant Magazine
on June 2007

Plan to retire

Do not let your assets expire before you do; think about how to fund your retirement.

ROBERT RADLOFF
FINANCIAL PLANNING

People are living longer these days, which means the number of years spent in retirement is often equal to, or greater than, the number of years spent working, requiring a greater proportion of income to be set aside per working year to fund retirement.

So, now that you're in Canada, how do you save for retirement?

First, there's the Canada Pension Plan (CPP), a government pension plan funded by deductions from earned income. The CPP benefit entitlement is determined by the amount of contributions you make into the plan. Benefits are payable from age 65 (although reduced early benefits can be received from age 60); the maximum benefit for 2007 is $864 per month.

Old Age Security (OAS) is also a government benefit that starts payments at age 65. In order to receive OAS, you must have lived in Canada for at least 10 years; full OAS benefits are received if you have lived in Canada for at least 40 years. The maximum OAS benefit for 2007 is $492 per month.

If you are employed, you may also be a member of your company's pension plan. They are usually defined benefit plans that pay a specific monthly benefit during retirement.

A Registered Retirement Savings Plan (RRSP) is a personal defined contribution plan that allows an individual to contribute up to 18 per cent of earned income up to a maximum amount of $19,000 for 2007. Plan contributions are tax deductible and any investment income generated in the plan is tax sheltered. Plan withdrawals are fully taxable.Under new legislation, spouses can split their retirement incomes for tax purposes, which means that the overall tax payable can be reduced by utilizing the lower income earner's marginal tax rate.

Retirees who do not have sufficient income flow from pensions may consider using a portion of their investments to purchase an annuity that will pay a series of fixed payments. Annuities are tax efficient when compared to interest-generating investments, but the downside is that the interest rate is fixed at the time of purchase, so if interest rates and inflation increase, then the value of the annuity payments will decrease.

Real estate can also be a valuable source of retirement funding, either generating funds from the downsizing of a principal residence or rental income from investment real estate. Reverse mortgages allow you to stay in your residence while generating an annuity income through a mortgage.

Whatever retirement planning route you choose, the starting point for any plan should be an income-and-cash flow projection that will determine whether your cash flow requirement is attainable. If the cash flow you want in retirement cannot be met, then you may have to work longer than you expected, your investment returns need to be increased by making riskier investments (not often a good idea in retirement) or you may have to simply reduce your cash flow expectations.

Whichever way, the earlier you start to save for retirement, the higher the likelihood of success.

Robert Radloff, CA, CFP, CLU, is vice-president and technical director of Investaflex Financial Group, in Vancouver, B.C. Born in South Africa, he moved to Canada in 1994.