

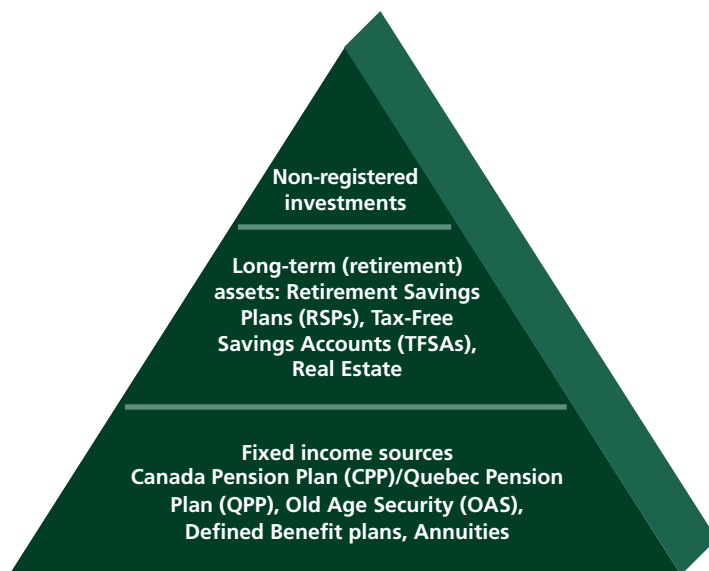
Retirement Income Planning – Maximizing Your Cash Flow

Budgeting your after-tax cash flow matters in retirement

Cash flow is often more important in retirement than in pre-retirement, particularly in the early stages of this life cycle. During this new phase in a person's life, many retirees face the challenge of adjusting to the fact that many expenses do not come with an on/off switch, coupled with the reality that they now have to manage lifestyle expenses without the benefit of a salary. Working with an advisor may help you prioritize and utilize the assets that you have built up during your lifetime to help ease these pressures. Achieving this goal will generally involve creating a budget as well as a full review of your living expenses.

How you might improve your after-tax retirement cash flow?

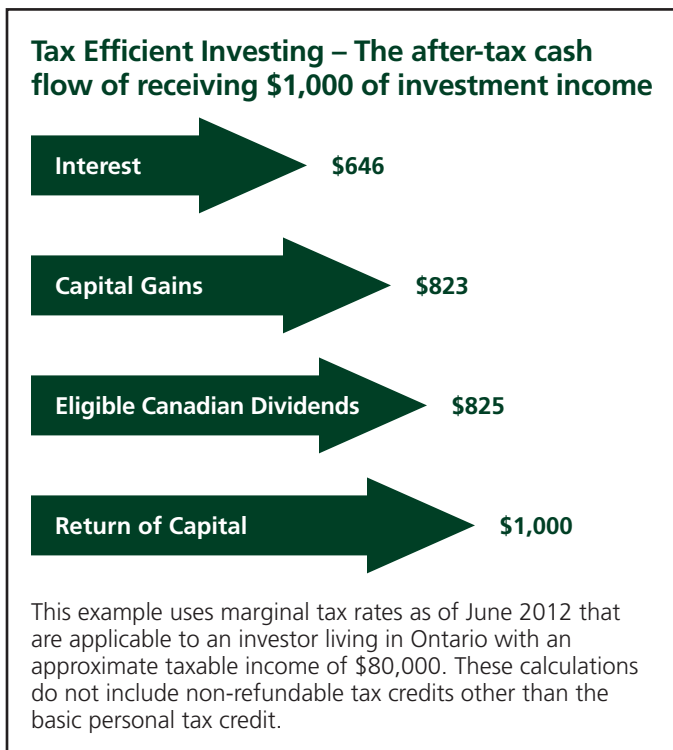
To better understand how you may improve your retirement cash flow, you must first understand what funds are available to you. The following diagram, often referred to as the "retirement pyramid", illustrates the main sources of income that a retiree will typically utilize during their retirement years. The foundation, or lowest pyramid tier, includes income that is perceived as fixed or "guaranteed" such as government benefits and employer sponsored/funded retirement plans. The second and third levels include assets that you may have accumulated during your working years to help meet your retirement objectives.



Understanding the resources that you have available to meet your retirement goals is the first step in determining your retirement cash flow. The second step is to assess and manage the tax efficiency of the income you are collecting to help minimize the amount of income taxes paid. To this end you will need to understand (where applicable) the tax effectiveness of the income received and determine whether any portion of this income can be split or shared with a spouse or common-law partner ("partner") to minimize the overall taxes you pay as a couple. Managing tax efficiency, will often involve working with your tax specialist or accountant in addition to your financial advisor.

Financial planning principles suggest that fixed income sources such as government benefits and employer sponsored defined benefit plans be used to meet your "fixed" living expenses while other sources of income are directed towards discretionary expenses. However, a more holistic approach to meeting your retirement needs may involve assessing your income needs in stages as you advance through your retirement years. Once you have assessed your needs, you may prioritize the income available to meet those needs.

One course of action for retirees to consider is working with a financial advisor to prepare retirement scenarios and review future income sources and needs.



Based on your particular circumstances, you may consider making withdrawals from your non-registered investments first. While this may result in using some or all of your non-registered capital, it may allow your RSPs to grow on a tax-deferred basis. When you are required to collapse or convert your RSP into a RIF (or purchase an annuity), any required withdrawals, such as minimum RIF payments, may then be used to pay for fixed expenses, discretionary expenses, or reinvested into a non-registered account or TFSA (where contribution room is available).

As a retiree, it is important to understand how various sources of investment income within a non-registered account are taxed as this can help improve your retirement cash flow. Your advisor can help you structure your investment portfolio to minimize the amount of tax you pay and maximize your cash flow. The example to the left illustrates the after tax value of \$1,000 of investment income based on various income sources that may be generated within a non-registered account.

Call your TD Waterhouse representative today to find out how we may help with your retirement income planning needs.



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