Financial Planning for Retirement

Part I

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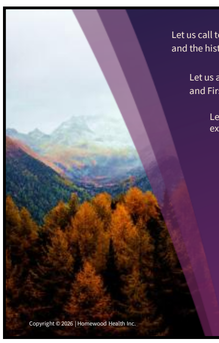

Let us call to mind our relationships with the Indigenous Peoples of the lands we are on today, and the histories and impacts of these relationships.

Let us acknowledge that we meet on the ancestral and unceded territories of Inuit, Métis, and First Nations peoples.

Let us acknowledge that our historical relationships impact present-day Indigenous experiences, and that each of our present-day actions shape the future.

Along with this, we also acknowledge our collective responsibilities and solidarity to restore our commitment to support action and meaningful dialogue.

We're grateful to have the opportunity to live and work here.

Some places to learn more:

https://www.whose.land

https://nctr.ca/records/reports/

https://www.thecanadianencyclopedia.ca/en/article/aboriginal-people

Aboriginal Peoples Television Network: https://www.aptnnews.ca/

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University of Alberta Assistance Programs Information

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Telephone:	780-428-7587
Toll Free English:	1-800-663-1142
French:	1-866-398-9505
TTY:	1-888-384-1152

Confidential Counselling Available 24/7

- Faculty and Staff: Employee and Family Assistance Program (EFAP)
- Graduate Students: Graduate Student Assistance Program (GSAP)
- Create an account at Homeweb.ca to access free eCourses, webinars and articles.

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Setting the tone

Why are we here today?

Respect for diverse perspectives and life experiences

Maintain confidentiality

Be kind to yourself and others

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What is financial planning?

- ❑ A process to help you
  - Find out where you are now
  - Determine where you want to go
  - Figure out how to get there
- ❑ A roadmap to your financial security

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What is a financial planner?

- ❑ An individual to help you with your financial plan
- ❑ In Alberta, anybody can call themselves a financial planner
- ❑ To sell certain financial products, individual must be licensed

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Financial planners use a six-step process

1. Clarify present situation
2. Identify financial goals and objectives
3. Identify financial problems and opportunities
4. Create recommendations and alternative solutions
5. Implement the strategy
6. Review and update periodically

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How are financial planners paid?

Fee only
- Hourly $100 – $300
- Per plan $250 – $5,000

Commission only
- Disclosed, upfront
- Hidden, ongoing

Fee plus commission
- Fee for planning
- Commission for product sale

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Agenda

- What is your target?
- What are your sources of income?
- How does this compare to your target?
- How do you make up the difference?
- How do you take money from RRSPs and TFSAs?
- How do you create income from your investments?

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Retirement goals

- When do you want to retire?
- How much do you want to spend?
- How much (if any) do you want to leave to your kids?

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How much do you want to spend?

Depends on what you are spending now!

Current Lifestyle Expenses ± Changes prior to retirement ± Changes at retirement = Retirement Lifestyle Expenses

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Preparing a budget

Obstacles

- Tedious paperwork
- Time consuming
- Feels restrictive
- Leads to arguments
- Creates frustration, failure

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How do you know what to spend?

- Need cash flow tracking system
  - Computer programs
  - Manual systems
- Keep it simple, easy to use

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What expenses are different in retirement?

Gross Salary	Take Home
CPP	Mortgage Payments
EI	Car Loans
Pension Cont	Child Expenses
Association Dues	Travel
Medical/Dental	Hobbies
Income Tax	Business Clothing

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What is my take home pay?

Salary	$75,000
CPP	$4,246
EI	$1,123
Pension	$6,835
Union Dues	$675
Income Tax	$9,948
Take Home	**$52,773**
Monthly: $4,348	

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What are your sources of income in retirement?

- ❑ Employer pension plan
  - UAPP, PSPP
- ❑ Canada Pension Plan
- ❑ Old age security
- ❑ Registered Retirement Savings Plans
- ❑ Tax Free Savings Accounts
- ❑ Other savings and investments

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Public Service Pension Plan
Universities Academic Pension Plan

- ❑ Defined benefit plans
- ❑ Provide a lifetime pension based upon:
  - Earnings
  - Years of service
  - Formula

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PSPP formula

1.4% x FAE up to AMPE
+ 2% x FAE above AMPE
× pensionable service

FAE = Final Average Earnings
- Average Of Best 5 Consecutive Years Of Salary

AMPE = Average Maximum Pensionable Earnings
- Average Of Last 5 Years Of CPP Earnings

Pensionable Service = Years and Days of Work
- Full Time And Part Time

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PSPP pension calculation

EXAMPLE

Pensionable Service: 35 Years
Average Salary: $72,500

Basic Pension
1.4% x $69,180 **x 35** = $33,898
+ 2% x $3,320 **x 35** = $2,324
= $36,222 ***per year***, $3,019 ***per month***

- May be adjusted for early retirement
- Age 65 or 85 factor

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UAPP formula

1.4% x FAE up to AMPE
+ 2% x FAE above AMPE
x pensionable service

➢ Bridge Benefit of 0.6% of AMPE x pensionable service

FAE = Final Average Earnings
- Average Of Best 5 Consecutive Years Of Salary

AMPE = Average Maximum Pensionable Earnings
- Average Of Last 5 Years Of CPP Earnings

Pensionable Service = Years and Days of Work
- Full Time And Part Time

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UAPP pension example

EXAMPLE

Pensionable Service: 20 Years
Average Salary: $135,000

Basic Pension
1.4% x $69,180 **x 20** = $19,370
+ 2% x $65,820 **x 20** = $26,328
= $45,698 ***per year***, $3,808 ***per month***

- May be adjusted for early retirement
- Age 60 or 80 factor

Bridge to 65
0.6% x $69,180 x 20 = $8,302 *per year*, $692 *per month*

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UAPP and PSPP

- Indexed for inflation
  - 60% of the rise of Alberta CPI
- Cost of living adjustments:
  - 2024: 2.34%
  - 2025: 1.74%
  - 2026: 1.20%
- Survivor benefit also increased

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Questions about your pension?

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What is Canada Pension Plan?

Universal Pension Plan for all workers

- Every person who pays in to CPP is entitled to a pension
  - Contribute 5.95% of salary up to $74,600
  - Contribute 4% of salary from $74,600 to $85,000

Normal retirement age is 65

- You can start your pension anytime after age 60

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What will you get from CPP?

Maximum at age 65 is $1,507.65 / Mo.

($18,092 / Year) (January 2026)

- Includes basic amount of $17,295
  + extra amount of $797 (since 2019)
- Average pension is $803.76 / Mo. (October 2025)

Indexed annually to increase in CPI

- 2023 Increase was 6.3%
- 2024 Increase was 4.7%
- 2025 Increase was 2.6%
- 2026 Increase was 2.0%

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Will you get the maximum?

Actual calculation is:

- 25% of your Average Adjusted Career Earnings (up to Average YMPE)
  - (33% of earnings after 2018)
  - Past earnings are adjusted for inflation
  - 17% of low earning years ignored
- Maximum YMPE in 2025 is $74,600
- Average YMPE in 2025 is $69,180

Request A Personal Statement
1-800-277-9914

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Maximum pensionable earnings

1966	$5,000	2011	$48,300
1971	$5,400	2016	$54,600
1976	$8,300	2020	$58,700
1981	$13,100	2022	$64,900
1986	$25,800	2023	$66,600
1991	$30,500	2024	$68,500
1996	$35,400	2025	$71,300
2001	$38,300	2026	$74,600
2006	$42,100	**Average: $69,180**	

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When does CPP start?

Normal retirement age is 65
- You can start an unreduced pension at 65

Early or late retirement
- Payments can start between ages 60 and 65
- Payments can be deferred to past age 65

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When does CPP start?

0.6% per month reduction for pension commencing **before age 65**
- 36% reduction at age 60

0.7% per month increase for pension commencing **after age 65**
- 42% increase at age 70

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Early retirement

Retirement at **age 60**
- If entitled to maximum pension
- Reduction = 36% (.6% x 60 months)
- Reduced pension = $964.90 / mo.
  (64% x $1,507.65) ($11,578.75 / year)

You do not need to “retire”
- But you do need to contribute if continuing to work

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Deferred retirement

Retirement at **age 70**

- If entitled to maximum pension
- Increase = 42% (.7% x 60 months)
- Increased pension = $2,140.86 / mo.
  (142% x $1, 507.65) ($25,690.36 / year)

You do not need to work

- But if working after 65, you must continue contributing

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Should you start CPP early?

Months of Extra CPP	
Age 60	60 mo
Age 61	48 mo
Age 62	36 mo
Age 63	24 mo
Age 64	12 mo
Age 70	-60 mo

Months to Catch Up	
107 mo	Age 74
119 mo	Age 75
131 mo	Age 76
143 mo	Age 77
155 mo	Age 78
143 mo	Age 82

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Should you start CPP early?

Amount you would collect by age 85

If starting at age **60**: $289,469

If starting at age **65**: $361,836

If starting at age **70**: $385,355

Is there a right answer?

- Yes! If you know your date of death!

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Reasons for starting CPP

Early
- Drop out rules
- Need money
- Poor health
- OAS clawback

Late
- Tax sheltering
- Increased pension
- Long life

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What work period is covered?

Begins:
- 1966 or age 18

Ends:
- Death, commencement of CPP, or disability

Excludes:
- Years caring for children under age 7
- Periods of low earnings (17%)

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Contributory period

- Contributory Period before drop-out: 42 years
- Dropped Out: 17% x 42 = 7 years
- Contributory Period after drop-out: 42-7 = 35 years
- Start CPP immediately - reduced for early retirement $964.90
- Unreduced Pension if starting CPP at 65 $1,507.65

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Estimate of pension

Maximum Contribution	Age 18-60 42 years	Age 18-55 37 years	Age 22-55 33 years
CPP at 60	$11,579	$11,579	$10,917
CPP at 65	$18,091	$17,164	$15,308
Breakeven Point	Age 73.9	Age 75.4	Age 77.4

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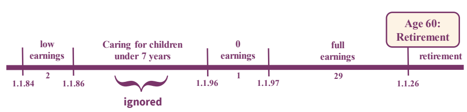
Child rearing dropout



- Contributory Period before drop-out: 2+1+29 = 32 years
- Dropped Out: 17% x 32 = 5 years
- Contributory Period after drop-out: 32 - 5 = 27 years
- Start CPP immediately - No reduction due to zero earnings!
- Reduced if start CPP at 65

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Post retirement benefit

If you **continue to work** after starting your CPP, you will have to **continue to contribute** to CPP

- Employee contribution 5.95% + 4.0% (maximum $4,646.45)
- Employer contribution 5.95% + 4.0% (maximum $4,646.45)

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Post retirement benefit

You will be eligible for a **post retirement benefit**

- Maximum benefit is $54.69 per month for each extra year of contribution

The PRB is reduced by your early retirement reduction (0.6% per month before age 65)

The PRB is increased by your deferred retirement increase (0.7% per month after age 65)

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CPP survivor benefits

Death Benefit

- Lump sum paid to estate
- Equal to six months pension
- Maximum of $2,500

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CPP survivor benefits

Surviving spouse's pension

- Paid to legal spouse

Over 65

- 60% of retirement pension
- Maximum of $904.59 / mo.
- Adjusted for your own retirement pension

Age 45 - 64

- Flat benefit ($238.17 / mo.) + 37.5% of retirement pension
- Maximum of $803.54 / mo.

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Questions about CPP?

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What is Old Age Security?

Transfer payment from federal government to seniors

Maximum amount is $742.31 (January 2026)

You are eligible if you are:

- ✓ Age 65
- ✓ A Canadian citizen or
- ✓ A legal resident

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What will you get from OAS?

You will receive :

- A full pension with 40 years residency
- A full pension with 10 years residency before 1977
- Partial pension with 10 to 40 years residency after 1977

Pension is indexed quarterly to CPI

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Will I get to keep my OAS?

- OAS "Clawback"
- Tax payable equal to lesser of:
  - OAS received in year
  - 15% of net income exceeding $95,323
- $95,323 threshold indexed to CPI
- OAS tax is deducted from income before regular tax is calculated

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"Clawback" example

EXAMPLE

Net income:	$105,323
Excess income:	$10,000
Clawback:	$1,500
Net benefits:	$7,408

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You can now delay OAS

Starting **July 2013**:

- Can delay OAS by up to 5 years in exchange for higher amount
- Payment increased by .6% for every month after age 65 you delay
- Maximum deferral is 5 years (to age 70) for an increase of 36%
- Receive $1,009.54 instead of $742.31
- Must live to age 84 to break even

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Who should delay OAS?

- ☑ Especially good for those still working:
  - Can avoid OAS Clawback
  - May not need income
- ☑ Also good for those who live a “long” time
- ☒ Risk of government changing rules in future

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Will Old Age Security be around in the future?

- Started in 1927
- Universal payments started in 1952
- “Clawed back” from “rich” in 1989
  - 15% tax on income above $50,000
  - Threshold amount indexed by CPI
- Senior’s benefit attempted in 1996
- Delayed start attempted in 2013
- Future?

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Questions about OAS?

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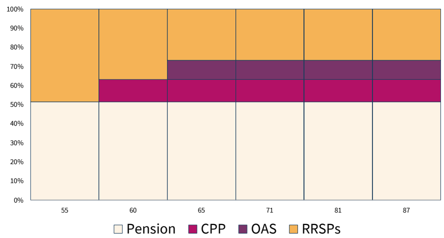
How do these incomes work together?



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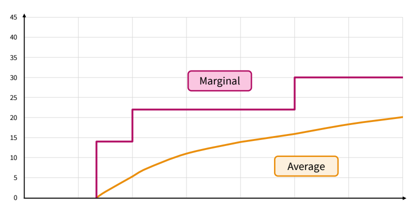
Average vs. marginal tax rates



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What if I want 80% of my salary?

Current salary $75,000

- (Average salary for pension $72,500)

Retirement income of $60,000

- ($5,000 per month)

After tax about $51,250

- ($4,271 per month)
- Almost 98% of current take home pay

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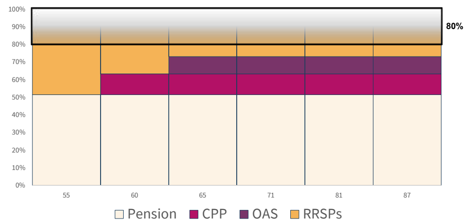
How much do I need to draw from RRSPs?



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How much do I withdraw?

Age 55

- **PSPP** ($3,019) **+ RRSP** ($1,981) = $5,000

Age 60

- **PSPP** ($3,019) **+ CPP** ($995) **+ RRSP** ($986) = $5,000

Age 65

- **PSPP** ($3,019) **+ CPP** ($995) **+ OAS** ($742) **+ RRSP** ($244) = $5,000

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How much do I need in RRSPs for 80%?

Age 55 - 60

- RRSP $1,981 x 60 mths = $118,860

Age 60 - 65

- RRSP $986 X 60 mths = $59,160

Age 65 - 85

- RRSP $244 X 240 mths = $58,560

Total = $236,580

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What if I want 60% of my salary?

Current salary $75,000

- (Average salary for pension $72,500)

Retirement income of $45,000

- ($3,750 per month)

After tax about $39,645

- ($3,304 per month)
- About 75% of current take home pay

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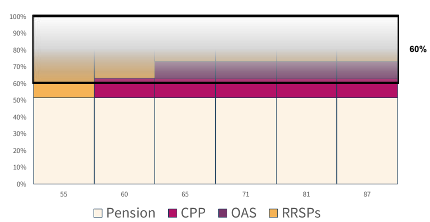
How much do I need to draw from RRSPs?



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How much do I withdraw?

Age 55

- **PSPP** ($3,019) **+ RRSP** ($731) = $3,750

Age 60

- **PSPP** ($3,019) **+ CPP** ($964) **+ RRSP** ($0) = $3,983

Age 65

- **PSPP** ($3,019) **+ CPP** ($964) + **OAS** ($742) **+ RRSP** ($0) = $4,725

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How much do I need in RRSPs for 60%?

Age 55 - 60
- RRSP $731 x 60 mths = $43,860

Age 60 - 65
- RRSP $0 X 60 mths = $0

Age 65 - 85
- RRSP $0 X 240 mths = $0

Total = $43,860

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What if you have 20 years at 60?

Average Salary $72,500
- **1.4%** x $69,180 **x 20** (= $19,370)
  + 2% x $3,320 **x 20** (= $1,328)
  = $20,698 *per year*, $1,725 *per month*

⇩ Reduced 15% for early retirement = $1,466 *per month*

- If you want a retirement income of $45,000 ($3,750 per month)
- After Tax About $39,645 ($3,304 Per Month)
  - About 75% of current take home pay

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How much do I withdraw?

Age 60
- **PSPP** ($1,466) **+ CPP** ($964) **+ RRSP** ($1,320) = $3,750

Age 65
- **PSPP** ($1,466) **+ CPP** ($964) **+ OAS** ($742) **+ RRSP** ($578) = $3,750

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How much do I need in RRSPs for 60% of salary at age 60?

Age 60 - 65

- RRSP $1,320 X 60 mths = $79,200

Age 65 - 85

- RRSP $578 X 240 mths = $138,720

Total = $217,920

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Where are you now?

What is your current financial position?

- ❑ **Net Worth Statement**
  - Assets - Liabilities = Net Worth
- ❑ **Cash Flow Statement**
  - Income - Expenses = Savings

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Net Worth Statement

Assets	
Chequing & Savings	$10,000
Deposits & GICs	$5,000
Mutual Funds	
Stocks & Bonds	$1,000
Pension Plans	$200,000
RRSPs	$50,000
TFSAs	$35,000
Residence	$550,000
Vehicles	$50,000
Other	$25,000
Total	**$1,076,000**

Liabilities	
Credit Cards	$2,000
Line of Credit	$30,000
Vehicle Loans	$25,000
Investment Loans	
Mortgage	$100,000
Total	$157,000
Net Worth	**$919,000**

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How much do I need to save?

- $217,920 - $85,000 = $132,920
- $132,920 in 5 years = $2,215 / mo
- $132,920 in 10 years = $1,108 / mo

Is this realistic?

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How do you make up the difference?

☑ Reduce lifestyle expenses at retirement

☑ Postpone retirement date or find part time work

☑ Increase savings for retirement

☑ Improve return on investment

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What if you work to 65?

Average Salary $72,500

- **1.4%** x $69,180 **x 25** (= $24,213)

  + 2% x $3,320 **x 25** (= $1,660)

  = $25,873 *per year*, $2,156 *per month*

➢ No reduction for early retirement

Age 65

- **PSPP** ($2,156) **+ CPP** ($1,507) **+ OAS** ($742) = $4,405
  - Slightly more than 100% of current take home pay

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Questions?

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University of Alberta Resources

The University of Alberta has a number of resources that may assist Faculty and Staff during times of stress, uncertainty and transition.

Culture + Well-being webpage

Facing Facts (University of Alberta Anti-Stigma Campaign) – Learn more!

- Effects of Change on Mental Health
- Is stress getting you down? You are not alone!

EFAP eCourses: Embracing Workplace Change; Resilience; Taking Control of Stress

Life Lines articles:

- 6 Steps to Reducing Work Stress
- Me-Time: Managing Stress and Finding Work-Life Balance
- Mental Wellness at Work
- 10 Steps to Achieving Work-Life Balance
- Self-Care: Time and Attention for You

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