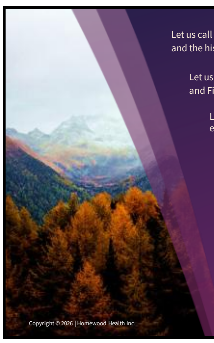
Financial Planning for Retirement

Part II

1



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

The University of Alberta has assistance programs that are designed to support individuals dealing with personal, family or work-related issues.

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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Where we left off

- Want to retire at age 60 with 60% of salary
- Need $132,920 more of RRSPs to supplement pensions
  - or else work longer, spend less
- Depending on years until retirement need to save
  - $132,920 in 5 years = $2,215 / mo
  - $132,920 in 10 years = $1,108 / mo
  - $132,920 in 15 years = $738 / mo

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Where should I save?

RRSP, TFSA, Other

➢ Depends on tax situation

- RRSP - defer tax until later
- TFSA - pay tax now and not later
- Other - pay tax now and later

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2026 marginal tax rates

Tax Bracket	Federal	Fed/Alta
$0 – 58,523	14%	22%
$58,524 - $61,200	20.5	28.5
$61,201– 117,045	20.5%	30.5%
$117,046 – 154,259	26%	36%
$154,260 – 181,440	26%	38%
$181,441 - 185,111	29%	41%
$185,112 – 246,813	29%	42%
$246,814 – 258,482	33%	43%
$258,483 – 370,220	33%	47%
$370,221 +	33%	48%

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After 65, watch out for clawbacks

Age exemption $1,797 ($9,208 x 22%)

- Reduced by 15% of income over $46,432

OAS clawback $8,908 ($742.31 x 12)

- Repayment of 15% of income over $95,323
- Completely clawed back if income over $154,708

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“Clawback” example

EXAMPLE

Net income: $105,323
Excess income: $10,000

Clawback: $1,500
($10,000 x 15%)

Tax: $2,593
($8,500 x 30.5%)

Total tax & clawback: 40.9%

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Tax brackets over age 65

Taxable Income	Federal	Fed/Alta
$30,867 – 46,432	14%	22%
$46,433 – 58,523	16.1%	24.1%
$58,524 – 95,323	22.7%	33.9%
$95,324 – 117,045	32.4%	40.9%
$117,045 – 154,708	37.1%	45.6%
$154,709 – 181,440	26%	38%
$181,441 +	29-33%	41-48%

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Sharing pension income

Accounting entry on tax return

- Up to 50% of pension income can be transferred to partner
- Either spouse can transfer
  - Create pension income tax credit
  - Reduce income tax rate
  - Reduce OAS clawback
- Pro rata amount of tax withheld also shared

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What is pension income?

Qualifying pension income

- Employer pension anytime
- RRIF and LIF income after 65
- Annuity income after 65
- Never RRSP withdrawals

Can split Canada Pension Plan

- Pension split at source (Service Canada)
- Pension split based on period of cohabitation

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Benefits of an RRSP

Tax deduction at current tax rates

- Tax on contribution is deferred until withdrawn

Defer tax on investment income

- Investment income not taxed until withdrawn

Withdraw when in a lower tax bracket

- during retirement
- during unemployment
- during low employment

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Benefits of a TFSA

No tax deduction for contributions

- tax already paid on income at marginal rate

Contribute up to $7,000 per year

- contribution room can be carried forward indefinitely
  - total contribution room so far $109,000

Take money out any time, for anything

- no tax on withdrawals (income or principal)
- withdrawals will not affect government benefits

Can re-contribute amount withdrawn

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Other investments

Pay tax now on income at marginal rate

- Invest what is left after tax

Pay tax on investment income each year

- Interest, rent, dividends, capital gains

Pay tax on capital gain on sale

No tax on principal when spent

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How is investment income taxed?

Marginal Tax Rate	Interest Tax Rate	Dividend Tax Rate	Cap Gain Tax Rate
22%	22%	-1.6%	11%
30.5%	30.5%	10.2%	15.25%
36%	36%	17.8%	18%
38%	38%	20.5%	19%
41%	41%	25.1%	20.5%
42%	42%	26.5%	21%
47%	47%	32.9%	23.5%
48%	48%	34.3%	24%

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Which is better RRSP or TFSA?

Depends

- On tax bracket now and later
- On time invested

- ❑ More money in RRSP than TFSA
- ❑ RRSP income and principal taxable
- ❑ TFSA principal taxed, earnings tax free

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		NON-RRSP	RRSP	TFSA
Year 1)	**Income**	$1,000	$1,000	$1,000
	Tax @ 30.5%	(305)	------	(305)
		$ 695	$1,000	$ 695
	Interest @ 5%	35	50	35
	Tax @ 30.5%	(11)	-----	-----
		719	1,050	730
Year 2)	**Interest @ 5%**	35	53	36
	Tax @ 30.5%	(11)	-----	-----
		743	1,103	766
Year 3)	**Interest @ 5%**	36	55	38
	Tax @ 30.5%	(12)	-----	-----
		767	1,158	804
	Tax @ 30.5%	-----	(354)	-----
Same Tax Rate		**$ 767**	**$ 804**	**$ 804**

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		NON-RRSP	RRSP	TFSA
Year 1)	**Income**	$1,000	$1,000	$1,000
	Tax @ 30.5%	(305)	------	(305)
		$ 695	$1,000	$ 695
	Interest @ 5%	35	50	35
	Tax @ 30.5%	(11)	-----	-----
		719	1,050	730
Year 2)	**Interest @ 5%**	35	53	36
	Tax @ 30.5%	(11)	-----	-----
		743	1,103	766
Year 3)	**Interest @ 5%**	36	55	38
	Tax @ 40.9%	(15)	-----	-----
		764	1,158	804
	Tax @ 40.9%	-----	(474)	-----
Higher Tax Rate		**$ 764**	**$ 684**	**$ 804**

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		NON-RRSP	RRSP	TFSA
Year 1)	**Income**	$1,000	$1,000	$1,000
	Tax @ 30.5%	(305)	------	(305)
		$ 695	$1,000	$ 695
	Interest @ 5%	35	50	35
	Tax @ 30.5%	(11)	-----	-----
		719	1,050	730
Year 2)	**Interest @ 5%**	35	53	36
	Tax @ 30.5%	(11)	-----	-----
		743	1,103	766
Year 3)	**Interest @ 5%**	36	55	38
	Tax @ 22%	(8)	-----	-----
		771	1,158	804
	Tax @ 22%	-----	(255)	-----
Lower Tax Rate		**$ 771**	**$ 903**	**$ 804**

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Questions about where to save?

?

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What investments should I buy?

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What investments can I buy in my RRSP or TFSA?

Any recognized Canadian security

- Savings accounts, term deposits, GICs
- Treasury bills, CSBs, government bonds, corporate bonds
- Shares of Canadian and foreign companies listed on stock exchanges
- Certain other shares, options, etc.
- Mortgages, mortgage-backed securities
- Mutual funds

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What investments are not allowed in RRSP or TFSA?

Generally tangible assets

- Gold, silver other commodities
- Foreign currency
- Futures contracts
- Real estate
- Collectibles: stamps, coins, art, etc.

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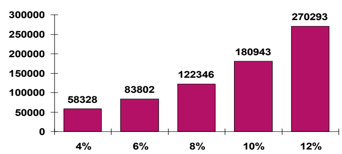
Growth of $1,000 annual deposit over 30 years



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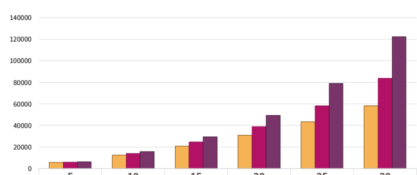
Growth of annual deposit of $1,000



	5	10	15	20	25	30
4%	5633	12486	20825	30969	43312	58328
6%	5975	13972	24673	38993	58156	83802
8%	6336	15645	29324	49423	78954	122346

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How do you invest?

Determine your goals

- Are you looking for income or growth?

Assess your comfort zone

- Are you conservative or aggressive?

What are your personal circumstances?

- Do you have a lot or a little to invest
- Do you have a lump sum or monthly amounts

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Definition of risk

In the investment industry, risk means **variability of return**, not the possibility of losing all your money

Higher returns and variability go together; It's worth it when:

- Time frames are long
- You have latitude as to when you need the money

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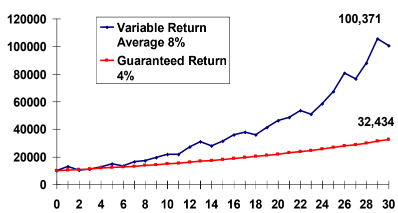
Is it worth the risk?



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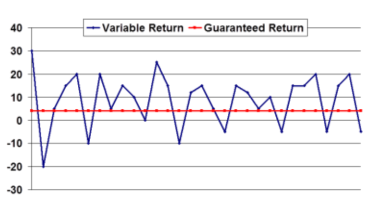
But what does it really look like?



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What investments give you higher returns?

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
CDN EQUITY (TSX)	31.7	21.7	12.1	-8.5	25.1	5.6	22.9	-8.9	6.0	21.1
US EQUITY (S&P)	12.2	36.4	21.6	-13.6	28.1	18.6	26.5	3.6	11.7	11.4
INTL EQUITY (EAFE)	25.6	13.8	28.3	-10.7	11.4	8.5	16.3	-9.0	13.9	5.8
CDN BONDS (DEX UNIV)	2.6	4.2	7.9	-11.7	-2.4	8.7	6.9	1.4	2.5	1.7
CDN T-BILLS (90 DAY)	2.6	4.6	5.7	2.5	0.1	0.4	1.6	1.4	.7	.5
GOLD (BULLION)	57.8	36.9	11.8	6.8	-3.4	22.8	12.7	6.8	6.0	5.3

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What investments give you higher returns?

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
CDN EQUITY (TSX)	-8.3	10.6	9.6	7.6	-8.7	17.6	35.0	-33.0	9.8	17.3
US EQUITY (S&P)	20.8	23.2	38.6	10.9	2.2	9.4	8.1	-21.9	-10.6	15.7
INTL EQUITY (EAFE)	20.5	3.7	31.8	15.3	-9.7	2.8	13.2	-29.4	-5.3	26.3
CDN BONDS (SM UNIV)	3.5	8.8	-1.2	3.6	9.7	6.7	5.4	6.4	3.8	4.0
CDN T-BILLS (90 DAY)	.5	.9	1.0	.9	.2	.3	.1	3.1	4.2	4.0
GOLD (BULLION)	6.8	7.2	-23.1	7.0	13.3	22.9	8.7	27.2	11.3	23.2

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What investments give you higher returns?

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
CDN EQUITY (TSX)	24.1	14.5	26.7	-12.2	-12.6	7.4	31.7	-1.6	15.0	28.3
US EQUITY (S&P)	-0.2	3.3	5.3	-23.1	-6.5	-6.6	12.4	35.8	36.7	20.8
INTL EQUITY (EAFE)	10.0	12.0	13.4	-16.6	-16.6	-10.8	19.7	28.5	6.5	7.0
CDN BONDS (SM UNIV)	6.5	6.8	6.7	8.7	8.1	10.2	-1.1	9.2	9.6	12.3
CDN T-BILLS (90 DAY)	2.6	2.2	2.9	2.5	4.2	5.4	4.7	4.8	3.2	4.1
GOLD (BULLION)	14.8	-2.3	-1.2	23.9	7.6	-2.4	-4.4	6.7	-18.2	-4.2

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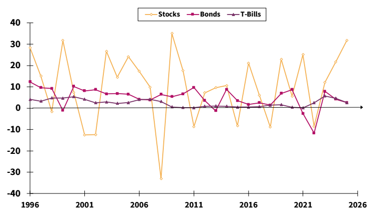
What was the best investment?



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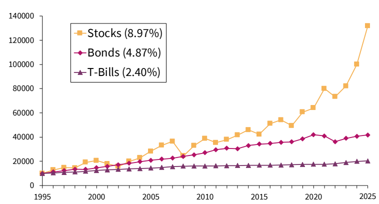
Stocks provided the highest return



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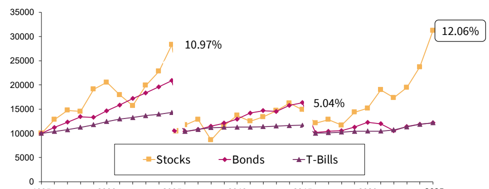
Do stocks always provide the highest return?



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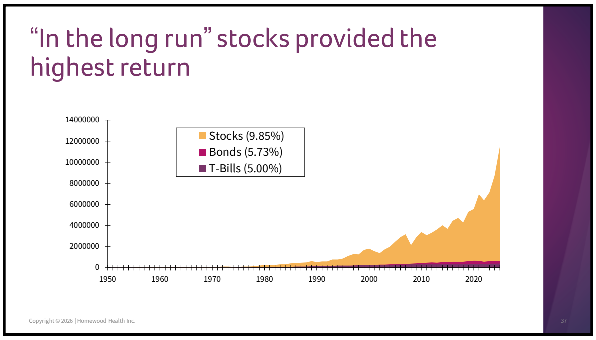
"In the long run" stocks provided the highest return
Stocks (9.85%)
Bonds (5.73%)
T-Bills (5.00%)
14000000
12000000
10000000
8000000
6000000
4000000
2000000
0
1950
1960
1970
1980
1990
2000
2010
2020
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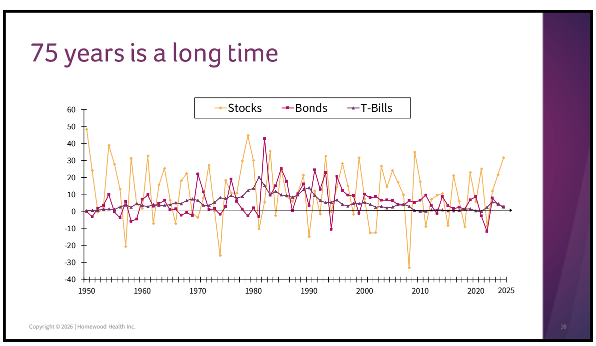
75 years is a long time
Stocks
Bonds
T-Bills
60
50
40
30
20
10
0
-10
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-40
1950
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1970
1980
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2020
2025
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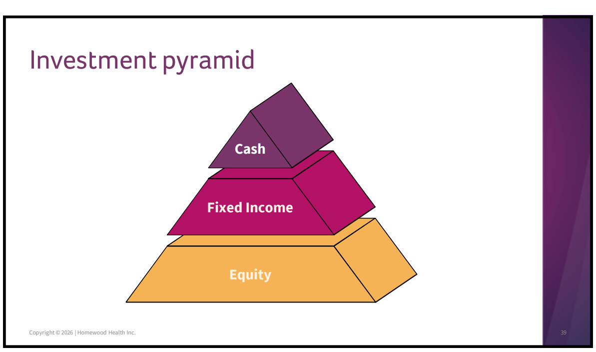
Investment pyramid
Cash
Fixed Income
Equity
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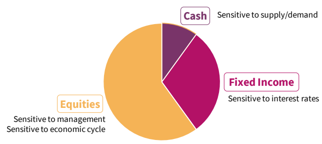
Create a portfolio of investments

Hold a **diversified** group of investments



- Provides safety through diversification
- Investments react differently to economic change

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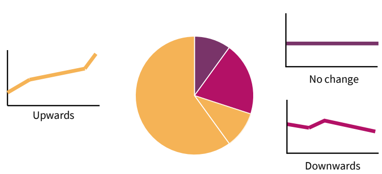
Managing your portfolio

Things **change over time**
- No one can predict how or when



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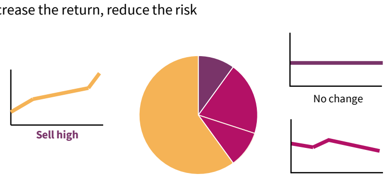
Investment portfolio

You can **react to change**
- Increase the return, reduce the risk



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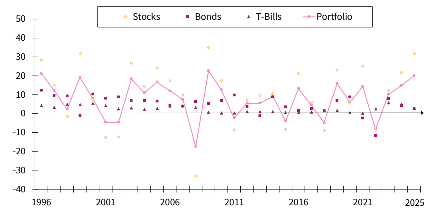
A portfolio smoothes the annual return



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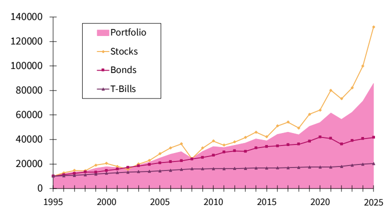
While providing a good return



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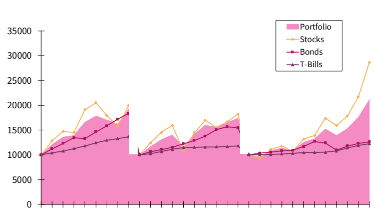
A portfolio always provides a good return



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Do you need a lot of money for a portfolio?

No!

- You can have an excellent portfolio with as little as $1,000

You get:

- Professional management
- Excellent diversification
- High quality investments

How?

- Investment funds
  - Mutual, segregated, pooled, exchange traded

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How do you set a portfolio mix?

Decide on **primary objective**

Income ←→ Growth
1 2 3

Decide how **aggressive** you want to be

Conservative ←→ Experienced
1 2 3

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Choose asset mix

Income required	Investment approach Conservative 1	Average 2	Experienced 3
High 1	20 / 80 / 0	15 / 75 / 10	10 / 70 / 20
Some 2	15 / 55 / 30	10 / 50 / 40	5 / 45 / 50
None 3	10 / 30 / 60	5 / 25 / 70	0 / 20 / 80

Cash / Fixed Income / Equity

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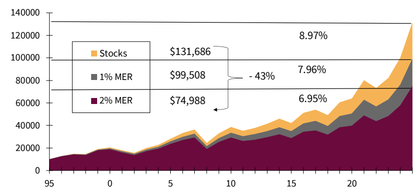
Effect of management fees



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Are there alternatives?

Pooled funds
- Management fees based on account size

Investment counsel
- Your own mutual fund

Investment broker
- Fee based or commission
- Robo advisor

Do it yourself
- Discount brokerage
- Low cost mutual funds, etfs
- Individual stocks, bonds, gics

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Questions about investments?

?

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How do you get money out of your RRSP and TFSA?

Withdraw cash as needed

- Lump sum payments
  - Anytime investments allow
- Periodic payments
  - Monthly
  - Quarterly
  - Semi-annually
  - Annually
  - ➢ Investments must allow payments
- Cost of withdrawals?

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How do you create retirement income?

Purchase an annuity

- Could be a life annuity, or
- Fixed term annuity

Transfer to a RRIF (Registered Retirement Income Fund)

Mixture of both

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Fixed term vs. Life annuity

Fixed Term Annuity

- Pays for term of annuity
- Interest rate may fluctuate
- Estate value = principal remaining

Life Annuity

- Pays for life of annuitant
- Interest rate set at purchase
- No estate value

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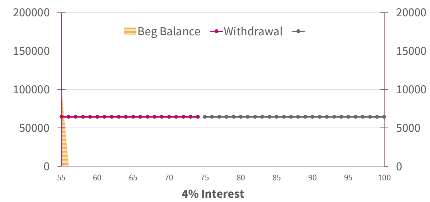
Income from life annuity



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Registered retirement income fund

What is a RRIF?

- Basically, a continuation of your RRSP
- But with mandatory minimum payments

What is the **minimum payment** based on?

- Capital balance at beginning of year
- Age of annuitant

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What is the minimum withdrawal?

AGE	%	AGE	%	AGE	%
50	2.50	65	4.00	80	6.82
51	2.56	66	4.17	81	7.08
52	2.63	67	4.35	82	7.38
53	2.70	68	4.55	83	7.71
54	2.78	69	4.76	84	8.08
55	2.86	70	5.00	85	8.51
56	2.94	71	5.28	86	8.99
57	3.03	72	5.40	87	9.55
58	3.13	73	5.53	88	10.21
59	3.23	74	5.67	89	10.99
60	3.33	75	5.82	90	11.92
61	3.45	76	5.98	91	13.06
62	3.57	77	6.17	92	14.49
63	3.70	78	6.36	93	16.34
64	3.85	79	6.58	94	18.79
				95 +	20.00

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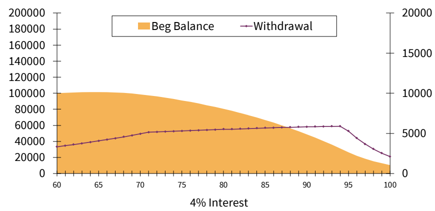
Minimum payment from RRIF



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Can you take more than the minimum?

- Payment can be any amount above minimum
- Investments must allow for cash withdrawal
- Taxes withheld on additional payments

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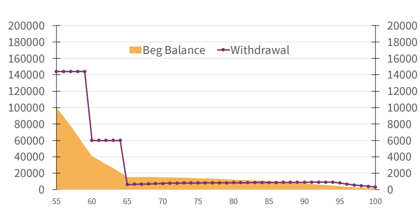
Flexible payment from RRIF



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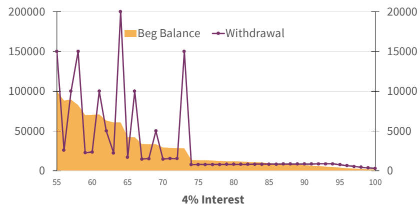
Flexible payment from RRIF



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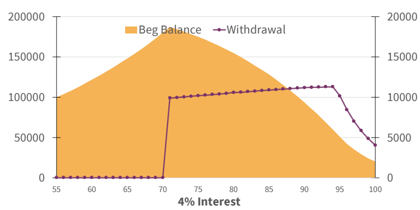
Deferred payment from RRSP/RRIF



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What is a Life Income Fund?

Similar to Registered Retirement Income Fund (RRIF)

Except:

- ❑ Minimum and maximum withdrawals
  - Fund cannot be cashed in
- ❑ Spouse must waive entitlement to joint annuity

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What amounts can be withdrawn from LIF?

Minimum Withdrawal

- Set by Canada Revenue Agency (CRA)
- Same as RRIF

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What amounts can be withdrawn from LIF?

Maximum Withdrawal

- Set by province
- Greater of
  - Investment earnings of previous year
  - Annuity factor of a term-certain annuity to age 90
  - Income Tax Act minimum RRIF withdrawal
- In first year, can unlock 50%

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Maximum and minimum withdrawals

AGE	MAX	MIN	AGE	MAX	MIN
65	7.38	4.00	80	12.82	6.82
66	7.52	4.17	81	13.87	7.08
67	7.67	4.35	82	15.19	7.38
68	7.83	4.55	83	16.90	7.71
69	8.02	4.76	84	19.19	8.08
70	8.22	5.00	85	22.40	8.51
71	8.45	5.28	86	27.23	8.99
72	8.71	5.40	87	35.29	9.55
73	9.00	5.53	88	51.46	10.21
74	9.34	5.67	89	100.0	10.99
75	9.71	5.82	90	100.0	11.92
76	10.15	5.98	91	100.0	13.06
77	10.66	6.17	92	100.0	14.49
78	11.25	6.36	93	100.0	16.34
79	11.96	6.58	94	100.0	18.79
			95 +	100.0	20.00

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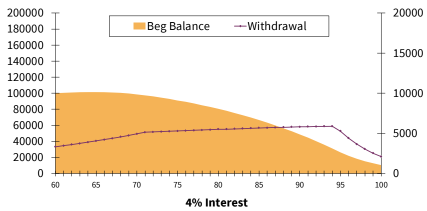
Minimum income from LIF



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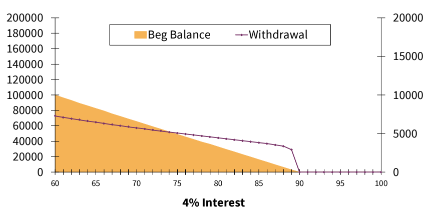
Maximum income from LIF



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When should you start your RRIF LIF?

- Can start any time, no minimum age
- Must start before age 72
- Should start when you need regular supplemental income

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What investments are allowed?

Same as RRSP investments

- Savings accounts, term deposits, GICs
- Shares of Canadian or foreign companies
- Treasury bills, CSBs, government bonds, corporate bonds
- Mortgages, mortgage-backed securities
- Options, rights and warrants
- Mutual funds
- Annuities

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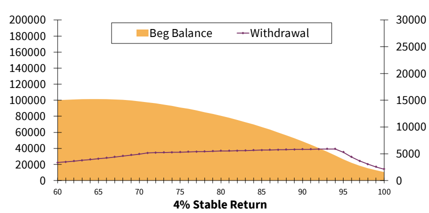
Minimum payment from guaranteed return RRIF



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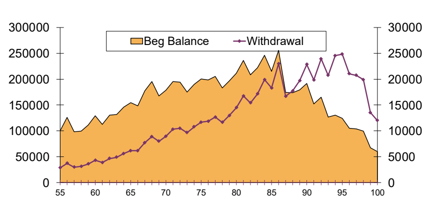
Minimum payment from variable return RRIF



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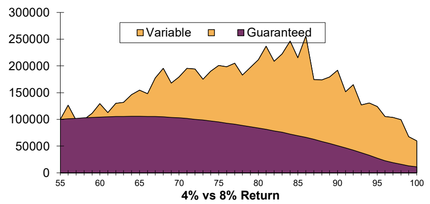
Guaranteed vs variable return RRIF balances



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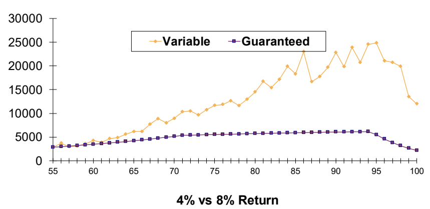
Comparing incomes



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What if you try for higher returns?

- Principal is not guaranteed
- Income fluctuates from year to year
- Depending on how successful you are, income may be lower than guaranteed

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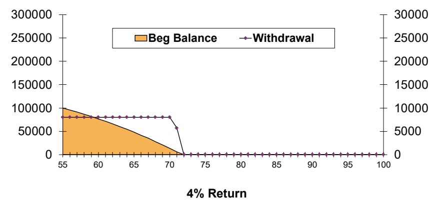
8% withdrawal from guaranteed return RRIF



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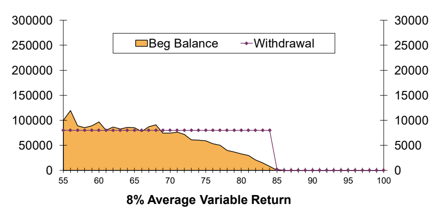
8% withdrawal from variable return RRIF



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Should you choose an annuity or a RRIF?

It depends on your objectives

- Investment risk?
- Maximum periodic income?
- Maximum estate?
- Inflation protection?
- Maximum tax deferral?
- Adjustable withdrawals?

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Questions about RRIFs, LIFs or annuities?

?

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How do you create income from investments?

One or more of the following strategies:

- ☑ monthly pay GICs or provincial bonds;
- ☑ semi-annual pay bonds with staggered payment dates;
- ☑ annual payment GICs with staggered payment dates;
- ☑ fixed income mutual funds with monthly payments;
- ☑ dividend paying stocks with staggered payment dates;
- ☑ rental real estate with positive cash flow;
- ☑ equity mutual funds with monthly withdrawals;
- ☑ various trust units with staggered payment dates;
- ☑ selling growth stocks periodically for capital gains.

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Summary

1. Determine your target
2. Review your sources of pension income
3. Is there a shortfall?
   - How will you make up the shortfall?
   - Save, invest, reduce expenses, defer retirement
4. How will you draw from your investments?
   - RRSP/RRIF, TFSA, non-registered
   - Income, principal

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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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University of Alberta Assistance Programs Information

The University of Alberta has assistance programs that are designed to support individuals dealing with personal, family or work-related issues.

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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