Bukovy Financial Services

Presents

A Retiree's Guide To A Worry Free Retirement

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A Retirees Guide To A Worry Free Retirement

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Introduction

Is there any question that the past few years have been financially challenging for everyone? People have seen their hard earned savings slashed to where, in many cases, they have less now than they did 10 years ago. **As bad as it is for everyone, retirees were hit the hardest.** With retiree's incomes being reduced by as much as 30, 40 or 50% or more, they are being forced to dig heavily into their investment principal, just to meet their daily living expenses. **<u>Now, the biggest question for retirees is: Will I outlive my retirement savings?</u>**

This report is intended to provide you with an overview of the information you need to help you understand some of the many complex financial issues we all face in today's economic environment. This report provides you with concepts and strategies on how to make the most of your current retirement situation.

Be sure to note this key symbol throughout this report. Given the length and complexity of this report it is easy to get lost in the information, so we have highlighted these key points for your convenience.

The Retirement Revolution

The generation that changed the world is now in the process of changing the face of retirement. Baby boomers – the generation born between 1946 and 1966 – are on the cusp of their golden years. And if current studies prove to be accurate, traditional notions of retirement are about to undergo a significant change. Over the next 20 years, an estimated 10 million baby boomers will transition into or be fully retired. It is projected that this demographic will control approximately $4.7 trillion in wealth by 2016. This transition will create a massive withdrawal of wealth, putting extreme pressure on the markets. In addition, as boomers age, it is expected their increasing health care needs will put considerable stress on Canada's medical system.

Given the last few years of volatility, economic turmoil, historically low interest rates and the drain of the upcoming retirement revolution, where do pre-retirees and retirees go from here? How do they recoup their losses? How do they protect their incomes in the future, without putting it at further risk, so they can enjoy a worry free retirement?

A Shift In Thinking: It All Starts With A Plan

The financial services industry has long been focused on helping clients accumulate the assets. However, **<u>"de-cumulation"</u>** – or the withdrawal from your investments – can be considerably more complex than the accumulation process due to the risks you face in retirement. In working with retirees and pre-retirees, we have found many put the cart before the horse by first investing and then proceeding into retirement without a plan of action. The truth is **<u>it is not about investing; rather it is ALL about planning.</u>**

Statistically, 85% of pre-retirees and 67% of retirees *<u>DO NOT</u>* have a written plan in place. Therefore, they do not know how long their income will last.

We strongly believe it all starts with a well-devised **<u>income</u>** plan that addresses all 4 of the essential planning pillars:

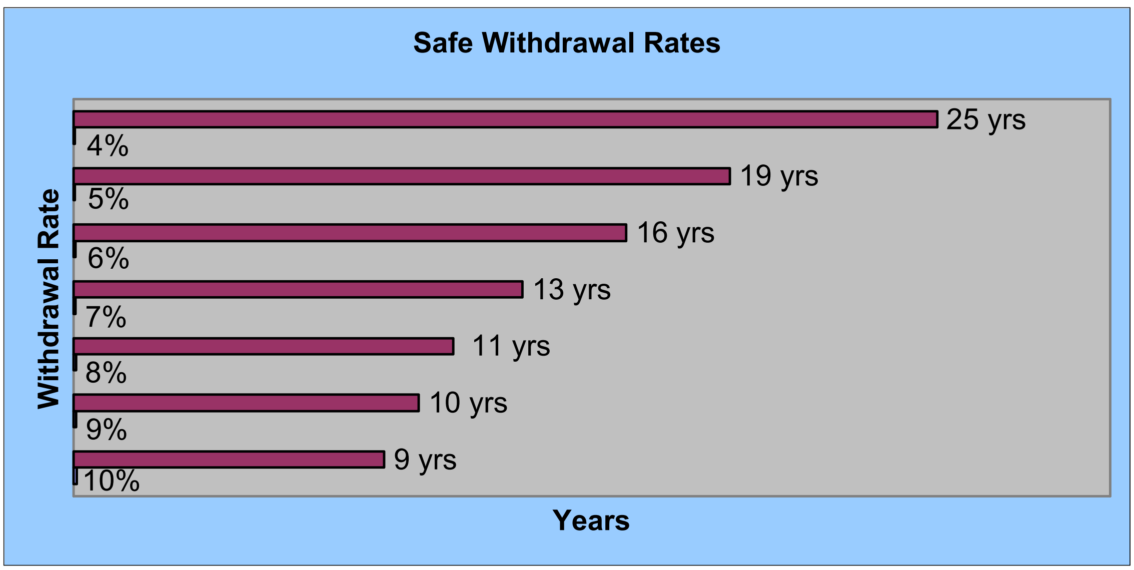
- **<u>The Written Plan:</u>** A blueprint for the process of managing your income and expenses in retirement
- **<u>The Investment Plan:</u>** A process for investing your assets and layering your income sources to co-ordinate the cashflow you need, while preserving tax incentives and government benefits
- **<u>Health Management:</u>** A process for implementing solutions to cover potential health care costs and
- **<u>Wealth Transfer</u>**; strategies to pass your estate along tax-efficiently and
- And most importantly, **how to avoid outliving your income**

It is counter-productive to an efficient retirement income plan to have investments scattered among different advisors. Conflicting advice is inherent in such a situation. Therefore, **<u>consolidating your investments</u>** is key to creating an effective retirement income plan. Your advisor should have a long financial service record combined with credentials such as the **<u>Certified Financial Planner (CFP) and the Certified Senior Advisor (CSA).</u>** These designations indicate the level of education required to ensure you can address the changing stages of retirement.

Outliving Your Retirement Savings

Today's advances in health care and the adoption of healthier lifestyles are largely behind predictions for longer life spans. But, living longer comes with it's own challenges. **A couple now aged 65 has 94% chance of one partner living to age 80 and a 63% chance of one partner living to age 90.** This means that today's boomers may have to fund their retirement for over 25 years.

We have found it takes at least 2 years for new retirees to develop a retirement lifestyle, and standardize their spending patterns**.** Excessive withdrawals in the early years can be devastating to the longevity of your retirement income plan**.** Furthermore, miscalculating the annual withdrawal rate on your savings could result in a rapid depletion of your savings and force you to reduce your standard of living or return to the work force. Studies show that a 4% withdrawal rate is an ideal annual withdrawal rate for retirees who want to be reasonably certain that they will not outlive their savings, as shown in the graph below. It is however by no means an absolute figure that fits into all situations. (The following graph is for illustrative purposes only.)



RSQ: Retirement Sustainability Quotient

A skilled advisor may use a **product allocation tool to stress test your retirement income plan** to determine the likelihood that your income stream is maintainable for the rest of your life. We use a tool that analyzes the type of products you currently hold and produces what is called an **RSQ – Retirement Sustainability Quotient.** An RSQ is a measurement of how likely a mix of investment products can provide your desired income for the rest of your life**. Do you know your RSQ? We can help you!**

Market Volatility & The Retirement Risk Zone

Declining investment income due to market volatility is a major cause of anxiety. After all, once money is lost, it can be very difficult to replace. In an effort to manage the risks inherent with market volatility, common investment practice is to use **"Asset Allocation"** as a strategy. This strategy combines different assets such as stocks, bonds and cash as a means of diversification in an effort to grow your savings. However, it doesn't stop there. Managing risk while *withdrawing* from your investments also requires careful consideration. Using **"Product Allocation,"** the careful selection of investment products, is necessary to ensure you can sustain your retirement income over your lifetime.

The most vulnerable period of time for a portfolio is 3 to 5 years before and after retirement. Poor performance during this time frame, known as the **<u>"Retirement Risk Zone,"</u>** will have a dramatic impact on your ability to generate the returns needed to provide a sustainable income throughout your retirement.

The Importance of the Sequence of Returns: The Tortoise VS. The Hare

Let's examine why you are at greater risk from market declines near or at retirement, compared to when you are saving for retirement. When you are in the saving phase or "accumulation phase" of your life, the order – or sequence-of returns is less important assuming that you remain invested and ride out times of market volatility due to the fact that you may have the time to recover.

Consider the tortoise and the hare: If you started with a $100,000 deposit, which of the following 3 strategies offering different returns would produce a higher balance in 10 years?

Deposit $100,000	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Overall Return	Balance
1	7	7	7	7	7	7	7	7	7	7	7%	**$196,715**
2	9.9	14	13	23	-4	10	-1	21	-4	-7	7%	**$196,715**
3	-7	-4	21	-1	10	-4	23	13	14	9.9	7%	**$196,715**

The answer is all of these strategies produce the same result $196,715.

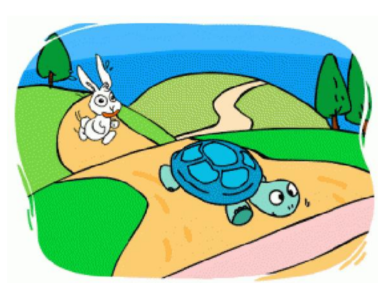
However, if you are within the **"Retirement Risk Zone,"** experiencing poor market returns early in retirement (or just prior to retirement) can significantly reduce your ability to withdraw income because your portfolio does **not** have the time to recover. Withdrawing money from investments that have declined in value results in a far quicker depletion than you may expect.

Consider the same $100,000, with withdrawals of 7% a year in retirement:

Withdraw 7%	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10	Overall Return	Balance
1	7	7	7	7	7	7	7	7	7	7	7%	**$100,000**
2	9.9	14	13	23	-4	10	-1	21	-4	-7	7%	**$112,528**
3	-7	-4	21	-1	10	-4	23	13	14	9.9	7%	**$83,586**

The tortoise and the hare illustrates why it is important to take extra care in setting up a portfolio that will be making income payments. Scenario 1 assumes a 7% growth rate and 7% withdrawal rate. **In theory your capital should remain intact because your return is even to the withdrawal rate.** The difference between the 2nd and 3rd scenario is $28,942 (or 35%) despite the fact that each investment scenario generates a 7% annualized rate or return. **The difference is equivalent to 4 years worth of income – lost - due to the sequence of returns.**

What is most disturbing about this is that luck (good or bad) plays a role. There is no guarantee that the markets will perform well during your **"Retirement Risk Zone"** and unfortunately that has a significant impact on your savings lasting your lifetime. The reality is exposure to market investments has an inherent risk – they fluctuate. The Tortoise and the Hare simply illustrates the need for creative financial solutions prior to heading into your retirement years.



The Rising Cost of Health Care

As boomers age, it is expected that their increasing health care needs will place considerable stress on Canada's medical system. Unless governments are able to cover spending shortfalls, future retirees should be prepared to pay for more medical costs on their own. This is where new and innovative products such as **Long Term Care and Critical Illness Insurance** products play a vital role in protecting your current standard of living. **Long Term Care Insurance** is designed to protect your assets and help pay for the quality of care you need in case an accident, illness, or deteriorated mental health prevents you from performing basic day-to-day activities on your own. Tasks such as bathing, dressing, eating or moving around can be provided in the home, in an adult care center, a hospital or nursing home. becomes yours personally.

The Corrosive Effects Of Inflation

When looking at a retirement period that may last 20, 30 or even 40 years, boomers have to consider the effect inflation will have on their retirement savings. Planning for 30 years of retirement income is very realistic, especially for a couple, but inflation **will** constantly erode the buying power of your savings. This effect is amplified when inflation outpaces the growth on your savings.

For example: in the last 30 years the price of a cup of coffee in a restaurant has risen approximately 348% while the cost of a simple postage stamp has gone up by 650%.

According to Statistics Canada's 2001 Survey of Household Spending, retirees are more exposed to inflation driven prices than the rest of the population because there are significant differences in their spending patterns. Seniors spend more on medical expenses, travel, reading materials, utilities, rent and tenant expenses.

Strategies For A Guaranteed Lifetime Income

In addition to the many factors affecting retirement, the recent market volatility and economic turmoil has prompted many of our clients to revisit their retirement plans. They are very concerned about outliving their income. The following are some excellent guaranteed income strategies to help you "pensionize" your income:

1. Annuities

Annuities are purchased as a one-time investment. You agree to give up control of your capital in exchange for an income amount that is guaranteed for a period of time or for life. They can be purchased with either your non-registered savings or your RRSP and include options to offset inflation.

- **Annuities Guarantee Income for Life** Life Annuities guarantee you **will not** outlive your income.

- **Annuities Are Safe & Easy** They are not tied to the markets, so your annuity income is always safe. Annuity income is **steady, reliable and maintenance free**. You always know how much income you will receive and for how long, making it easy to control expenses and forecast future cash flows.

- **Annuities Are Tax Advantaged** Certain non-registered annuities, such as the "**prescribed annuity,"** are tax-advantaged vehicles. They minimize your tax burden by spreading the taxes owing over the life of the annuity. Under the Income Tax Act, income payments from a prescribed annuity are deemed to consist of two parts; a partial return of capital, and interest. **Only the interest portion is taxable.**

See the example about George & the Insured Annuity Pg. 10 for details.

- **Annuities Avoid Probate** After becoming an angel, the accumulated funds within your annuity will be transferred to your beneficiaries, avoiding the expense, delay, and frustration of the probate process. Estates can take months, or longer, to wind up and pay out to beneficiaries.

We believe annuities are an important product that many people overlook in favour of growth-oriented investment vehicles. In fact, annuities form a solid reliable, backbone for any retirement income plan. They can give you the **peace of mind that comes with knowing that you will receive a stable, predictable, lifetime income.**

2. Guaranteed Minimum Withdrawal Benefit (GMWB) Plans

Generally, as investors move closer to retirement they tend to shift their investments towards assets with less risk, such as fixed income products, while lowering their exposure to higher risk equities. But while fixed income investments may minimize risk, they greatly increase the potential for outliving assets. Fixed income investments offer safety and a predictable income, but little growth. Equity investments offer growth, but come with the risk of losing your capital. Retirees need an investment that offers income **PLUS** growth.

Now there's an investment solution to help manage these concerns. **Guaranteed Minimum Withdrawal Benefit Plans (GMWB's) can help provide:**

- **Predictable income guaranteed** not to decrease no matter how your investments perform
- **Sustainable income** that will last for life
- Potentially **increasing guaranteed income** to help keep pace with inflation
- **Flexibility** to change your investment or access your savings at any time
- **Tax-efficient income** when held in a non-registered account
- Benefits that ensure the **smooth transition of your estate** to your beneficiaries
- **Creditor protection**

GMWB plans (available only from insurance companies) offer the growth potential of the markets, access to your savings, income protection guarantees and wealth protection features. One of the most valuable features for a retiree is a **minimum 100% death benefit guarantee of your original deposit. There are additional benefits to GMWB products including annual bonuses, automatic resets, and estate planning options.**

Pensionize Your Assets

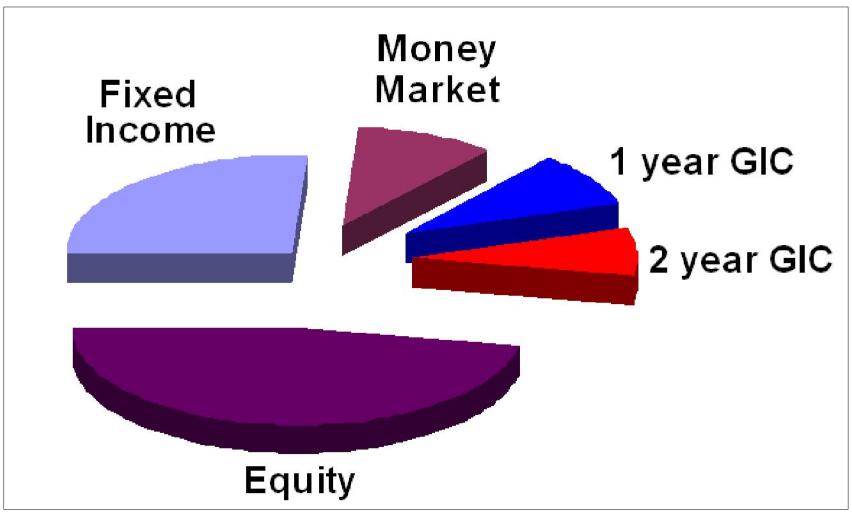
We feel that retirees without any formal pension should pay greater attention to what we call **"pensionizing."** Simply put, this is converting a portion of your assets into a lifelong, guaranteed income stream. Product Allocation enables you to identify and allocate the portion of your retirement income that needs to be pensionized. It is important to investigate this as **no one product or strategy is the ultimate key. They all have equal value. It's the combination of products that is the key.** Using a tool, such as the RSQ, helps you to identify which products or strategies should be used and in which manner in an effort to effectively 'pensionize' your retirement income.

Income Planning Concepts

Managing your investments wisely is crucial when you are drawing an income from them. The following are some income planning concepts to consider:

1. The Cash Wedge: A Safety Net For Your Income plan

The "Cash Wedge" essentially is a flexible process that enables you to draw income from positions that are not affected by market fluctuations and to replenish these positions by taking profits from your investment portfolio. However this strategy is only effective if you **avoid taking income from any part of your portfolio that is declining in value.** The rationale behind the "Cash Wedge" is to structure your portfolio to have 3 years worth of income invested in guaranteed products. Here's how it works:



Step 1: Allocate one year's worth of retirement income to a conservative, highly accessible investment such as a money market fund. This portion of your portfolio is called the **"Cash Wedge".** This is where your retirement income is actually drawn from.

Step 2: Your second and third year's income is allocated into a short-term investment, such as 1- and 2-year GICs, bonds or an investment savings account - an investment that is safe and non-fluctuating.

Step 3: The balance of your savings is left to grow using a diversified portfolio of investments based on your personal risk tolerance. Profits from this portfolio can be used to replenish the cash wedge and GICs.

However, if your investment portfolio declines, you would **NOT** use it to replenish the "Cash Wedge." Rather you would use the GICs, allowing your market sensitive assets the time needed to recover. Due to the replenishing needs of the "Cash Wedge," ongoing monitoring and the expertise of a professional advisor is required.

The key to this concept is that it is in fact a process. It will not prevent market declines or the subsequent erosion of account values. What it does provide is an income generating strategy that helps retirees weather market downturns with the peace of mind in knowing their income remains secure.

2. THE INSURED ANNUITY

Consider George. He is not happy at all with the low return on his GIC, and he has to pay tax on it as well. He is looking for a way to increase his after tax income, and does not want to erode his principal. Upon becoming an angel, he wants the $250,000 to go to his wife Gail. He is risk adverse, and wants guarantees. George asks his advisor "What options do I have? I do not want to take any risks, and I need more income." They discuss several options, but only one, will deliver the guarantees and higher income that George needs, while still guaranteeing his principal.

Solution: "The Insured Annuity" is a combination of a guaranteed single life annuity (prescribed annuity), and a fully guaranteed term life insurance policy. The income from the annuity is substantially higher than the GIC income, and is fully guaranteed until George becomes an angel. The income is considerably higher as it is a blend of interest and principal yet only the interest portion is taxable. At this point this strategy only has one flaw; when George becomes an angel the income stops. **Enter the life insurance policy.**

The income from the annuity is **more than enough** to purchase the life insurance policy, and give George the income he needs. The life insurance policy will provide a $250,000 tax-free death benefit equal to the amount of money used to purchase the annuity. This leaves George with a higher after-tax income. In addition, the interest portion of the annuity qualifies for the pension income credit.

In summary, George is happy and feeling comfortable. He has more income, does not have to worry about interest rate fluctuations and his income is fully guaranteed. His wife Gail receives the full principal when George becomes an angel. The chart below illustrates the advantage of the insured annuity over a GIC.

Initial Investment of $250,000		
	Annuity	**GIC @ 3.5%**
Annual Income (A)	**$19,151**	**$8750**
Taxable Portion (B)	**$4594**	**$8750**
Taxes payable at 40%	**$1838**	**$3500**
After-Tax Income (A-B)	**$17,313**	**$5250**
Less Insurance Premium	**$7669**	**N/A**
Net Income	**$9645**	**$5250**
Estate Value	**$250,000**	**$250,000**

The annuity's advantage over the GIC is 4395 ($9645-$5250), a difference 83.71%. In order to compete, a GIC would need to offer a Pre-Tax Yield of 6.42%. (Note**:** this strategy only involves a GIC for comparative purposes and annuity rates used are as of March 25, 2010 based on an average healthy male, aged 65.)

3. LADDERED GUARANTEED INVESTMENT CERTIFICATES (GICS)

A Guaranteed Investment Certificate is an investment that provides you with specific rate of return for locking in your investment for a given period of time. GIC investors often choose a term based on trying to guess where interest rates are going. The problem is that we never know what the future holds for interest rates. GIC laddering is a strategy where investors purchase a series of GICs with consecutive maturity dates. Staggering these maturities helps you:

1. **Maximize Returns**
2. **Increase Liquidity**
3. **Reduce Reinvestment Risk.**

Here's how it works. A lump sum is divided equally into several GICs maturing consecutively year after year for either a 5 year or a 10 year period. So, rather than investing a $5000 amount into 1 year term, the investment is divided into five $1000 GICs with consecutive maturity dates (a 1 year, a 2 year, a 3 year, a 4 year and a 5 year). With a GIC maturing yearly, you can take advantage of interest rate changes while having the luxury of freeing up your money on a regular and consistent basis. The following chart illustrates the laddering process as each GIC matures it is reinvested into a new 5 year GIC.

Initial $5000 Investment	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
$1000	1 Yr Term	5 Yr Term				
$1000	2 Yr Term		5 yr Term			
$1000	3 Yr Term			5 Yr Term		
$1000	4 Yr Term				5 Yr Term	
$1000	5 Yr Term					5 Yr Term

<u>A GIC issued by an insurance company</u> has benefits that are not available from bank issued GICs. Non-Registered GICs from an insurance company have beneficiary designations. All insurance company GICs are protected from creditors. At age 65, your GIC income will qualify for the pension income tax credit. **None of these benefits apply to bank issued GICs.**

Features	GIA	Bank GIC
Guaranteed Interest Income	☆	☆
Beneficiary Designation	☆	
Bypasses Probate	☆	
Creditor Protected	☆	
Pension Income Tax Credit	☆	
Pension Splitting Opportunity	☆	
Deposit Protected *	☆	☆

Preserving What's Yours For Your Loved Ones: Estate Planning & Asset Protection

What is Estate Planning & Asset Protection?

Estate Planning is a process that allows the assets in your estate to be distributed to your beneficiaries according to your wishes in a timely, orderly and tax efficient manner. Asset protection is a method of protecting your asset values from taxation, probate and legal costs.

An Estate Plan can do the following:

- ❖ Divide your assets the way you want them to be divided
- ❖ Help with the speed and efficiency of the transfer of the estate
- ❖ Determine how your assets are organized and managed
- ❖ Minimize your income taxes at death
- ❖ Minimize costly estate fees (probate, legal, accounting etc.)

Asset Protection & Estate Planning Toolkit

There are many estate planning tools used everyday to aid in a smoother transition of estate assets such as:

- ❖ **A Will** is a document containing your instructions and wishes as to how your property and assets (such as your home, property, vehicles, bank accounts, furniture, boats etc.) are to be distributed after your death. It is a legal document containing the names of the people you want to benefit, as well as the details of your possessions at the date of your death. Those people that you want to benefit are called beneficiaries. The chart below illustrates the reasons why you should have a will.

	With A Will	Without A Will
Beneficiaries	Chosen by you	Chosen according to provincial law
Executor Of Your Estate	Chosen by you	Chosen by court
Distribution Of Your Assets	Done in a timely manner	Delayed until court appoints an executor
Guardians For Your Children	Chosen by you	Appointed by the court
Taxation Of Your Estate	Minimized if done properly	High if assets not arranged properly
Cost Of Administering Your Estate	Minimized	Potentially high

- **<u>Power of Attorney (POA) for Personal Care</u>** is also known as a Living Will. It is a written document outlining what forms of medical treatment you do or do not wish to receive should you become incapacitated.
- **<u>Power of Attorney (POA) for Enduring Care</u>** is a written document naming a person of your choice to manage your financial affairs in the event you become mentally incapacitated.

If you become incapacitated and **<u>do not</u>** have a POA, someone will be appointed by the government to make those decisions for you.

Estate Planning Concepts That Work:

1. Naming Beneficiaries

Generally, you can name a beneficiary on all Registered investments (RRSPs, RRIF etc), which helps in the process of dividing your assets upon death. However, you cannot have a beneficiary on your non-registered investments (investments not held inside your RRSP or RRIF) **<u>unless they are held with a life insurance company</u>**. Non-Registered assets held with a life insurance company will bypass avoiding **<u>probate, legal fees and timing restraints.</u>**

The Value of Naming A Beneficiary:

Example based on an Estimated Estate Value of $1,000,000 in Ontario		Type of Investment	
Type of FEE	**Estate Costs (vary by province)**	**Bank GIC**	**Insurance Company GIC**
Probate Fee	$250 + $15 per $1000 > $50,000	$14,500	$0
Executor's Fee	Varies by province – up to 5% for corporate executors (1% used as majority name family members)	$10,000	$0
Legal Fees	0.5% to 3% of assets + accounting fees	$30,000	$0
Pension Income	Up to $2000 of Qualifying Pension Income for Tax Credit	No	Yes *
Proceeds At Death	6 months to 3+ years depending on size of estate	1 year (avg)	1 week**
Total Cost	1.4 to 15%	$54,500	$0

*eligible for 15% tax credit **upon notification of death

2. The Annuity Settlement Option

You have worked hard over the years to ensure your loved ones will be comfortable, both now and after you become an angel. However, your nest egg can disappear very quickly when it is passed on to your beneficiaries. This is a very real concern for many pre-retirees and retirees.

"The Annuity Settlement Option" is a simple, inexpensive and effective wealth transfer tool. It will automatically transfer the proceeds of your investment account, upon your death, into an annuity for your beneficiaries. The resulting annuity will then make specified, gradual income payments to your beneficiaries as per your wishes.

For example: Dick and Jane own $400,000 of non-registered segregated funds (investment funds offered by a life insurance company). They have named their son Boris as the beneficiary, in the event of their becoming angels. Dick and Jane are concerned about Boris's ability to manage this money, given his poor spending habits and money management skills. They prefer to have the proceeds plus future interest paid out over a specified period of time. After discussing the situation with their financial advisor, they select a 10-year term certain annuity settlement option on their segregated fund contract. Now Dick and Jane have the comfort of knowing their estate will pass the monies gradually to their son, in amounts of approximately $4,000/mth over a 10-year period.

Estate Benefits of "The Annuity Settlement Option":

- You can select an annuity that makes payments to your beneficiaries, for their lifetime or for a specific period of time.
- It bypasses the will therefore; avoids probate, estate fees and a public process
- You can differentiate between beneficiaries, permitting certain beneficiaries to receive a lump sum and others to receive an annuity based on the terms that you select.
- It may also be effective for minor children or mentally challenged beneficiaries.

Annuity settlement options can only be added to certain life insurance company vehicles, such as GIC's, segregated investment fund contracts, GMWB Plans and life insurance policies.

The bottom line: If you do not want to risk transferring your assets to your beneficiaries in one large lump-sum after your passing, you should take the necessary steps now to protect your estate. For those who prefer a highly structured approach, a formal trust should be investigated. If you prefer a simpler approach, "The Annuity Settlement Option" may be the answer.

Summary

In summary, estate planning is a means of protecting what is yours, for your loved ones. It is worth investigating what can and should be done for the betterment of your family.

The following is a basic checklist to help you get started.

Asset Protection & Estate Planning Checklist

- Do you have a signed Will?
- Do you have a signed Power of Attorney for your personal care?
- Do you have a signed Power of Attorney for your financial affairs?
- Have you reviewed your will and powers of attorney in the <u>last two years?</u>
- Do you have an up to date net worth statement listing your assets and liabilities?
- Have you named beneficiaries for all of your applicable investments, pensions and life insurance policies?
- Have you reviewed all the pros and cons of jointly registering non-registered assets in your name and your spouse's name?
- Do your family members know where to locate your financial records (investment accounts, bank accounts, tax returns, insurance policies, safety deposit box)?

Tax Tips: Take A Bite Out Of Your Tax Bill

No one likes paying taxes, least of all retirees who have spent their lives working and saving. Here are several of the latest tax planning tips that can help take a bite out of your tax bill.

1. Income Splitting:

While there are several tools to avoid a tax hit, income splitting is one of the most beneficial strategies. It's an enormous tax savings when you can transfer up to 50% of an individual's pension to shift the person from a higher tax bracket to a lower one.

Pension income splitting is ideal for retirees, because it lets them preserve their Old Age Security (OAS), which gets clawed back at a certain level of income, while saving on taxes. If you can transfer pension income to your spouse it can be a substantial savings. The 2009 OAS Clawback starts at $66,335. For every dollar ($1.00) of income above the $66,335threshold, the amount of basic OAS pension reduces by 15 cents.

Example: John is 72 and Marie is 67 (both spouses are over 65). The maximum benefit occurs by splitting just enough income to avoid an OAS clawback for Marie.

	No Splitting		With Splitting		Tax Savings
	John	Marie	John	Marie	
Company Pension	$85,000	-	$42,500	$42,500	-
RRIF/Spousal RRIF	19,000	$10,000	13,892	15,108	-
CPP	10,365	-	10,365	-	-
OAS	5,903	5,903	5,903	5,903	-
Gross Income	**120,268**	**15,903**	**72,660**	**63,511**	**-**
Tax	(35,460)	(1138)	(16,668)	(13,770)	-
OAS Clawback	(5903)	-	(1,372)	-	-
Age Credit	-	1034	-	45	-
After-Tax Income	**$78,905**	**$15,799**	**$54,620**	**$49786**	**$9,702**

2. Canada Pension Plan (CPP) Pension Sharing

Another tax saving measure for retirees is CPP pension sharing. If you have a spouse in a lower tax bracket, you can apply to have yours and your spouses pension combined and then split evenly between the two of you to share/minimize your tax burden. **<u>You have to apply for this.</u>**

3. Tax Free Savings Accounts (TFSA)

Seniors should max out their Tax-Free Savings Accounts (TFSA), which means contributing $5000/year to the account, since these accounts earn tax-free income for life. When money is withdrawn it's not included in income, it's not taxable and doesn't impact net income on Line 234 for clawback purposes. Every person over the age of 18 can contribute to their own TFSA. Partners can also gift money to a spouse's TFSA. For couple's that equates to $10,000 tax sheltering every year.

4. Pension Income Credit

It is surprising that many retirees aged 65 and older do not take advantage of a federal tax credit worth 15% (2008) of the first $2,000 of eligible pension income plus a provincial tax credit. You would save approximately $400 a year in Ontario. Conventional planning assumes you should delay converting your RRSP to a RRIF until age 71, however, there is approximately $2800 tax saving incentives to do it starting at age 65. ($400 x 7 years (from ages 65 to 71)= $2800)

- If you do not have enough eligible income then convert enough of your RRSP to a RRIF to generate the $2000 of eligible RRIF income.
- Non-Registered GICs from an **insurance company** report interest income as annuity income, which qualifies for the Pension Income Tax Credit at age 65. **In contrast, income from bank GICs is NOT eligible.**

5. Transferring Unused Credits To A Spouse

If you are at least age 65 and have eligible income but are unable to use the full credit because you have reduced your taxes to zero, you can transfer the unused portion to your spouse (or common law spouse). Your spouse can claim it at any age and does not need to have eligible income.

6. Charitable Donations

Many individuals like to make charitable donations and these donations qualify for a 15% tax credit for amounts over $200. You can also leave your investments to a charity in your will. The investments will be given preferential tax treatment (not trigger taxable capital gains) if donated to a qualifying charity. You will also receive a tax deduction on your final tax return.

If you do not have assets to leave to a charity, you can take out a life insurance policy and make the charity the beneficiary. Upon your passing, the charity receives the insurance proceeds and your estate receives a huge tax deduction.

7. Age Credit

If you are 65 years of age or older, you are entitled to an age credit. This is worth anywhere from $1350 to $1800 per year in tax credits depending on your province of residence. You are entitled to this credit if your taxable income is less than $32,315. However, the credit is clawed back at a rate of $0.15 for every $1 over 32,315 and is fully clawed back at approximately $75,000.

8. Fight The Clawback! RRSP Top-Ups & Line 234

If you have unused RRSP contribution room, you can make a final lump sum contribution (before the end of the year you turn 71) to pocket the tax deduction and carry it forward for future years.

This can be a very beneficial tactic to save yourself from clawbacks. Canadians age 65 and older may qualify for many valuable government benefits, such as Old Age Security. However, if the income reported on line 234 of the Federal Income Tax Form is too high, these benefits can be clawed back. For Old Age Security, remember the clawback begins at $66,335 for 2009.

Spencer is a 71 year old retired steel worker who has RRSP top up room. He made a final lump sum contribution of $50,000 to his RRSP. He spread the contribution over 10 years ($5000/year) to maximize his deduction over time. Now that he is 71, he can convert this RRSP to a RRIF and it grows his after tax RRIF income by $2509. The RRSP deduction of $5000 created an additional tax savings of $1600/year. At the same time he was able to reduce his clawback by $134/year.

Regardless of your age, if you have qualifying earned income or unused RRSP contribution room, you can contribute to a Spousal RRSP prior to December 31st of the year your spouse turns 71 and claim the deduction for the contribution to your tax return. You can carry it forward indefinitely to future years which is a great tool to have in your pocket to reduce the potential for future clawbacks)

Be wary as there is a "3 year rule" where you cannot withdraw from a spousal plan if you have made a contribution to this spousal plan within 3 years. Proper planning is essential to avoid this.

Conclusion

Bukovy Financial Services focuses on **<u>The 4 Pillars of Retirement Income Planning.</u>** Simply put, this is positioning your assets properly, to develop and implement a retirement income plan to avoid the many problems we have discussed in this report.

But I already have an advisor? Many retirees and pre-retirees trust the advice of their brokers, accountants or other advisors. Since everyone's situation is unique, we have found that a second opinion from an advisor specializing in the retirement income planning field is very valuable.

About Bukovy Financial Services Ltd.

Ray Bukovy CFP, CSA. has 26 years of financial services experience. Our team consists of Jennifer Fedun, Certified Financial Planner, and Linda Oberg, Client Service and Administration Manager, and Chris Bukovy, IT Technician. Jennifer and Linda have worked closely with me, for the last 12 and 23 years respectively, to provide quality service and trusted advice. Together, we work with our clients to devise, execute and monitor their retirement plans to help them achieve the worry-free retirement they deserve. We hope you have found this report both informative and valuable.

Please visit our website at: http://www.panicorpeaceofmind.com for more information about our services.

So What Is The Next step?

Is it worth 40 minutes or so of your time to see if you can:

- Stop worrying about outliving your money!
- Decrease income taxes in retirement!
- Reduce or eliminate unnecessary probate and estate costs!
- Have peace of mind in knowing your retirement is secure!

If so, please call Bukovy Financial Services today at (807) 684-1820.

Sincerely,

Ray Bukovy CFP CSA