Sources of Retirement Income

Government Plans

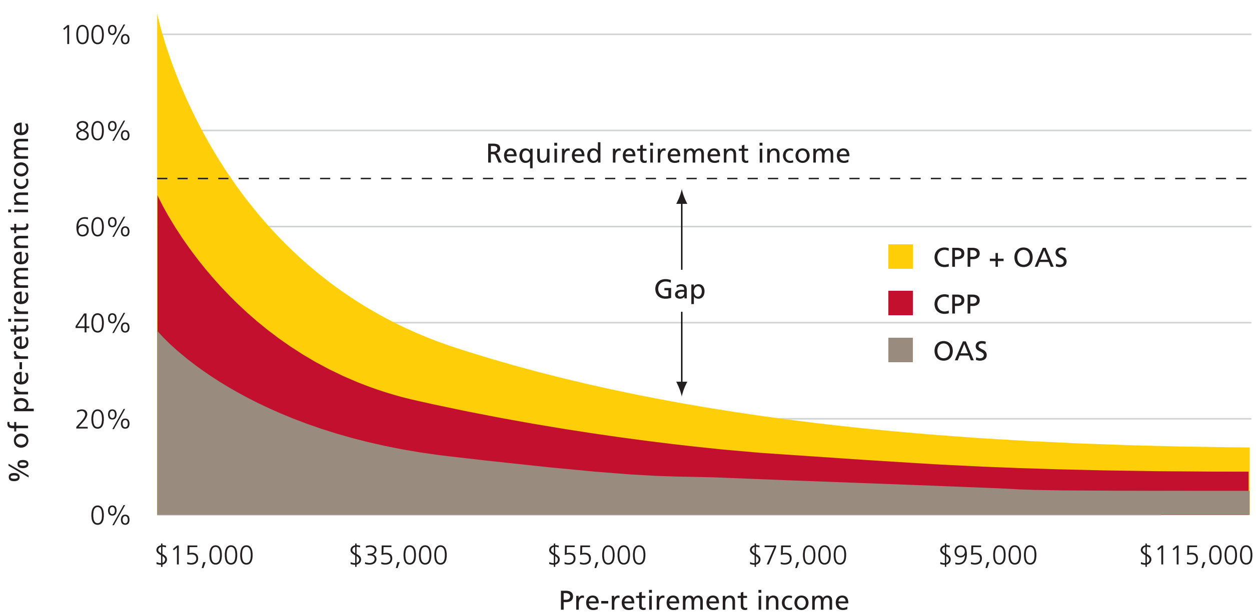
There are two primary programs that provide income benefits to Canadians. The first is the Old Age Security (OAS) program, which provides a monthly benefit payment to most Canadians 65 years of age who meet the Canadian legal status.

The benefits are subject to certain residency requirements and higher income pensioners also repay part or all of their benefit through the tax system. The OAS program also supports lower income retirees through a Guaranteed Income Supplement (GIS) and Allowance (formerly called a Spousal Allowance) program. OAS pensions are taxable, and the OAS program is financed from government general tax revenues.

The second program is the Canada/Quebec Pension Plan (C/QPP). This program provides benefits based on the number of years you have worked in Canada prior to retirement and the amounts you have contributed to the plan over those years. CPP benefits are also taxable and you may apply as early as age 60.

So what do you need to know about these government plans? In your planning for retirement, you need to decide how much income from these plans will support your retirement goals. Statistics Canada studies have shown that government plans provide less than 40% of an average retiree’s income.You might consider using a conservative estimate (between 25% and 35%) when calculating how much these programs will support your retirement income.

Government Plans May Not Be Enough



The growth of your investments will have a significant impact on the "pot of money" that will accumulate.

Company Plans

A second source of retirement income is your company plan(s). Your employer has given you a great advantage by setting up a retirement plan. It will be a key component of your retirement income. According to Statistics Canada, about 60% of Canadians do not even have an employer-sponsored retirement program.

The two kinds of company plans are Defined Benefit Plans and Defined Contribution Plans.

Your plan is a Defined Contribution Plan

and is one of the following types:

- Registered Pension Plan (RPP);
- Group Retirement Savings Plan (Group RSP);
- Deferred Profit Sharing Plan.

In a Defined Contribution arrangement, the "pot of money" available to you at retirement is comprised of two elements – the contributions you and your employer make to the plan and the investment growth on those contributions. Along with government benefits and other personal savings, this "pot of money" will be used to provide your annual retirement income.

The number of years until your retirement and the growth of your investments will have a significant impact on the "pot of money" that will accumulate. We will talk more about this later. For now, make sure you understand the plans that you belong to and the benefits that they are providing.

Personal Savings

A third possible source of income that you can draw on in retirement is your personal savings. These include registered (also called tax-assisted) savings and non-registered savings.

Registered savings are accumulated in a Registered Retirement Savings Plan (RRSP). Under an RRSP, your personal contributions accumulate interest, or investment income, on a tax-deferred basis until you make withdrawals. There are limits to the amount you can contribute to an RRSP. Your contribution room becomes smaller as contributions are made to other company-sponsored registered plans including the ones mentioned earlier. Each year, the government, through the Canada Revenue Agency (CRA), will calculate your personal RRSP contribution limit and advise you through your Notice of Assessment, which you receive after you file your annual income tax return.

Tax-Free Savings Accounts (TFSA) were introduced in 2009 to all Canadians over 18 years of age. Here is how a TFSA works:

- Investment income and capital gains earned in your TFSA will not be taxed, even when withdrawn.
- Unused TFSA contribution room can be carried forward to future years.
- Unlike an RRSP, any money contributed to your TFSA will not be tax deductible.
- Funds can be withdrawn from your TFSA at any time for any purpose.
- Amounts withdrawn from a TFSA can be re-contributed in the following or any future year.
- Contributions to a spouse's or common-law partner's TFSA are allowed and TFSA assets can be transferred to a spouse or common-law partner upon death without tax implications.

- When you file your tax return each year, the government will determine your remaining available TFSA contribution limit for the coming year.
- You can have more than one TFSA and you can also have TFSA with more than one financial institution. But you will need to keep track of how much you have contributed so you don't exceed your limit.
- There is no maximum age limit to contribute to a TFSA unlike the RRSP which has a limit of 71 years of age.
- You don't have to pay any tax on money you take out of your TFSA and withdrawals don't affect your ability to qualify for Federal benefits like the Child Tax Benefit, Guaranteed Income Supplement, Old Age Security benefits, Age Credit, or Goods and Services Tax Credit – so you are not "penalized" for saving.

Tax-Free Saving Accounts should be viewed as a complement to your group registered retirement plans and also as another vehicle for tax-favoured retirement savings.

Take it to the Limit!

Please visit our online Education Centre for current calendar year maximums for registered plans and TFSAs.

Non-Registered savings include all other forms of savings. These are not usually tax-deferred and include such things as bank accounts, investment accounts (stocks and bonds), and rental properties. Your employer may also have a group non-registered savings plan setup for your use.

Now that you have an understanding of where your sources of income may come from in retirement, we can focus on your company's plan and determine how much you need to save and how to invest to achieve that goal.