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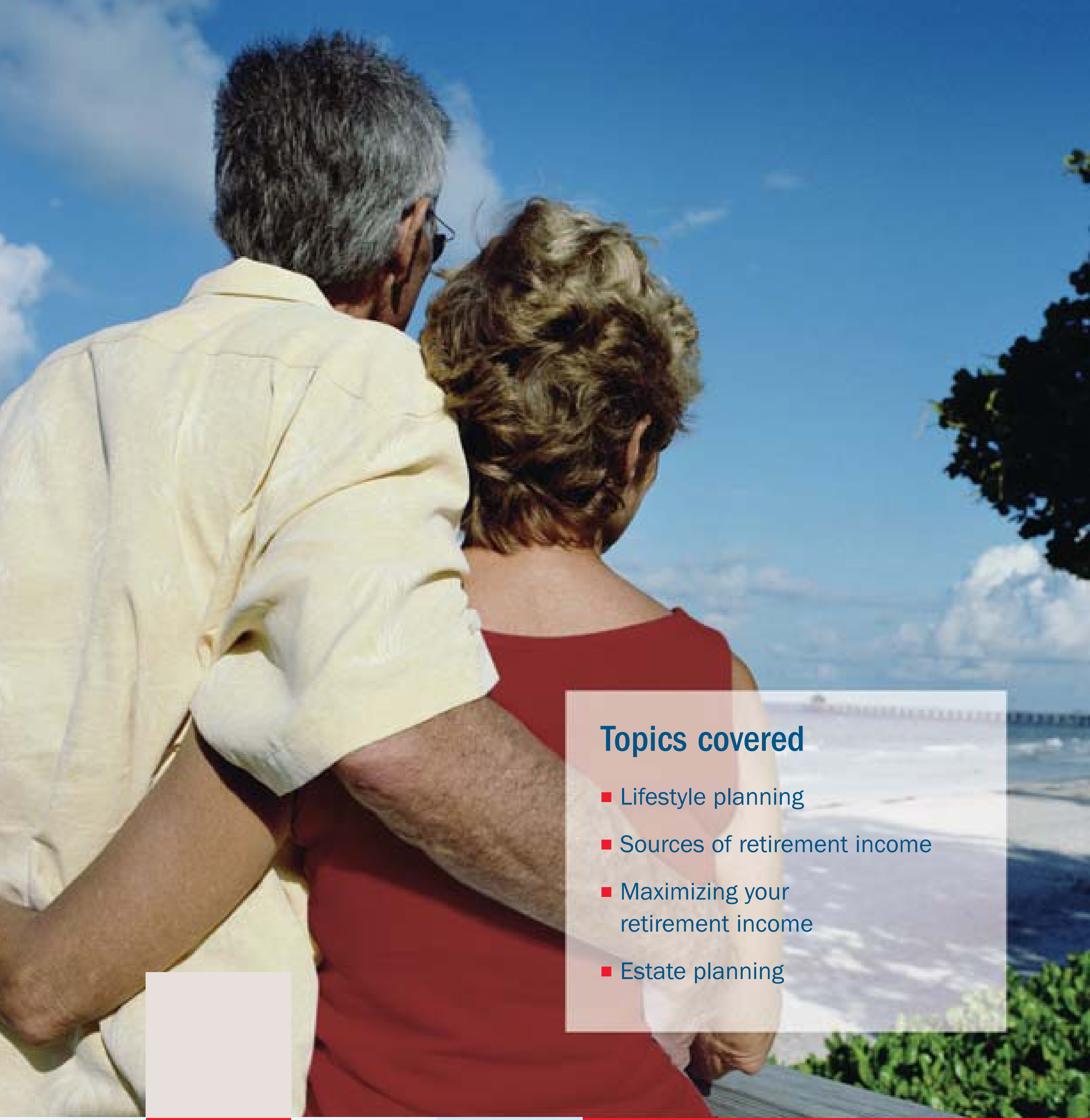
Retirement...
what's your plan?



Topics covered

- Lifestyle planning
- Sources of retirement income
- Maximizing your retirement income
- Estate planning

Whether you're approaching retirement or already enjoying it, ask yourself whether you've fully explored all aspects of your retirement plan.

For many it can be a difficult topic. Each person will have unique needs and goals for his or her retirement. Even the definition of retirement has evolved over the years – longer retirements, more active travel and leisure activities, better health, etc.

While this guide may answer many of your questions, it isn't a substitute for individual financial planning. Your financial needs and resources will differ from other people. Obtaining the advice of a professional financial advisor can help achieve a plan to suit your personal situation.

"The shift to retirement heralds a further increase in discretionary time, but for most, it is offset by a decline in income."

Stats Canada – Research paper, 1998
The transition to retirement: When everyday is Saturday

Lifestyle planning

The changing face of retirement

Baby boomers are set to redefine retirement over the coming years. With today's medical advances and improvements in standards of living, nutrition and public hygiene, we are seeing a more active and younger retiree.

Canadians are living longer than their parents and as new generations retire, they look to enjoy longer and healthier retirements. Fewer Canadians today are retiring at 65; many retire earlier while others continue to work beyond that age.

On average, the number of years spent in retirement is growing. The life expectancy for someone born today is 75 for men and 81 for women. Statistically 50 per cent of Canadians will live even longer.

As you age, your chance of living beyond your life expectancy from birth will increase. This fact needs to be considered in your retirement plan.

Your life expectancy changes as you age.

If you were born in 1931:

At birth	male 60, female 62
At age 65	male 78, female 79
At age 75	male 83, female 83

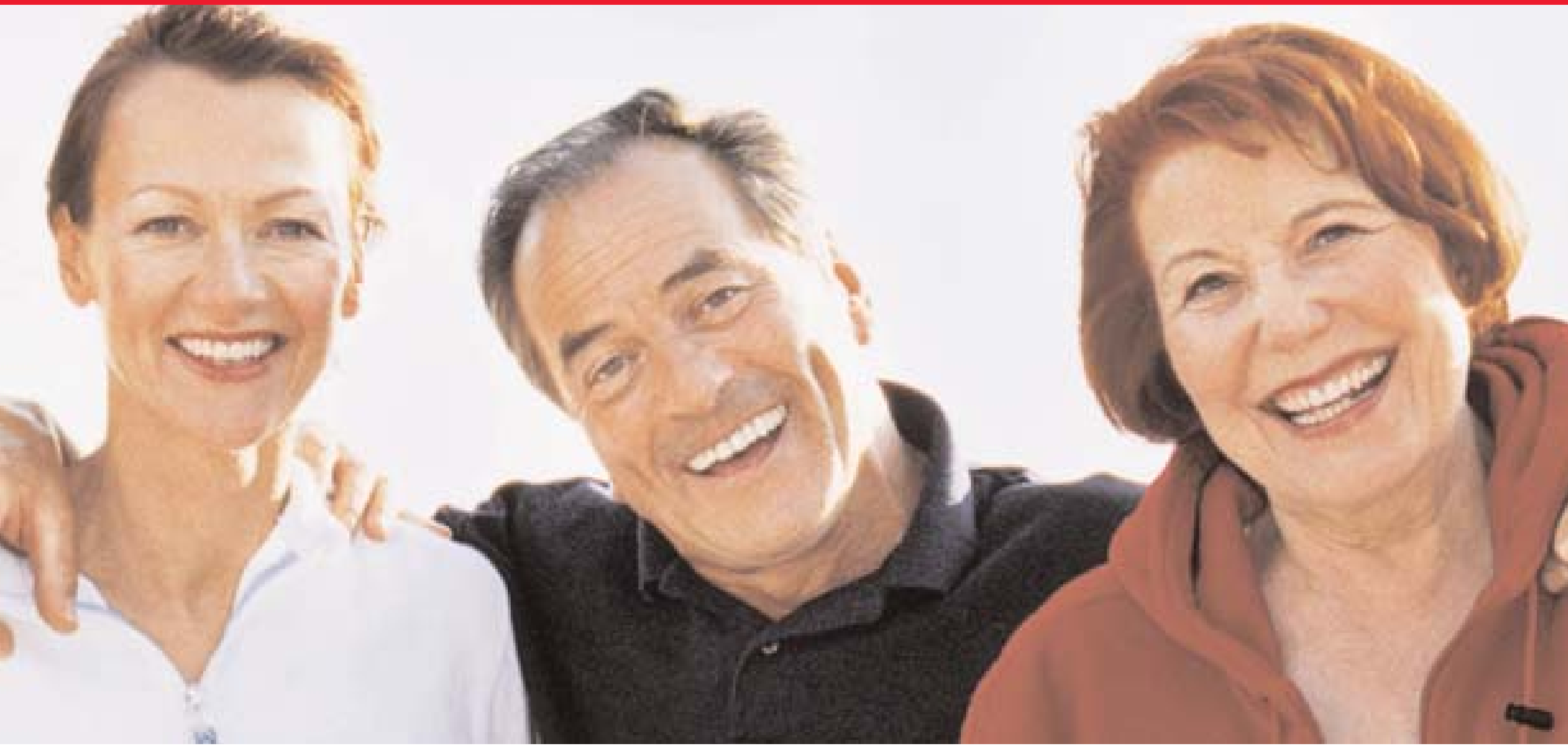
Source: Stats Canada

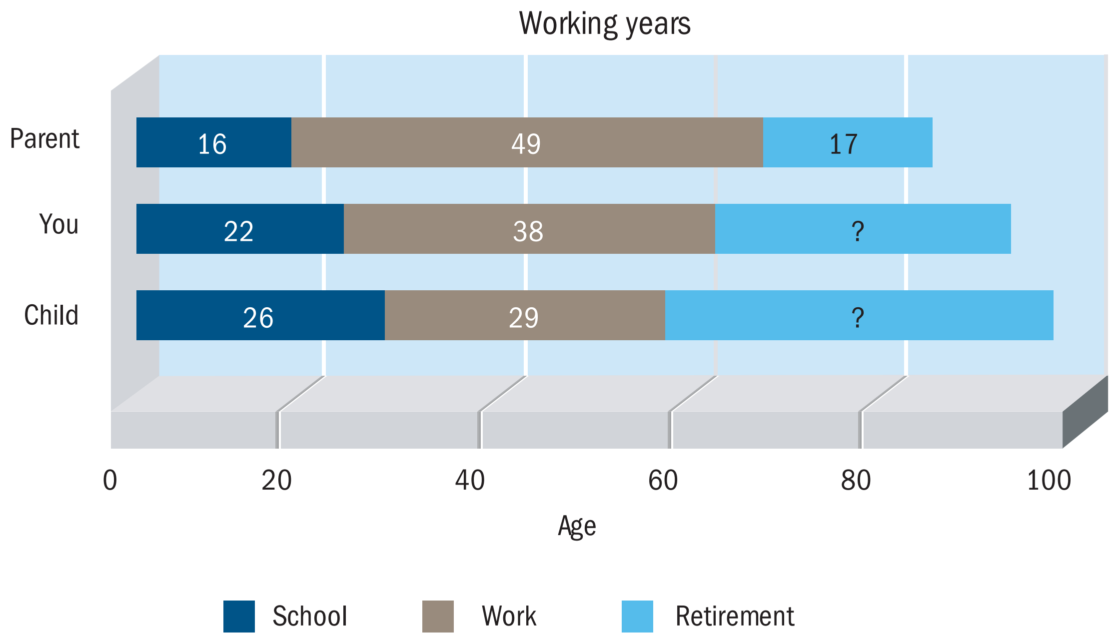
Twenty–five years ago, the typical Canadian spent fewer years in school and more working. Longer schooling periods, fewer years working, earlier retirements and longer life expectancies have changed the face of retirement. Living in retirement for 30 to 40 years or more is now a real possibility.

"The 2001 Canadian census enumerated 3,795 people aged 100 and over compared with 3,125 in 1996 – a 21 per cent increase.

The exceptional longevity of the centenarians enumerated in the 2001 census is probably due to a combination of genetic predisposition, good environment and healthy lifestyle."

2001 Canadian census – Statistics Canada





Your parent Started working younger (age 16) worked and retired at age 65.

You Started working after university/college, worked to age 61, retired and expect to live longer than your parents.

Your child Started a career after completing a professional degree or travelling to age 26, wants to work to age 55 and expects to live to longer than you.

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Lifestyle choices and risks you may face

Continuing your chosen lifestyle into your retirement is a common goal for retirees.

What will you do in retirement?

Many Canadians continue to work beyond age 65. In some cases, they feel poorly prepared financially to live on their retirement income sources. In other cases, they have not considered what retirement means to them. Retirement can cause stress or even depression for retirees who are ill prepared to accept such an important lifestyle event.

Risks

Retirement is a balance of how you want to live and how you prepare to handle risks you may face, such as:

- **health risks**
- **government risks** – income tax law, changes to the Canada Pension Plan and Old Age Security
- **investment risks** – stock market, interest rates

For more information on lifestyle choices and risks, ask your financial advisor about the Canada Life brochure – **Sticking to the plan....lifestyle choices and risks brochure #46–4147**

Scenario	Consideration
Imagine what your retirement would look like if money were no object. How would you spend your time? What would fill your day?	Retirement planning is not just about financial health. Do you have a plan in place that also takes your social and emotional health into account?
If you're a business owner, how will your lifestyle change when you decide to retire or sell the business?	Giving up a business can be a considerable loss. Being an owner provides a sense of pride and accomplishment. In retirement, what will give you a sense of pride and accomplishment?
For someone who has worked with a company for 30 years, doing a job they love, what impact would leaving have?	Suddenly losing the daily routine of work can have significant consequences to your emotional well-being if there is no plan to replace it. What will motivate you in retirement?

Lifestyle

- Travel
- Family
- Volunteer work
- Retirement job
- Social clubs
- Vacation homes
- Leisure activities – golf, tennis, boating

Lifestyle planning

If you're not sure of your response to these scenarios, it may be time to consider lifestyle planning – an important piece of the retirement planning puzzle. Lifestyle planning means identifying how you want to spend your retirement years – what specific activities you see yourself enjoying – and developing a financial plan to support it.

For example, if today you enjoy taking courses, gardening and travelling, there's a good chance you'll want to enjoy those activities during retirement. Most people don't dramatically change their lifestyle at retirement. Do you have a financial retirement plan in place to accommodate these kinds of activities once you retire?

What will my activities be in retirement?

How much money will I need?

What happens if I become sick, who will look after me?

What will I leave to our kids?

Where do I start?

Getting started

If we knew how long we would live, we could plan when to stop working, how to live, when and where to spend our money etc. The problem is we don't know.

'Where do I start?' is an easy question to answer.

- Sit down and build a retirement plan.
- If you have a plan and question if you are on track, review it.
- Seek advice – from your financial advisor.

Canada Life's income/expense worksheet

Use this tool to help you map out your retirement budget.
Form # 46-4557

Calculating your retirement income needs

One way to calculate your retirement income needs is to consider all sources of income and all expected costs associated with your lifestyle plans. To start your lifestyle planning process, create a list of activities you enjoy today. Decide if you want to continue those activities in retirement or add new ones, and then attach a monthly or yearly expense to each. Discuss this starting list with your financial advisor. He or she can help you determine if your financial retirement plan can support your lifestyle or whether you need to make adjustments.

Another common way to calculate income needs at retirement is to multiply your pre-retirement (after-tax) income by 70 per cent. This method can give you a ballpark estimate, but does not personalize your potential needs by taking into account lifestyle choices. So it's important to remember this method may not capture all your income needs.

Lifestyle factors that could add to your income needs:
Potential health care costs
Increased travel plans
More free time – more leisure activities
Plans to purchase vacation property
Additional expenses – boat or new car
Helping the children or grandchildren financially
Possible need to care for a parent in your home
Saving for the possibility of nursing home care

Lifestyle factors that could reduce your income needs:
Retirement savings are no longer needed
Plans to "downsize" the home
You are or will soon be "mortgage free"
Reducing from two cars to one
Reduced commuting expenses
Eliminated workplace expenses
Health issues, which may restrict your ability for travel and other costly activities
You may eat at home more often
You may be supporting dependants, which may end soon

Retirement spending

How you plan to spend your money in retirement is very much aligned with your lifestyle goals. However, there are some generalized income needs during different phases of retirement. Consider these three phases as you build your retirement plan.

Early retirement years

During the first 15 to 20 years, most retirees require funds to support a more active lifestyle. The majority of your activities will revolve around the specific lifestyle choices you have made (travel, outdoor activities, social clubs, continuing education, etc.). There may be other important expenses to consider, such as caring for a parent. Be sure to include these in your calculations.

Later retirement years

In the later years of retirement (80 and older), income needs will shift to support increased health care costs, long-term care, either in your home or possibly in a nursing home, etc. Remember, you may be less active but that doesn't mean you'll be inactive. So having a sound lifestyle plan should account for both increased health care and maintaining the activities you enjoy.

Estate planning

For the purposes of lifestyle planning, it's important to consider your estate concerns at this early planning stage. Your lifestyle plan, as part of your retirement plan, will help ensure you have sufficient financial means to support your lifestyle goals when you retire. But your retirement plan should also reflect your goals, if any, for leaving something behind to family, friends, a favourite charity, etc.

Sources of retirement income

As Canadians, we have a number of income options available at retirement. We have our personal savings, programs sponsored by the government and others sponsored by employers. Below is a summary of the different sources of retirement income that may be available to you:

Personal savings accounts

Registered retirement savings plans (RRSPs)[1]

An RRSP is a tax–deferred savings vehicle.

Registered retirement income funds (RRIFs)[1]

A RRIF is a tax–deferred income vehicle. You can open a RRIF with proceeds from your RRSP or another RRIF.

Life income funds (LIFs)[1]

A LIF can be purchased with proceeds of a locked–in retirement account (LIRA)[1]. A LIRA consists of locked–in RRSPs, which are funds typically transferred from company pension plans.

Locked–in retirement income funds (LRIFs)[1]

LRIFs are not available in all provinces. Like LIFs, they are purchased with proceeds from a LIRA.

Company pensions

Enrolment in a company pension plan can be voluntary or compulsory, depending on the terms of the plan. There are generally two types: defined benefit and defined contribution.

Government programs

Old Age Security (OAS)

A federal program, the OAS is offered to most Canadians when they turn 65. It is a monthly income supplement that can reduce to zero, depending on your income.

OAS (2005)
OAS income – $471 monthly

Canada Pension Plan (CPP) or Quebec Pension Plan (QPP)

The CPP or QPP (for Quebec residents) are government–sponsored retirement income plans. You're automatically enrolled and contribute to the plan through your employer. (There are certain exceptions.) Both these plans provide a regular stream of monthly income from age 65 until death. Under the terms of the plan, you can apply to receive an adjusted income as early as age 60 or as late as age 70.

CPP disability and survivor income benefits also exist. When making your financial plans, consult your financial advisor to understand how they may affect your planning.

[1]These income vehicles are tax–deferred accounts governed by legislation. All withdrawals are considered income and fully taxed. Further details are available in the Canada Life product summary brochure – Working with you # 46–4148.

2005
Maximum CPP/QPP pension (age 65) – $828 monthly
Maximum early CPP/QPP pension (age 60) – $580 monthly
Maximum late CPP/QPP pension (age 70) – $1,077 monthly

Guaranteed income supplement

This is available to those who receive Old Age Security pension and have little to no other income.

Spouse's allowance

This supplement is paid to the spouses of pensioners receiving the guaranteed income supplement.

It's important to remember that pension legislation is governed both federally and provincially. Depending on your province of residency, certain restrictions may apply.

Maximizing your retirement income

There are two typical strategies to help maximize your retirement income:

Maximize savings

It's a simple statement: maximize savings. The more you save now, the more you'll have at retirement. How exactly can you accomplish this?

Maximize RRSP contributions

Contribute to a company pension plan

Invest outside a registered plan

Understand the effects of taking CPP pension early.

When you consider your saving goals, remember some expenses may not exist at retirement.

- You may be "mortgage free" by the time you retire.
- Cost associated with working:
  - commuting
  - parking
  - work attire
  - extra meals
- You may no longer need to support children in school.

Minimizing taxes – the other side of the income planning coin

Income splitting

Income splitting can be an important financial planning strategy. Done properly, it can significantly reduce taxes paid during retirement between spouses. Here are several examples of income splitting:

- contributions to a spousal RRSP
- CPP splitting
- investing/family expenses
- lending between partners

Tax effective use of investment accounts

Registered investments

In an RRSP, all income and gains are tax-deferred until you withdraw funds from the plan. At that point, all withdrawals are deemed income and fully taxed. There is no preferential treatment in an RRSP between interest income, dividend income or capital gains.

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Many investors today recognize the value of contributing to an RRSP. They receive the benefit of a tax credit each year they make a contribution and they grow their investments tax-deferred inside the plan.

Non-registered investments – In Canada, investment income is taxed differently at three different levels:

- interest-income
- dividend income (by qualifying Canadian companies)
- capital gains

Interest-income experiences the least favourable tax treatment, while capital gains enjoy the most favourable.

Balancing your accounts – One strategy to discuss with your financial advisor or tax advisor is balancing the different types of income-generating investments in your RRSP and non-registered accounts.

Where possible, and if aligned with your investment goals, consider holding interest-producing investments (which receive the least favourable tax treatment) in your RRSP. Investments that earn capital gains, dividends or have other tax benefits can be held in your non-registered account. You'll benefit from tax treatment today that may not exist when you draw income from your RRSP.

Understand old age security clawbacks

OAS is a monthly income supplement available to most Canadians when they turn 65. The amount you receive may decline as your net income increases to certain levels. This is called a 'clawback.' In fact, if your income goes beyond the threshold, you will be required to repay the entire amount. The only way to minimize the clawback is to minimize your net income.

- One way to avoid OAS clawback is to use a spousal RRSP. Income splitting is a great way to level out taxable income between spouses.
- Another way is to withdraw the minimum income required from your registered retirement income fund (RRIF) and supplementing your income from a non-registered account.
- Finally, if you plan to retire early, consider using your RRSPs as income in lieu of a reduced CPP (QPP) and other fixed pension income. At age 69, you will be required to take minimum income from your RRSPs. Reducing this fund early may allow you more control of future income levels by combining non-registered accounts with other fixed pension income. This can help keep your net income as low as possible and minimize the OAS clawback.

OAS clawback (2004)

Fifteen per cent of net income over **$59,790** is clawed back.

Example: Net income = $68,000

The OAS clawback is $1,231

[Fifteen per cent of ($68,000 – $59,790) = $1,231]

One hundred per cent of all OAS is clawed back when income reaches **$96,972**.

Make use of pension income tax credit.

Understand other tax credits such as:

- Medical
- Caregiver
- Disability

Estate planning

What happens after your retirement?

Settling your estate

Estate planning is carried out while you are alive. It ensures your personal property is managed effectively and your wishes, such as distribution of assets, are carried out following your death.

It also provides direction on how to care for you and your assets in case you become unable to deal with your own health or financial affairs.

Estate planning is not reserved for "rich people." Settling even a small estate requires an executor who can ensure proper care of your assets and liabilities. Estate planning provides direction to your family and can help minimize taxes paid at death and reduce probate fees.

Estate plans help you pass on more money

- Minimizes taxes
- Minimizes probate fees
- Provides cash to pay bills
- Can prevent children from spending their inheritance prematurely
- Protects assets from creditors
- Helps plan and protect business succession

Reasons for not preparing an estate plan

I'm too young.

My family always gets along.

I like to pay taxes.

The government will always look after things.

I don't know where to start.

Last will and testament

Many people believe that a will by itself represents estate planning. Drawing up a proper last will and testament is a good cornerstone, but not an end to your estate planning.

Having a will

When you die, you leave all future decisions regarding your estate to someone else. A will is your way of providing direction on how you would like your estate settled. Among other actions, your will assigns an executor, provides direction on the management of your assets, and recognizes charities and individuals.

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Not having a will

If you die without a valid will, a court will assign someone to administer your estate and distribute assets according to a formula set out in provincial estate laws. This can cause long delays in settling your estate. If your thoughts on beneficiaries, distribution of assets etc. are important, you'll need a will.

Dying intestate (not having a will)
Legal system takes over and makes your decisions. Your estate 'foots' the bill!

Choosing an executor (liquidator in Quebec) –

Choose carefully. Your executor will be your representative in settling all aspects of your estate – final taxes, funeral arrangements, settling liabilities, dispersing assets, etc. While this person will remain the final decision–maker on your behalf, he or she can hire the assistance of an estate professional, such as a lawyer or a trust company. This professional adds experience and efficiencies to help the executor perform the administrative responsibilities, which are detailed in the *"For your executor"* brochure noted at the end of this brochure. They include such things as:

- arranging the funeral
- making arrangements for living family members
- making household arrangements
- preparing an inventory of all assets and debts
- looking after assets and debts
- settling the estate – taxes, probate etc.

Protect yourself by designating a power of attorney

Enduring power of attorney

What happens when you are physically or mentally incapable of making decisions for yourself?

If you have not made arrangements for someone of your choosing to legally act on your behalf, a court will appoint someone. This can be time consuming, expensive and will likely be someone who does not understand how you would like your affairs managed.

The powers given to manage your affairs can be broad or limited. Giving someone you trust the authority to act on your behalf in an emergency or if you are unable to do so due to incapacity can save your family anguish and can protect the value of your estate.

Living will

A living will is a formal document expressing your wishes about medical care, and takes effect in the event you become permanently incompetent. It provides direction about the extent of life sustaining treatment you should receive.

You may want to have a lawyer draft your enduring power of attorney and living will to specifically meet your needs and circumstances.

Probate fees[3]

When you die, your estate is subject to probate fees. Provincial probate court charges probate fees to declare your will valid, confirm your executor and provide evidence of your death. Probate fees vary by province and are fixed or based on a percentage of the value of your assets at the time of death.

Assets that bypass probate

- life insurance proceeds to a named beneficiary
- RRSP and RRIF assets held with a life insurance company with a named beneficiary (i.e. segregated funds)
- RRSP and RRIF assets not held with a life insurance company with a named beneficiary – depends on provincial law
- any jointly owned assets – effective in all provinces except Quebec

Estate expenses

Life insurance may help the executor meet immediate expenses.

Lack of liquidity

In an estate plan this can sometimes cause problems and cost the estate many dollars. To pay final expenses, your executor may need to consider selling assets quickly, possibly below market value and with costly transaction fees.

Final expenses

Tax liabilities and other expenses on death can be significant, especially if you do not have a surviving spouse. Capital gains on stock portfolios, and property other than the principal residence (i.e. cottage), and full account balances from RRSP/RRIF[4] accounts must be included in your final tax return as income. Probate fees can also be costly.

Final expenses include:

- probate fees
- executor and legal fees
- income taxes
- funeral

[3]Probate fees vary by province and in some provinces have been changed to taxes. [4]RRSP and RRIF money can also be transferred tax deferred to infirm dependants.

Your estate plan needs to consider how these expenses will be paid. Many people use life insurance coverage as a means to produce cash flow to cover the costs of final expenses. The death benefit is received tax free and can eliminate the need for the executor to borrow money or sell estate assets.

Your estate plan

An estate plan is made while you are alive. It must be flexible to adjust to changing laws or family circumstances.

Retirement ...what's your plan?

Is your plan ready? You may want to use some of the materials available from Canada Life. Your financial advisor can provide you with direction and advice on developing your plan.

Estate planning solutions

Additional Canada Life planning guides available to you:

For your family (17–8128–11–03)

- Practical advice for your family to help them with your estate.

For your executor (17–8130–11–04)

- Informs your executor of his or her responsibilities.

Your personal records organizer (17–8125–11–04)

- Helps to organize personal and financial affairs.

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For more information about Canada Life and its product visit www.canadalife.ca or talk to your financial advisor.

A description of the key features of Canada Life's individual variable insurance contract is contained in the information folder, available from your financial advisor.

SUBJECT TO ANY APPLICABLE DEATH AND MATURITY GUARANTEE, ANY AMOUNT THAT IS ALLOCATED TO A SEGREGATED FUND IS INVESTED AT THE RISK OF THE CONTRACT HOLDER AND MAY INCREASE OR DECREASE IN VALUE ACCORDING TO THE FLUCTUATIONS IN THE MARKET VALUE OF THE ASSETS OF THE SEGREGATED FUND.

An investment in a Canada Life Generations® contract may be made on a registered or non-registered basis. Registered investments are most appropriate for investors seeking a longer duration investment rather than a short duration investment. Some of the contractual benefits may be modified under the terms of a registered contract. All aspects of registration should be discussed with your financial advisor before selection of an account and before the purchase of a contract.

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