GOOD LIVING: FINANCIAL PLANNING FOR THE HEALTHY, WEALTHY AND WISE.

The income plan

Once the basics are covered, think about how to finance the lifestyle you envision

For Canadians looking at a potential 30 years of retirement or more, transitioning from asset accumulation to an income portfolio can be daunting. But effective planning strategies can ensure that the transition is worry-free and tax-efficient.

The transition to retirement is difficult for a lot of people, says Elaine Politsky, president of ESI Wealth Management in Markham, Ontario, which specializes in serving clients 50 and over. "People experience fear around having enough money to enjoy a comfortable lifestyle; we need to be prepared. If you don't have a pension from work, you almost have to create your own, in addition to Old Age Security and CPP."

That begins, she says, by creating an income that is sustainable and predictable – whatever the financial markets do – to pay all fixed expenses. Once stable income for the necessities of life is accounted for, it's time to think about creating the additional financial wherewithal to create a comfortable lifestyle.

"Producing enough income to do both is important, because we're living at least a third of our life in retirement or semi-retirement."

As a lot of people discovered in 2008, one bad year in the markets can really make a substantial difference in income expectations. While the markets are outside the realm of individual human control, there are strategies that can increase the net income generated.

"Many people are taking advantage of strategies such as income splitting, including the sharing of CPP," says Ms. Politsky. "People work long and hard to build a nest egg, so I try to come up with ways to increase their level of after-tax income."

For retirees in the highest tax brackets, almost half of interest income ends up going to the government. To address this issue Ms. Politsky recommends alternatives such as tax-efficient pooled pension funds and dividend income funds.

"Only 50 per cent of capital gains are taxed; dividends receive preferred tax treatment and allow you to keep about three-fourths the applicable dividend tax credits. I like that, and my clients do too," she says. "In some cases, these funds are paying as high as eight per cent to nine per cent of tax-efficient income. People are happy to live off that, and they're not eating up their principal."

Segregated funds are another attractive option for retirees, she says, "There's one out there right now that provides no less than five per cent of predictable sustainable income, with resets (that guarantee the principal invested plus any growth) every three years all the way up to age 80. At the end of a certain period of time, you will have at least your principal minus withdrawals, or market value, whichever is higher."

Such strategies can allow seniors can have their cake and eat it too, says Ms. Politsky.

Once income is provided for bottom-line necessities and lifestyle expenses, it is wise to create a what-if fund, she advises.

"Some people like to call it a 'rainy day' fund, but in retirement, you may also need funds for opportunities that come along. You may need to go into a retirement home – but what if there's an opportunity to buy a place in Florida? With a what-if fund, you won't need to take money from your nest egg when something comes up but the markets are down. Then when there is market growth, the fund can be replenished."

This kind of comprehensive preparation may become even more important going forward. Frank Miemiec, financial advisor and vice president, Operations at Page and Associates in Richmond Hill, Ontario, notes that the restructuring that has occurred among corporate pension plans – and the subsequent reduction in defined benefit pension plans available – means it is even more important to work with a trusted advisor to create a personal income strategy.

"In the future, even people working for large companies will probably need to take a little bit more responsibility," he says.

An experienced advisor can help pre-retirees ensure that all of their insurance and investment decisions are aligned with their long-term goals, he says. "People really fear running out of capital, and (retirement) is a pretty major shift in lifestyle, especially in the first couple of years. Financial planning helps people think through what the future is likely to hold, and to be realistic about it. It provides a sense of confidence." ■

PHOTO: DEBORAH BAIC

Elaine Politsky, president of ESI Wealth Management in Markham, Ontario, says financial planning is essential to attaining a comfortable retirement lifestyle. "We need to be prepared. If you don't have a pension from work, you almost have to create your own, in addition to Old Age Security and CPP," she says.

Consider pension income splitting

Since the 2007 tax year, qualifying pension income can be split between spouses if the pensioner (the person receiving the pension income) is 65 years of age or older and unless the spouse is living separately due to a breakdown in the relationship. (Up to 50 per cent of qualifying pension income can be attributed to the spouse.)

To be eligible for pension income splitting, pension income must qualify for the 'pension income amount,' a tax credit available for income received from sources that include a Deferred Profit Sharing Program (DPSP), regular annuities and income-averaging annuity contracts (IAAC), Registered Pension Plan (RPP) lifetime retirement benefits, minimum withdrawal RRIF income and elected split pension income.

According to Colleen Gibb, FCA, tax partner at Gibb Widdis, pension income splitting resulted in tax savings ranging from $100 to $7,000 among her firm's clients in 2008.

For more information on pension income splitting, please visit the Canada Revenue Agency's website at cra-arc.gc.ca or contact your accountant.

A happy retirement takes more than money

After 25 years of working with seniors, Elaine Politsky, president of ESI Wealth, has found that retirement planning isn't just about money. "We may live a long time in retirement. I have four clients over 100 years old. Until age 99, two of them were driving to Florida each year and teaching square dancing."

One of the secrets to that kind of happy, healthy longevity is purposeful activity. "One of my clients sold his business in order to retire, and said he'd then become a 'honey-go-for' for his wife," she says. "'Honey, can you do this? Can you do that?' He wasn't happy, so he decided to launch a consulting business. Now he feels independent and challenged – he sets his own hours and enjoys the extra income."

Many people also find satisfaction in volunteer activities, she says. "One of my clients retired early and didn't know what to do with herself; today she volunteers for Meals on Wheels. She feels needed; she's talking to other people. She absolutely loves it."

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