

Taxes in Retirement

PREVIEW

Advisor Name

Advisor Firm

Disclaimer

This is a general source of information only. It is not intended to provide personalized tax, legal or investment advice, and is not intended as a solicitation to purchase securities. Please speak to your personal experts (lawyer, accountant, financial planner, investment advisor, insurance advisor) regarding specific strategies and recommendations.

A person in a white lab coat is shown from the chest down, sitting at a desk. They are using a calculator with their right hand and looking at a laptop screen with their left hand. The background is a bright, out-of-focus office or laboratory setting. The overall image has a light, airy feel with a soft focus.

The Canadian Retirement Dream?:

“47% of Canadians who are currently working believe they are at risk of outliving their retirement savings.”

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Source: Advisor's Edge, Sun Life Barometer, November 19, 2019



The Canadian Retirement Dream?:

“44% expect to be employed full-time at age 66 . . . and 65% of those said it was not out of enjoyment.”

Source: Advisor's Edge, Sun Life Barometer, November 19, 2019

A person in a white lab coat is shown from the chest down, sitting at a desk. They are using a calculator with their right hand and looking at several documents on the desk with their left hand. The background is a bright, out-of-focus office setting.

The Canadian Retirement Dream?:

“72% of Canadians who are already retired say their retirement is not what they were expecting.”

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Source: Advisor's Edge, Sun Life Barometer, November 19, 2019

A person in a white shirt is shown from the chest down, sitting at a desk. They are using a calculator with their right hand and looking at some papers with their left hand. The background is slightly blurred, showing what appears to be a window or a bright light source. The overall scene suggests a professional or financial setting.

The Canadian Retirement Dream?:

“Only **14%** of retired Canadians said they had a financial plan prior to retirement.”

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Source: Advisor's Edge, Sun Life Barometer, November 19, 2019

Question for You:

How many years do you need
to fund your retirement?

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Median Age of Canadian Retirement:

Public Sector Employees	61.3 years old
Private Sector Employees	64.7 years old
Self-Employed	66.9 years old
All Workers	64.0 years old

Life Expectancy for Canadians:

At Age:	Female:	Male:
Birth	83.6	79.4
Age 65	86.7	83.7

Source: Statistics Canada, CANISM Tables, 2016

Workers per Retired Persons:

- 1973: 8:1
- 2013: 4:1
- 2050: 2:1 (projected)

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Source: Statistics Canada, Canadian Demographics at a Glance, 2nd Edition, 2016



Top 3 Primary Goals in Retirement:

- 1) Minimize the risk of outliving your money.
- 2) Maximize the income available to the family.
- 3) Maximize bequests to your heirs.

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Retirement Income & Assets:

- Government Pensions: CPP, OAS, G.I.S.
- RPP: Defined Contribution/Defined Pensions; DPSP
- RRSPs: RRIFs/Annuities
- TFAs
- Non-Registered Assets: Investments, Home



Retirement Income & Assets:

It is the reduction of net income for tax purposes, not necessarily the reduction of the amount of tax you pay, that is of most concern to seniors and retirees, due to clawbacks on:

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Retirement Income & Assets:

- **G.I.S.** (stops being paid at \$18,216 - single)
- **Age Tax Credit** (clawback between \$36,976 - \$85,863)
- **Ontario Tax Credit** (clawback between \$75,910 - \$122,843)
- **Nursing Care Costs** (based on income testing in Ontario)

Retirement Income & Assets:



Maximum CPP/OAS Benefits - 2019

3. Private Savings/
Employer Pensions (RPP)

2. Canada Pension Plan (CPP)

\$13,854.96 (January – December 2019)

1. Old Age Security (OAS)

\$ 7,217.40 (January – March 2019)

Retirement Income & Assets:



Maximum CPP/OAS Benefits - 2019

- Designed to replace approximately 40% of average Canadian income:

CPP = \$13,854 p.a.

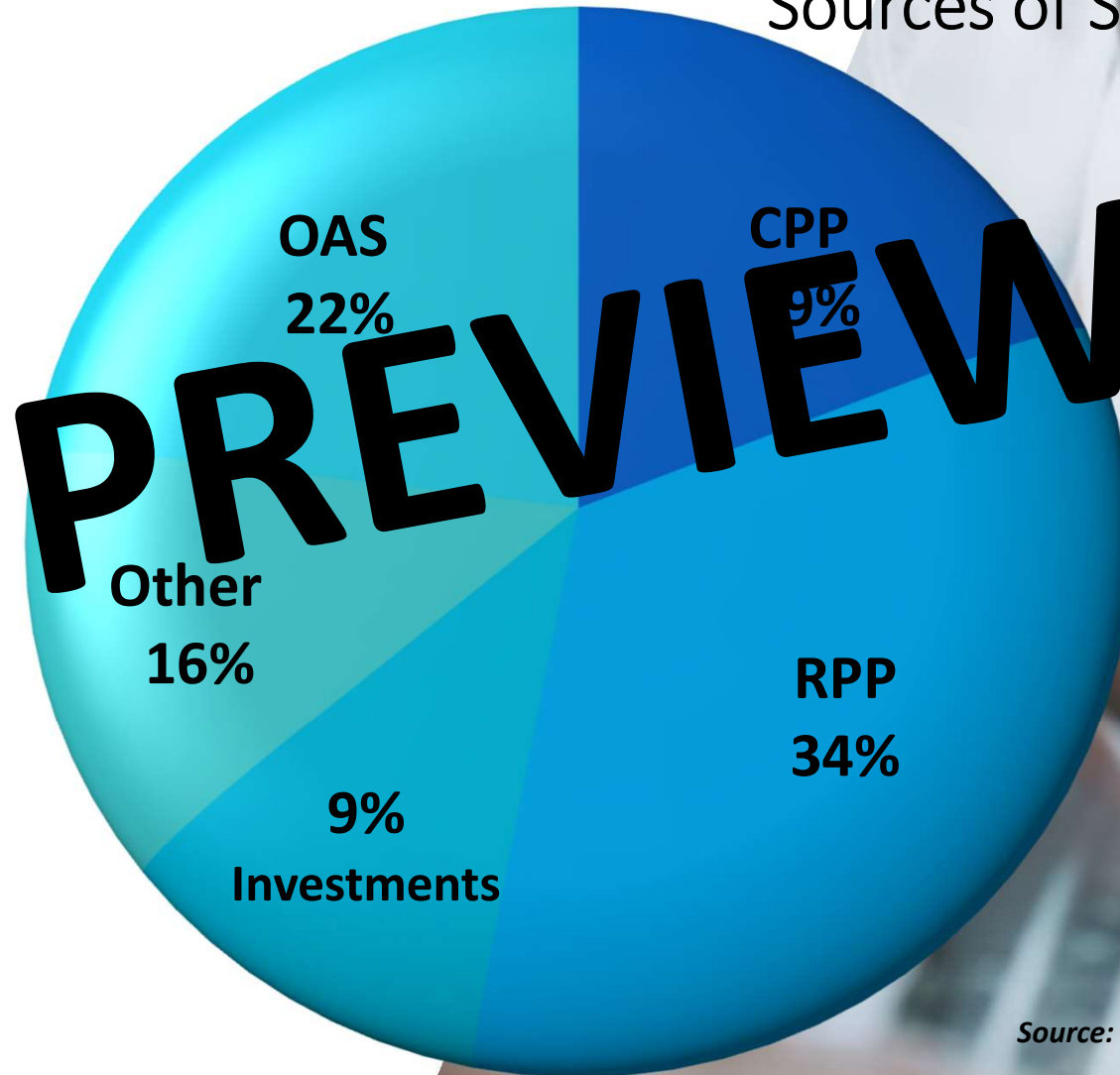
OAS = 7,217 p.a.

Total = \$21,071 p.a. (maximum)

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Retirement Income & Assets:

Sources of Seniors' Income



Source: ESDC, Statistics Canada, 2011

Taxes in Retirement

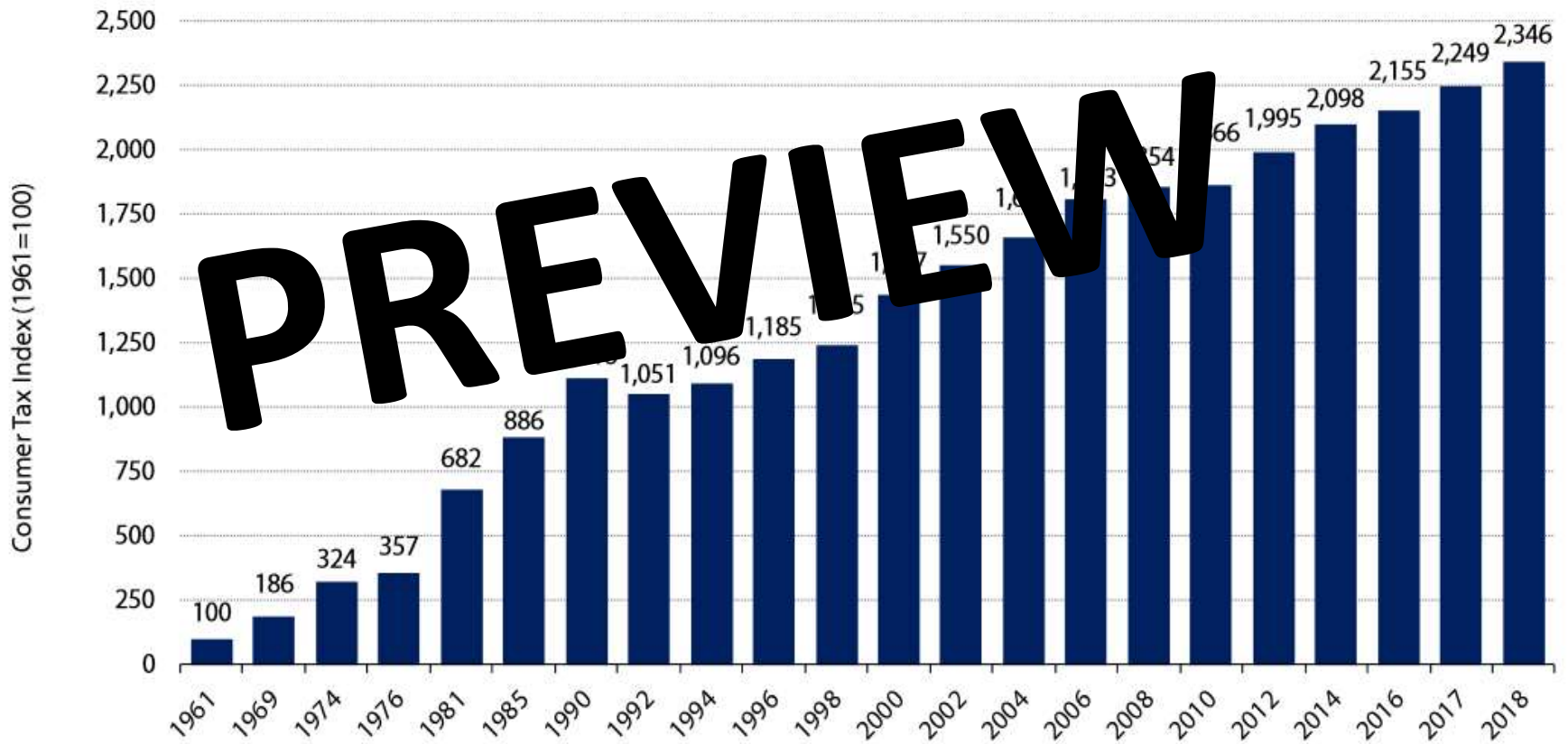




Do You Know What Your Tax Liability Is?

Your Tax Liability

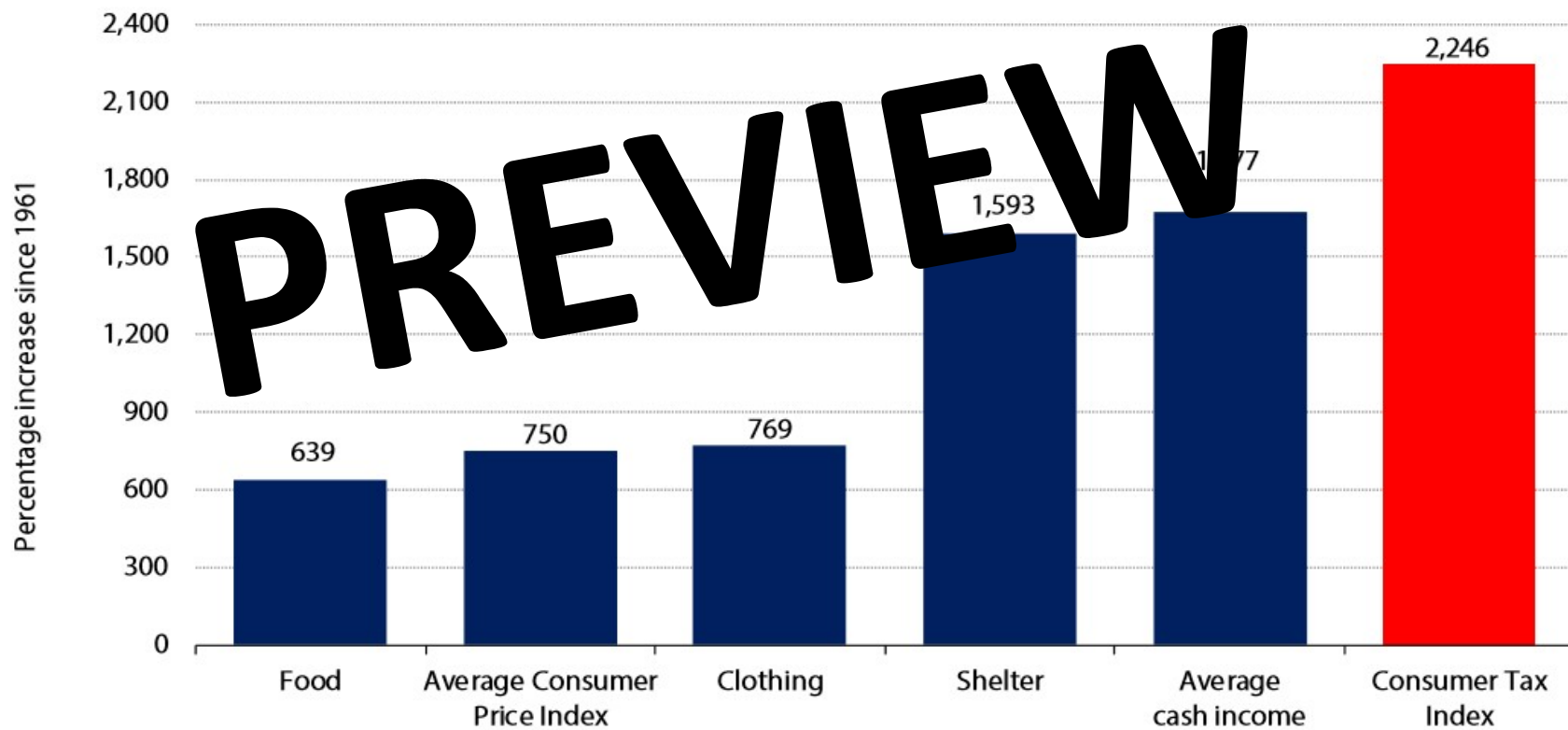
Figure 1: The Canadian Consumer Tax Index, 1961-2018



Source: Fraser Institute: Taxes versus the Necessities of Life: The Canadian Consumer Tax Index, 2019 edition

Your Tax Liability

Figure 6: Increase in the Canadian Consumer Tax Index relative to other indices, 1961-2018



Source: Fraser Institute: Taxes versus the Necessities of Life: The Canadian Consumer Tax Index, 2019 edition

Your Tax Liability

“Ottawa blamed for
\$158 to \$197 billion in waste since 1988
according to estimates from the
Auditor General.”



Source: Fraser Institute, *Federal Government Failure in Canada 2013*

Your Tax Liability

“What Middle-Class Tax Cut?!”

Despite the middle-income personal income tax rate was reduced from 22% to 20.3% . . . 81% of middle-class families are paying \$40 more taxes on average each year.

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Source: Fraser Institute, *Update from the President*, October 23, 2017

Tax Bill of Average Canadian Family

Total cash income

\$ 88,865

Taxes:

	<u>in dollars</u> <u>(\$)</u>	<u>as % of</u> <u>total taxes</u>
Income taxes	1,244	31.2%
Payroll & health taxes	7,175	19.0%
Sales taxes	5,839	14.9%
Property tax	4,254	10.8%
Profits tax	4,726	12.0%
Liquor, tobacco, amusement, & other excise taxes	1,855	4.7%
Auto, fuel, & motor vehicle license taxes	1,096	2.8%
Other taxes	1,071	2.7%
Natural resource taxes	343	0.9%
Import duties	397	1.0%

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Source: *The Fraser Institute's Canadian Tax Simulator, 2019.*

Tax Bill of Average Canadian Family

- *Total income*
- *Total taxes*

\$88,865

\$39,299

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44.2%

Source: *The Fraser Institute's Canadian Tax Simulator, 2019.*

2019 Federal/Ontario M.T.R.s

Taxable Income	Tax	On Next
\$ 0 -12,069	\$ 0	0.00%
12,070 -15,414	502	15.00%
15,415 -20,245	1,714	25.10%
20,246 -43,906	6,458	20.05%
43,907 -47,630	7,358	24.15%
47,631 -99,999	7,358	29.65%

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2019 Federal/Ontario M.T.R.s

Taxable Income	Tax	On Next
\$ 77,318	\$ 16,160	20.90%
87,844	19,404	22.08%
91,950	20,578	22.38%
95,260	22,155	23.26%
147,688	44,905	30.41%
150,001	45,988	30.66%
210,372	74,947	35.62%
220,001	79,952	36.34%

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Your Potential M.T.R. at 65?

70 - 80%
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Source: C.D. Howe Institute: 2007 Tax Competitiveness Report

Your Potential “Estate Tax”?

53.53%

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Source: C.D. Howe Institute: 2007 Tax Competitiveness Report

So What to Do?



“You Inc.”



Source: Moshe Milevsky, *Are You a Stock or a Bond*, FT Press, 2009

Tax Planning



Tax Planning (Beyond the 3 D's)

Objectives:

1. Minimize tax.
2. Maximize income.



Tax Planning in Retirement



Strategies . . .

Tax Planning in Retirement



Investment Income

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Minimize Dividends

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Severance Payment Spread

Tax Planning in Retirement



Capital Gains Spread

Tax Planning in Retirement



Optimize TFSAs

Tax Planning in Retirement



Corporate Class Funds

Tax Planning in Retirement



T-Class Funds

Tax Planning in Retirement



Pension Income Splitting

Tax Planning in Retirement



CPP Sharing

Tax Planning in Retirement



Spousal Loan

Tax Planning in Retirement



Minimize RRSP Withdrawals

Tax Planning in Retirement



Spousal RRSP post age 71

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Leveraged Life Strategy

Tax Planning in Retirement



Transfer Assets to HoldCo

Tax Planning in Retirement



Transfer Assets to Trust

Tax Planning in Retirement



Gift Assets



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OUR ROLE...?

“You Inc.”



Source: Moshe Milevsky, *Are You a Stock or a Bond*, FT Press, 2009

The “Personal CFO” Model



Source: Collison, *The Financial Advisors' Guide to Excellence*, Thomson Reuters, 2015



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