Wealth Management Planning

Solve Your Retirement Cash Flow Puzzle with a Worry-Free Financial Roadmap.

Get Where You Want to Go!

Daniel L. Bain
Chief Investment Officer and CEO

Kris Read
Wealth Management Planner

Retirement is like embarking on an exciting new journey. Leaving work behind, it's a time to pursue passions, explore new hobbies, travel, and spend quality time with loved ones.

To reduce financial distractions and worries, it's crucial to plan well, including the efficient use of the wealth you accumulated. One important decision is determining which pools of wealth to use when, so you maximize financial efficiency and achieve your goals. You may be wondering how all the pieces of your financial puzzle fit together and many people have questions like:

- Should I defer CPP and OAS?
- When is the best time to convert an RRSP to a RRIF?
- How should I use my TFSA in retirement?
- How should taxable accounts be optimized for retirement?

Unfortunately, there is no one-size fits all answer. Rather, it depends on your personal financial situation and objectives. For instance, do you have "excess" retirement savings? Do you want to minimize taxes or maximize wealth transfer? Are there family or others you want to support during your retirement?

These are simple questions with complicated answers. And an informed and well-thought-out plan means less stress and more "freedom 55", knowing you're going to get where you want to go.

Withdrawal Hierarchy & Tax Implications: A Balancing Act

Generally, retirees have numerous income sources. These may include:

- Pension plans
- Old Age Security
- Canada Pension Plan
- Private investments
- Taxable investments
- Registered accounts (RRSPs, TFSAs, RRIFs)
- Trusts
- Bank accounts
- Income Properties
- Passive income

Each source has varying features, such as liquidity, taxation type, penalties, etc. So figuring out the optimal mix and order of cash flow sources, and how those change over time, is, well, complicated. Strategically organizing how you fund retirement can significantly improve your tax efficiency, meaning you have more money for retirement and for your estate. Depending on your retirement and estate objectives, withdrawal sources and amounts will likely vary from year to year, but they all require advanced planning with unique strategies. For instance, if you have a low tax rate, it may be advisable to start RRSP/RRIF withdrawals earlier, rather than later.

Deferring Government Pensions: Enjoy the Perks of Patience

In Canada, the two main government retirement benefits are the Canada Pension Plan (CPP) and Old Age Security (OAS). By delaying the start of these pensions, you can reap additional benefits. For example, CPP is an inflation-protected program that lasts for your lifetime. If you're in good health and have other sources of retirement income, delaying CPP payments can be advantageous. Each year delayed beyond age 65 will increase your CPP payment by over 8% each year. If you decide to delay until age 70, your payments will be over 40% higher than if you started receiving CPP at 65. Similarly, deferring OAS can provide higher fixed amounts and increases the threshold at which it's fully clawed back, making it an attractive option for managing your overall income. However, there are no spousal survivor benefits for OAS, so, there are various scenarios when starting early is a better strategy.

RRSP/RRIF Withdrawals: Timing is Key

When it comes to Registered Retirement Savings Plans (RRSP) and Registered Retirement Income Funds (RRIF), timing is key but depends on your specific situation. All money withdrawn from these accounts is fully taxable as income, but the decision to delay converting an RRSP into a RRIF can offer further tax-deferred growth opportunities. However, it can make sense to convert to a RRIF early and start making withdrawals. This is particularly true if you've accumulated a significant amount in your RRSP. Strategic withdrawals allow the smoothing of income and taxes over your retirement timeline. Once converted to a RRIF, there is a mandated minimum amount that must be withdrawn annually. At age 65 this minimum amount is 4%, while at age 71 (the last year to convert) it jumps to 5.28%. Delaying your RRSP conversion can offer tax-deferred growth, but the minimum withdrawal may be higher and push your income into a higher tax bracket. If your spouse is younger, basing the minimum withdrawals on their age could lead to lower amounts, making it easier to manage your taxes, but these are all considerations that should be examined before deciding on the approach that best suits your situation.

TFSA for Legacy: Leave a Tax-Free Gift

As the contribution limit for TFSAs continues to increase, these accounts are becoming popular for estate planning purposes. With TFSA withdrawals being tax-free, some retirees are tempted to use them as a source of cash flow. While this can help keep your overall taxes low, it's essential to weigh the trade-off. Strategically using your TFSA to supplement other sources of retirement income in years where you may have large expenditures, can help keep your taxes low. You do not lose TFSA room, so even if you make a withdrawal, you gain the ability to recontribute the withdrawn amount the following year. On the other hand, by using your TFSA as part of a wealth transfer strategy to your beneficiaries, you may be able to save a significant amount in lifetime taxes. Be sure to consider the potential tax savings in your estate when deciding how to utilize your TFSA throughout retirement.

Taxable Accounts: The Art of Efficiency

These accounts don't provide tax shelters like RRSPs or TFSAs, so it's important to be mindful of the tax efficiency of different types of investment income. Interest income is 100% taxable and least tax-efficient, while capital gains are the most tax-efficient, with only 50% being taxable. It could make sense to make a withdrawal to realize capital gains in years when your overall retirement income is in a lower tax bracket or when you've amassed capital losses. Strategically using any accumulated capital losses to offset realized capital gains can help to manage your taxable income. It often makes sense to withdraw extra from a taxable account to top up your TFSA if you have available room and save on future investment gains. This should be reviewed on an annual basis to determine the timing and best approach.

This is your financial journey, and the choices you make will shape your future prosperity. Consider your personal circumstances, estimate your expenses, assess your income sources, manage your taxes, and be adaptable to changing conditions. Thornmark has the analysis know-how to determine the best strategies to achieve your goals and create retirement peace of mind.

We look forward to helping you achieve more with your planning and investments. Please reach out to Thornmark at:

Kris Read, CFP
Wealth Management Planner
416-204-6206
kread@thornmark.com

Daniel Bain
CEO & Chief Investment Officer
416-204-6211
dbain@thornmark.com