TD Wealth

10 STEPS TO A BETTER RETIREMENT

WHAT DO YOU DO WITH WHAT YOU HAVE SO YOU DON'T RUN OUT OF MONEY?

Snow
Wealth Management Group

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What to do with what you have so you don't run out of money.

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WHAT EVERY RETIREE NEEDS TO KNOW

It's not just that saving for retirement is hard; it's that planning for retirement income has gotten more complicated. It used to be that Canadian workers retired with an easy formula made up of guaranteed benefit from the Canadian Pension Plan (CPP) and Old Age Security (OAS), a guaranteed lifetime pension from your employer, and an amount of savings invested in the stock market where it was almost sure to earn a solid return.

Times have changed. Today's retirees are dealing with a lot more uncertainty. The Canadian government now faces the challenge of continuing to fund long-term social programs at historic levels during a period of increasing life expectancy, impending labour shortages and significant budgetary deficits begging the question as to when to elect to take your CPP benefits. CPP benefits can be drawn as early as age 60 (reduced 0.6% for each month before 65) or as late as age 70 (increased 0.7% for each month after 65). The basic things to consider include life expectancy and your personal benefit entitlements but if you're married you also need to consider your spouse. Upon predeceasing your spouse the death benefit consist of up to $2,500 and a survivor's benefit. However, if the spouse is already receiving a retirement, the maximum monthly amount cannot exceed the maximum benefit.

Things on Wall Street and Bay Street have also gotten more volatile as news travels at the press of a button and automated computer trading programs can change things in a millisecond. If we remember September 29th, 2008, the Dow Jones Industrial Average (DJIA) dropped so sharply, $1.2 trillion in market investments were obliterated in a single day [1]. More recently, the global stock market lost $2 trillion after Britain voted to leave the European Union [2].

Stock market investments have become the focal point for today's retirees who rely on defined-contribution pension plans. The security of defined-benefit corporate pension plans which outline exactly what you will receive in retirement regardless of the markets have almost all but disappeared. Defined-contribution plans are prevalent in helping workers save by offering easy and affordable access to market investments. However the challenging part comes once you stop working. Why? Because the burden of figuring out how to turn these investments into a reliable income stream is placed on YOU. These decisions must be made with several variables in mind such as increased market volatility, changing public policy, rising taxes, and our newly gifted lease on life.

Yes, retirement has gotten more complicated, but you don’t have to figure it out alone. A host of new products, strategies, services and options have been developed with the modern retiree in mind. What follows is a 10-step guide to help access the best of what's available so you can be better prepared.

1. PLAN TO LIVE A LONG LIFE

It's no big secret that we are living longer. Back when the CPP was created in 1965, the average life expectancy at birth was age 68 for men and age 75 for women. A man turning 65 today can expect to live until age 84 on average while women will get to enjoy life until age 87 [3]. It also seems that married people live longer than those who are single, and the older you get, the greater your chances of living even longer. A healthy couple today, aged 65 has a 50% chance that at least one of the spouses will live beyond age 90.

Source: Annuity 2000 Mortality Table, Society of Actuaries. Figures assume a person is in good health.

Retirement Challenge: Making Your Money Last

People are living longer, which increases the odds of outliving your money

This all sounds like really excellent news, and it is, until you look at your investment portfolio. How are you going to make sure that the money lasts as long as you do? The answer: careful planning.

CHECKLIST

- ✓ Look into health history and your family's life expectancy and stress test your income plan against it.

2. BE REALISTIC ABOUT HEALTH CARE

If only our bodies looked as young on the outside as we feel on the inside. Unfortunately, the Centers for Disease Control and Prevention (CDC) tells us that the longer we go on living, the greater our chances for a chronic health condition such as diabetes, arthritis and heart disease [4]. In 2009, they reported that 75% of people over 40 experienced a critical illness at some point during their lives. Critical illnesses include cancer, heart attack or stroke. What's even more eye-opening is that surviving an illness like this could very well end up being your biggest problem: financial hardship due to medical costs is the number three cause of bankruptcy in Canada behind income loss and divorce [5].

SIDE-NOTE. GOOD TO KNOW.

How much is living longer going to cost you? Good question. Canadians like to believe they have access to free healthcare, but a new report squashes those illusions. An average Canadian family pays $12,000 per year for healthcare insurance and those costs have nearly doubled in the last decade, according to Fraser Institute report. Healthcare insurance costs are rising 1.6 times faster than the average Canadian income [6].

The largest expense you could face outside of basic costs is long-term care. The Globe and Mail explains the length of stay in a long-term care facility is about 18 months and their *Long-Term Care Calculator* estimates that in B.C. that would cost a minimum of $17,842 up to $56,835 [6]. This doesn’t include your spouse, any medications or other special needs that may arise.

There is also the question of frailty issues that can come up later in life as our bodies no longer cooperate with what we want them to do. For married couples, it is especially important to think about what the financial picture might look like for the surviving spouse. Women tend to outlive men, and when you combine that with the fact that most women are younger than their spouses, you'll understand why statistics find that the average widow ends up living alone for 14 years or more [7]. Will she have enough money to pay for her health care?

If taking care of your spouse is important to you, then you will want to work alongside a financial expert who can help you reallocate your investments with both of you in mind. Another important note is your advisors longevity. Also, not too many think about how hard it might be for you, or the surviving spouse to start a new relationship and new retirement plan should your financial expert retire during your most important planning years. Regardless of your married status, having an investment plan that delivers enough income will go a long way toward preserving your dignity and quality of life.

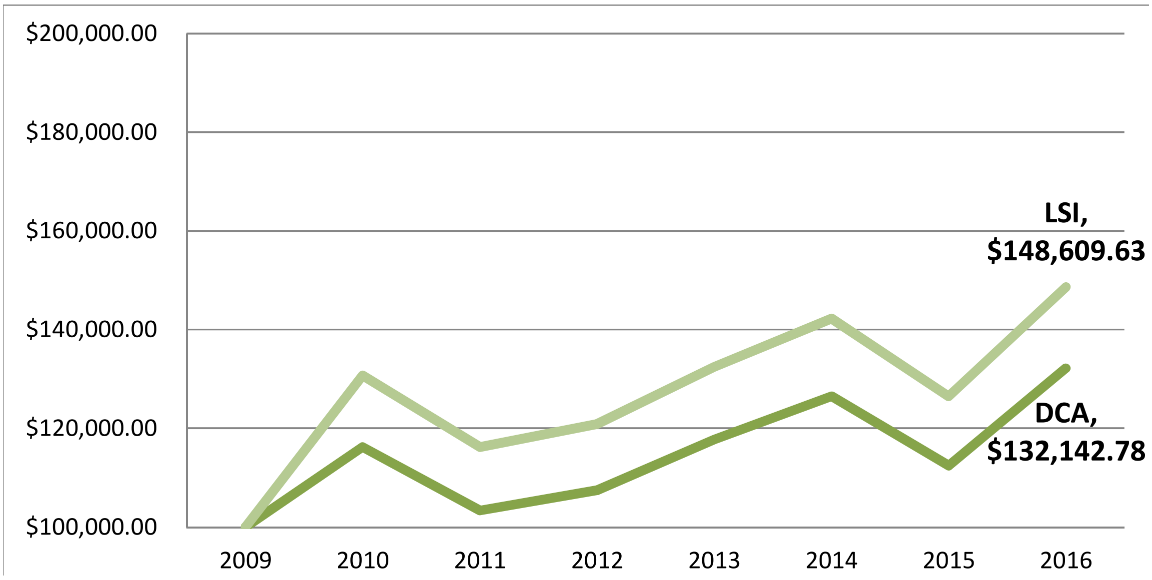
CHECKLIST

- ✓ Budget health care expenses for yourself and, if you are married, your spouse, when planning your income needs.
- ✓ Make sure your advisor and your plan has a succession plan should they not be in the industry for the entirety of your retirement.

3. REVISIT YOUR GOALS

Every investor whether they are married or single has two financial phases: the accumulation phase and the distribution phase.

The accumulation phase represents your working years. This is when the goal of your investments is typically to earn the highest returns possible. A strategy such as tax-deferred growth is instrumental to your savings plan. Dollar cost averaging is a common strategy used in the accumulation phase to slowly get invested over time as markets can be volatile. A common misconception is that dollar-cost-averaging is the best way to get invested but as outlined below, that is not always the case.



Source: ca.investing.com S&P/TSX Composite historic returns, Marley Snow

This graph displays the growth of $100,000 invested in the S&P/TSX Composite Index through both **lump sum investing (LSI)** and **dollar-cost averaging (DCA). $10,000** is invested through **DCA** while **$100,000** is invested immediately through **LSI**. As you can see, LSI outperformed DCA by $16,466.85 between March 1, 2009 and December 31, 2016. During periods of rising equity markets, LSI usually outperformed DCS over the long-term. However, LSI also has greater potential for losses during periods of market decline. Investors who are comfortable with short-term market fluctuations, are satisfied with their asset allocation, and have a long-term investment horizon, should carefully consider the benefits and risks of investing now to fully realize the growth potential of time in the markets in the accumulation phase.

The distribution phase represents your golden retirement years. This is when the goal of your investments is to provide income so you can pay your bills, because now, you are likely no longer working. You are also no longer contributing those dollars to your investment accounts. Instead of dollar cost averaging, you are taking money out of accounts regardless if they are going up or down in value. This is one reason why investing during your distribution years is different from investing during your accumulation years.

MARKET MATTERS

Back in the day when most retirees had rock solid pension plans, there wasn't as much pressure placed on market investments. Secondly, interest rates were substantially higher so safer fixed income investments like GIC's, term deposits, and bonds contributed a solid stream of income. Times have certainly changed for retires with globalization and the advancement of technology adding to market volatility and interest rates at near record lows. The need for reliable income for the next 20 to 30 years puts even more pressure on your investments. You may get an amount from CPP and OAS, but that amount alone will likely not be enough for all your income needs. How can the average investor earn enough of a return to keep up with inflation while also producing income?

Trying to time the market during retirement has become a risky business. No one has a crystal ball to predict when or how much the markets will go up or down. Strategies such as a 60/40 allocation or the four-percent rule once served as guidelines for investors wanting to transition a portion of their assets out of aggressive investments such as stocks and into more conservative investments such as bonds. These guidelines, however, don't always work for today's retirees because in our current investment climate, it's not enough to earn an acceptable rate of return.

Retirement: Understanding the Challenges

SEQUENCE OF RETURNS

Sequence of returns is an investment risk that may affect investors, specifically those in retirement, who are actively drawing income from their investment portfolios. The sequence of returns typically does not impact you in the accumulation phase when you are adding to your portfolio. The same cannot be said during the distribution phase, when market lows combined with regular withdrawals can have a significant impact on your portfolio, particularly when negative returns happen as you begin to make those withdrawals. Understanding the impact that sequence of returns has on a portfolio is critical to help ensure you have steady and long-lasting income stream.

During your distribution years, you can average a perfectly acceptable rate of return over the course of a 25 year retirement and still run out of money. How is that possible?

Let's look at an example: If a retiree is withdrawing 5% of their savings per year, then the asset base will likely decline over time (depending on overall returns). As a result, investment returns at the beginning of the distribution phase impact a greater number of assets, thereby setting the stage for the portfolio's future income flow. On the other hand, the effects of investment returns in later stages of retirement are not as pronounced as they impact a smaller amount of assets.

Imagine one investor who retires and enjoys a long sequences of good returns, followed by one very bad year. What does his account look like at the end of 20 years? Calculating the sequence of returns using the U.S. S&P 500 Index historical annual returns shows us that with a starting value of $1 million dollars earning an average **10.36%** rate of return, he would be A-Okay (highlighted in green).

Now imagine that same investor with the same $1 million dollars eaning the same **10.36%** rate of return. He retired, saw one very bad year, and then enjoyed a long sequence of good returns. What does his account look like at the end of 20 years? He ran out of money during year 19 (red).

Sequence of Returns Comparison

Year	Total Return	Balance		Year	Total Return	Balance
1989	31.69%	$ 1,266,900	1	1989	- 37.00%	$ 580,000
1990	-3.11%	$ 1,175,999	2	1990	5.49%	$ 560,342
1991	30.47%	$ 1,481,281	3	1991	15.29%	$ 595,775
1992	7.62%	$ 1,539,519	4	1992	4.91%	$ 570,391
1993	10.08%	$ 1,638,427	5	1993	10.88%	$ 576,174
1994	1.32%	$ 1,602,090	6	1994	28.68%	$ 683,457
1995	37.58%	$ 2,144,453	7	1995	- 22.10%	$ 472,711
1996	22.96%	$ 2,575,326	8	1996	- 11.89%	$ 355,012
1997	33.63%	$ 3,371,116	9	1997	-9.11%	$ 259,332
1998	28.58%	$ 4,269,343	10	1998	21.04%	$ 248,656
1999	21.04%	$ 5,100,416	11	1999	28.58%	$ 252,527
2000	-9.11%	$ 4,566,557	12	2000	33.63%	$ 267,558
2001	- 11.89%	$ 3,952,305	13	2001	22.96%	$ 257,701
2002	- 22.10%	$ 3,005,419	14	2002	37.58%	$ 281,118
2003	28.68%	$ 3,791,744	15	2003	1.32%	$ 209,199
2004	10.88%	$ 4,126,387	16	2004	10.08%	$ 152,388
2005	4.91%	$ 4,248,757	17	2005	7.62%	$ 83,765
2006	15.29%	$ 4,836,994	18	2006	30.47%	$ 26,646
2007	5.49%	$ 5,017,423	19	2007	-3.11%	$ -
2008	- 37.00%	$ 3,073,301	20	2008	31.69%	$ -
Avg:	**10.35%**			**Avg:**	**10.35%**	

Starting value of $1 million earning S&P 500 Index returns with annual withdrawals of $50,000 indexed for 3% inflation.
Source: Bloomberg L.P. actual stock market annual returns

CHECKLIST

- ✓ Identify which phase you are in.
- ✓ Understand how the sequence of returns could affect your portfolio
- ✓ Create a low risk pool of assets that can provide a set number of years income

4. ADJUST YOUR INVESTMENT STRATEGY

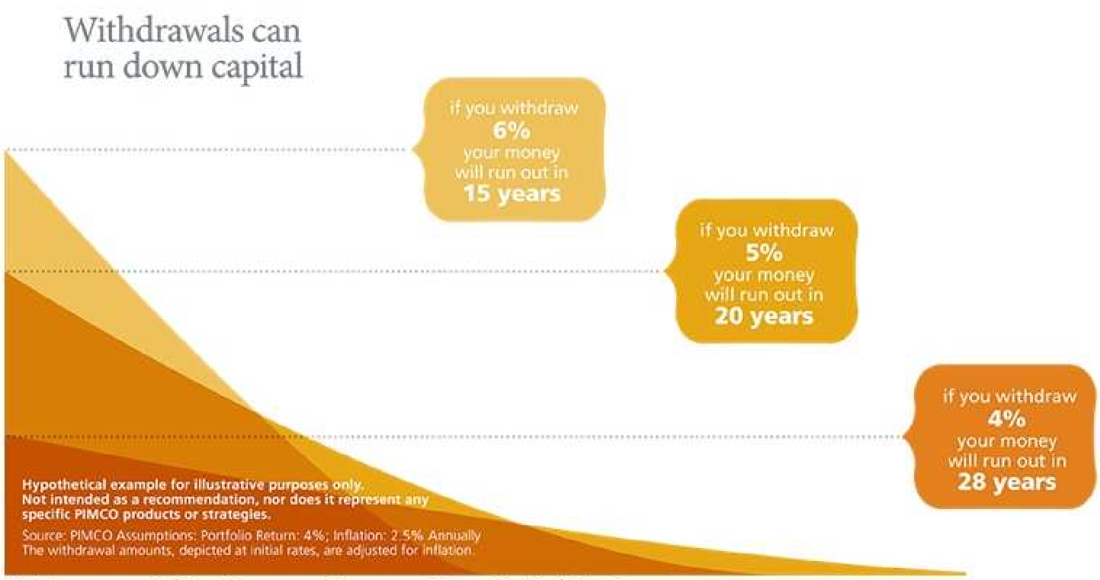
As the sequence of returns shows us, it's not enough just to average a good rate of return. During your distribution years, you need to have all of your investments working together in support of your new goal: retirement income. Below, I have included a basic example of the longevity of a conservative portfolio courtesy of Pacific Investment Management Co.

When you recognize the shift that happens during your distribution years, you understand the need to pair investments with sources of reliable income. Those sources might include your CPP and OAS payments. It might also include rental income, royalty payments, real estate investments, stock dividends, bond yields, and income payments from annuities.

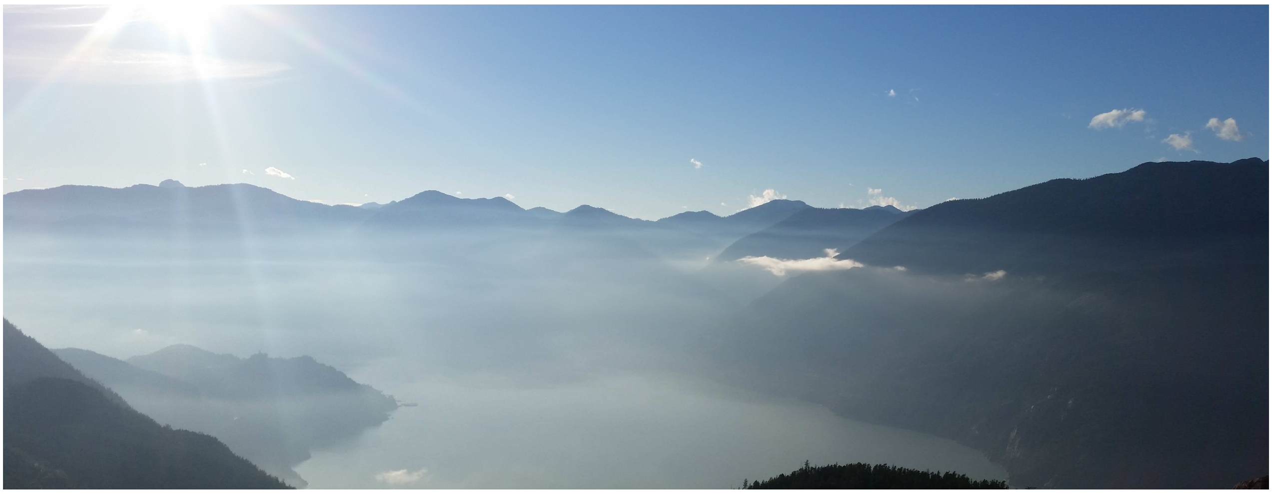
The income strategy you need will be very different from that of your neighbor or best friend, because everybody has a different timeline with different goals and investments to work with. One thing seems to be true for everyone, however: retirees who have access to a steady, pension-like income are happier than retirees who have to worry about where their income is coming from. It may be helpful to work with a qualified financial professional to coordinate your income needs with an investment strategy that is suitable for your specific retirement goals.

CHECKLIST

- ✓ Look at your investments not in terms of the return they earn, but in terms of the INCOME they can provide



Retirement Challenge: Generating Reliable Income



5. CREATING LIFETIME INCOME

Many people find saving for retirement difficult, but the truth is, it's actually more challenging to make what you have saved during retirement last. We might compare this to climbing a mountain. More than four thousand people have attempted to summit Mt. Everest, the tallest mountain in the world, yet only 660 of them have been successful [8]. What makes a successful climb? It's very similar to what makes a successful retirement: it's getting back down the mountain that matters.

If saving for retirement is like climbing a mountain, your distribution years are like going back down the mountain. It's much harder on the way back down, because you've got limited supplies that you have to dole out, and you're physically more exhausted. All of this can be compared to the challenges of making money last as you get older.

When you have an income strategy, you have a plan for how you will securely spend your assets and stay within your budget so you can get back down the mountain safely and with success.

SOURCES OF INCOME

Guaranteed Investment Certificates (GICs)

GICs offer a guaranteed rate of return over a fixed period, most commonly issued by banks and trust companies. They would have to be considered one of the safest investments available as they are guaranteed by their issuer as well as backstopped by the government up to $100,000. Banks use GICs as a way to borrow from investors to lend to mortgagers and make a profit between the two interest rates, also known as a spread. Due our extremely low interest rate environment and their limited risk profile and, GICs generally pay one of the lowest rates of return, typically lower than inflation.

Annuities

The word annuity means an annual payment or income. It is a simple contract between you and an insurance company; what gets complicated is when an annuity tries to give you other benefits – such as market growth and/or lifetime guarantees. There are many different kinds of annuities such as term, insured, fixed and variable, but all of them are designed to turn a lump sum of money, known as your principle, into a series of income payments. This payment can be a fixed amount or a variable amount; it can start in 10 years' time or as soon as right away; it can last for a designated period of years, until the money runs out, or until the day you die. Annuities typically have a much higher rate of return and usually offer tax efficient income. Annuities can make sense for a portion of a portfolio in specific situations but they need to be completely understood before consideration as they can get very complicated. Annuities are as safe as the issuing company and in Canada we can be fairly confident that your return will remain intact.

Bonds

Bonds are debt securities issued by federal or provincial governments or corporations. They function much like an IOU in that you lend your money to the bond issuer in exchange for regular interest payments (usually twice a year) plus the return of your principle at a predetermined date or maturity. You can buy short-term bonds that mature in one to three years, or long-term bonds that can take decades to mature. Your return typically moves higher the longer your term. Bonds can also be purchased through the use of a mutual fund or exchange traded fund (ETF) which provides instant diversification but you lose the return of principle at maturity feature as there is no maturity date on funds which can add significantly to risks in a rising interest rate environment.

SIDE-NOTE. GOOD TO KNOW

Bonds have an inverse relationship with interest rates: their market price goes up when interest rates move down. When rates go up, the opposite happens and bonds lose value. North American interest rates have consistently fell for the past three decades to reach the all-time lows of today only to be raised for the first time in 10 years in 2016 in the U.S. If they continue to rise, investors who hold low fixed-rate bonds and try to sell them before maturity or, bond mutual funds or ETFs, could lose money.

Preferred Shares

Preferred shares in Canada would fall one step down from bonds on the risk ladder and combine characteristics of both fixed income and equity. Like a bond, a preferred share pays a fixed distribution rate, and can have a par value and future maturity date where you receive return of your principle. Like an equity, a preferred share represents an ownership interest in the issuer and pays a tax efficient dividend. There are a number of different types of preferred shares with numerous different features but some of them can be very attractive in a rising interest rate environment as they can have features allowing participation when rates go up and provide higher yields than bonds.

Dividend Paying Common Stocks

Stocks that pay out high-dividends can also provide a reliable source of income and like preferred shares; they are taxed at a lower rate than the interest income of bonds or GICs. Dividends paid out by qualified Canadian companies receive a dividend tax credit resulting in a much lower after tax income than that of interest income which is taxed the same as your earned income.

Real-Estate Investment Trusts

A Real Estate Investment Trust (REIT) is a company that owns or finances income-producing real estate. REITs provide investors with regular income streams and can be a good diversifier to your other dividend paying stocks. They typically pay out all of their taxable income as dividends to shareholders. They can also pay return of capital, which is essentially the money that you originally invested and is returned to you tax free over time.

Hybrid Products

Given the innovation of financial markets and technology there are a countless number of hybrid products ranging from principle protected notes to covered-call options ETF strategies that have been designed to provide investors with income. Due to the complexity of each individual product, it would take me a completely separate guide to navigate you through all of the options available. For that reason, if you are considering a hybrid product of any type make sure you, or your financial profession, completely understand the risks, costs and rewards.

Laddering

Laddering is a strategy that can be done using multiple investments to stagger interest payments or maturity dates at varying intervals. You can ladder all of the above-mentioned investments to spread your investment maturity and distribution dates across a range of periods. As each investment matures, you have the opportunity to assess the current market climate and interest rate. This reduces your long-term risk by allowing you to take advantage of the best income-producing options at any given time. By laddering your distribution dates you can create a more consistent stream of income for yourself through the year. Again, working with a qualified financial profession can be invaluable in the coordination of laddering strategies that maximize your investment income.

CHECKLIST

- ✓ Work with a financial professional who specializes in retirement income so you can choose the income producing investments and strategies that maximizes your money
- ✓ If married, make sure to look at how the income situation would change should one spouse pass away, and utilize joint-life options where possible, if needed

Income opportunities: Strategies to consider

Consider looking beyond traditional sources of income for additional high-quality opportunities

6. UNDERSTAND YOUR CANADIAN PENSION PLAN OPTIONS

You might think of your Canadian pension plan as ripening fruit: your benefit grows all during your working life like fruit on a tree. Once you retire, it becomes time to harvest that benefit. The trick is to pick the benefit at the right time and not too early, when it is still “green.” You also don’t want to wait too long, because there can come a point when the benefit is overripe, and waiting no longer does you any favors.

One of the many features of the CPP retirement pension is your ability to elect when to start receiving your income stream. The CPP normally begins after your 65th birthday; however, it can be initiated as early as age 60 or any time up to age 70. As alluded to earlier, the timing of your election can alter the amount you receive:

- Reduce the pension by 0.6% for each month you draw income prior to your 65th birthday; or
- Increase the payment by 0.7% for each month your pension is delayed.

When it comes to deciding when to make the election to receive your CPP you have to face the uncomfortable topic of mortality. The fact is that your health and family history are things to consider when making this decision. Let's take a look at some examples to help illustrate:

If you take your CPP at age 60, your breakeven point with someone who waits until age 65 would be when you both turn 74. Let me help to explain breakeven a little further; if you take CPP at age 60 and your neighbor takes hers at 65, your monthly CPP payment will be 36% lower than your neighbors, but you will collect five years longer. You will be 74 when your neighbor pulls ahead for the total amount collected.

CPP Breakeven Point Chart (2016)						
Age	60	61	62	63	64	65
CPP income/month	$ 640	$ 712	$ 184	$ 856	$ 928	$ 1,000
CPP reduction/month	$ 360	$ 288	$ 216	$ 144	$ 72	$ -
Total CPP (paid before 65)	$ 107	$ 34,176	$ 28,224	$ 20,544	$ 1,136	$ -
Breakeven (months)	107	119	131	143	155	
Breakeven	74	75	76	77	78	

Based on CPP benefit entitlement of $1,000/mo at age 65.

It's also very important to understand how much CPP benefit you're entitled to before you decide on the best time to collect. As of 2016 the maximum benefit is $1,092.50 per month. Qualification depends on how much you contributed over the course of your working life. The average amount that new beneficiaries received at age 65 was $664.57 in 2016 [7]. To identify how much you can expect to receive, you can request a statement of contributions at Service Canada.

CHECKLIST

- ✓ Understand your family health history
- ✓ Identify your pension amount eligibility
- ✓ Coordinate your election with your overall retirement plan

7. LOOK AT YOUR LONG-TERM HOUSING NEEDS

Given today's longer retirement span, it's wise to think about how your housing needs might change. The living situation that worked for you during your accumulation years may not be ideal during your distribution years. You may want to downsize; which in Vancouver is obviously a fantastic option to access the equity built up in your. Other people might want to stay where they are but access that equity for income by using a reverse mortgage.

Another factor to consider when looking at your long-term housing needs is your health. As we get older and our body's age, it can become more difficult to negotiate stairs or to keep up with maintenance. While plenty of people are able to live independently in their own homes, a chronic illness or injury can dramatically change things, and if one spouse passes before the other, things can change quickly.

A good retirement plan considers how to maintain housing needs and keep up with expenses as our bodies change. Long-term care refers to a range of health services received in the comfort of home or at a facility such as a senior living community. Many Canadians mistakenly believe that full-time care in a long-term care facility will be fully paid for by government health programs. The truth is that government health care programs may cover only a small part of the costs for a nursing home or other specialized residential care facility, or perhaps none at all depending on the circumstances. Looking forward over the next 35 years as baby boomers age, the cost of providing long-term care to Canadian boomers will be $1.2 trillion, and only half of that amount is covered by current government programs [9].

SIDE-NOTE. GOOD TO KNOW.

How Much Does Basic Long-Term Care Cost? [10]

- Semi-private room in B.C. = $995 to $3,500/month
- One-bedroom suite in B.C. = $1,595 to $5,400/month
- Homecare or nursing care = $12 to $90/hour

It's easy to see how the costs of care can add up quickly. Based on the examples above, if you or a loved one needed placement in a private care facility at $5000 per month, or home care five days a week for four hours a day at $35 per hour, then this would add up to at least $35,000 to $65,000 per person, per year, depending on the required care.

Paying for Lon-Term Care

Today's retirees have several options when paying for long-term care. There is traditional long-term care insurance, annuities that offer nursing home riders and several options offered by newer life insurance policies. As always, the benefits need to be weighed against the costs on any policies considered as insurance can get expensive.

CHECKLIST

- ✓ Devise a backup plan for your future hosing needs.
- ✓ Talk to your financial professional about your options for paying for long-term care

8. TACKLE YOUR TAX PLAN

You've probably noticed that the subject of taxes has already come up several times during the retirement planning process. It's an issue that affects both the income you pull OUT from your investments and the income earned BY your investments. Let's take a look at the three general types of investments from a tax perspective:

Registered Investments: These investments encourage saving by deferring all taxes until you actually take the money out. It's easy to forget that the money in your RRSP hasn't been taxed yet. By taking advantage of tax-deferred growth during your accumulation years, you will have to pay the taxes sometime during your distribution years.

Non-Registered Investments: These investments do not offer deferred taxation, so they are only taxed whenever income is earned or a gain is realized form their growth.

Tax-Free-Savings Account (TFSA): your TFSA, although usually small in comparison, is a hybrid of the two. TFSAs offer tax deferred growth yet you are not taxed when money is withdrawn only limited on recontributing back into your plan until the following year.

Tax planning during retirement is an effective strategy that can allow you to earn more money by keeping more of your money. Diversifying your income stream between registered, non-registered and TFSAs is one way, dependent on your tax bracket, that can help you keep more of your money in the future, given the expectation that existing tax rates and policies don't change drastically.

SIDE-NOTE. GOOD TO KNOW

Although RRSPs were originally designed to be your main source of income during retirement when the expectation is that you are in a lower tax bracket, many retirees maintain a high income in retirement and can lose the ability to collect other government benefits such as OAS if their income remains too high. In some cases, it might make sense to withdrawal from your RRSP early if you have any low-income years, even if that is just moving assets from registered to non-registered to protect your benefits in the future.

Another important piece of information is that when an RRSP is eventually converted to a RRIF, it qualifies as pension income and can be split between spouses adding another opportunity to potentially lower income taxes.

CHECKLIST

- ✓ Don't just pay your taxes during retirement, plan for them and take advantage of diversifying your income streams where possible to lower your overall tax burden

9. ESTATE PLANNING BASICS

For many, estate planning can be a difficult subject to discuss. People naturally shy away from talking about issues such as illness, death and their last wishes. Often couples do not have these discussions until they are faced with a crisis, such as a critical illness or the loss of a loved one.

Even if it is difficult to begin the discussion, establishing an estate plan may be one of the most important things that you can do for those that you care most about. Having a solid estate plan in place means that, your family will know and carry out your last wishes, and you may continue to provide care for your loved ones even after your passing.

A critical part of the retirement planning process is to start the estate discussions early, with a clear mind. Being proactive allows you and your family to focus on strategies in a more positive light and potentially save hundreds to hundreds of thousands in taxes not to mention grief.

As you develop your estate plan, remember to include your personal objectives and not only those of a financial nature. Consider alternate scenarios of what could happen in your life, to determine whether your Will and estate plan is appropriately drafted. For instance, what if both you and your spouse pass away at the same time, or your executor predeceases you. How would these events impact your estate plan? The key drivers of an estate plan include:

- Drafting a Will: Obviously the most essential to your estate plan, your will ensures your intentions for your estate. Equally important is reviewing your will periodically to determine if it still reflects your personal and financial objectives
- Appoint a Power of Attorney (POA): A complete estate plan includes planning for possible illness, accident, or other disability that may leave you unable to manage your financial affairs. In B.C. there is a separate legal document that needs to be drafted called a Representation Agreement which allows someone to make decisions on your behalf in regards to medical care. Make sure that you have both. Important to remember that POA and Representation Agreements terminate upon death, at which time your Will takes effect.
- Appoint an Executor (and potentially co-executor or contingent executor): An executor is one or more individuals, or an estate professional (i.e. TD trust company), appointed in your Will to administer your estate after your death. An executor is also responsible for carrying out other important duties like funeral arrangements, applying for probate, preparing final tax returns, paying taxes, and obtaining tax clearances from Canada Revenue Agency. You must select an executor with the right qualifications to carry out your wishes and right jurisdiction to legally administer your Will.
- Review your Tax Liabilities: the last important step in the estate planning process is estimating what your estate tax liabilities might look like. There are a number of options available to potentially reduce those liabilities if the correct plan is in place and strategies created in advance.

As an estate plan is not static, it is important that you review it regularly with your family and your financial professionals to make sure it continues to address your needs and wishes.

CHECKLIST

- ✓ Begin the estate conversation if you haven't already
- ✓ Make sure your Will and Powers of Attorney are up to date
- ✓ Ensure that all important documents (including a list of all assets & liabilities) are well-organized and stored in a safe and secure location that is known by your executor.

10. BUILDING A LASTING LEGACY USING LIFE INSURANCE

Life insurance can be used in more ways than one. While traditionally thought of as a way to protect your family during the accumulation years, it offers many attractive benefits to someone entering the distribution phase as well.

Whole life insurance accumulates money in the cash value of the policy tax-deferred. Benefits to retirees with excess capital include access to cash if needed, the potential for tax-efficient dividends, and tax-free income for the surviving spouse or specific gift giving objectives. These benefits are guaranteed by the financial strength of the insurance company.

You can also use life insurance when planning for building a legacy. By growing your money for your beneficiaries in a life insurance product your loved ones can potentially benefit from investment performance while you avoid the tax on growth. Alternatively, an annuity with a death benefit can be a good way to maximize your retirement cash flow in a tax efficient manor while still leaving a set amount for your beneficiaries.

SIDE-NOTE. GOOD TO KNOW

The proceeds from life insurance pass outside of the will and estate and typically in a timely manner providing much needed financial support in what can sometimes be a troubling time.

CHECKLIST

- ✓ Ask your financial professional if life insurance options could provide valuable benefits to your retirement plan.

CONCLUSION

At the end of the day, the success or failure of your retirement plan can be determined not just by what you do, but by what you fail to do. Much of what will happen during the next 20 to 30 years is completely out of your control. No one knows what the stock market will do, whether or not the Canadian Pension Plan will remain strong, where interest rates will go, or when and by how much taxes could go up. We can only choose to prepare to the best of our ability and take advantage of the benefits available.

I hope this guide helps put you one step closer to living the retirement you've worked so hard to earn.

If you have any concerns our would like to open a discussion in regards to your retirement plan, that's what we do and I am here to help.

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