PURΣFΔCTS

Retirement Income Plan

CLIENT
Sandra Brown (Age 55)

PLAN DATE
March 11, 2021

RETIREMENT AGE
65

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Assumptions & Disclosures

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Client Information

Name: Sandra Brown
Sex: Female
Date of Birth: January 1, 1966

Residency

We assume all clients earn all their income within the province of Ontario in Canada for taxation purposes. Moreover, we assume any LIRA/LIF investments originated in Ontario and thus Ontario LIRA/LIF rules apply to them.

Pre-Retirement

When applicable, Cascades will not calculate a level disposable income during a pre-retirement phase. Once the projection reaches the retirement phase (all spouses retired), Cascades dictates all investment cash flows in order to produce a level disposable income throughout retirement under a variety of different strategies

Investments

Once an asset allocation is selected, the rate of return associated to that allocation is used for all investment projections. Your selected asset allocation is:

Moderate: 60% Fixed Income, 40% Equity - 5% rate of return

Cascades assumes all investment cash flows (either a contribution into or withdrawal out of an account) occur in their entirety at the beginning of the report year. Annual account returns are applied to the market value after all cash flows have occurred. All capital gains are realized for tax purposes in the year that they occur.The equity portion of taxable savings (non-registered savings) is assumed to have returns made up of 3 components: 50% realized capital gains, 25% eligible dividends, and 25% foreign dividends

Life Expectancy

All ages used for life expectancy were obtained from the Society of Actuaries Annuity 2000 Basic Table. All couple's projections assume both spouses will live until the end of the report.

Inflation

All income and savings are reported in "today's dollars" by taking a present value at 2.0% annual inflation. Inflation is applied to CPP/QPP, OAS, pensions*, annuities*, custom income sources*, income needs, tax bracket thresholds, tax credit amounts (personal, age), re-payment or "clawback" thresholds (OAS and Age Credit clawbacks), annual TFSA contribution room, limit on annual RRSP contribution room gained. [*unless otherwise selected]

Strategy Descriptions

Registered Accounts First - This strategy involves creating retirement income from registered funds first, reducing the risk of leaving highly taxable investment accounts to an estate. The second priority is given to taxable non-registered accounts, leaving Tax Free Savings Accounts (TFSAs) last.

Non-Registered Accounts First - This strategy involves creating retirement income from non-registered funds first, deferring the income taxes payable on registered investments. The second priority is given to registered investments, leaving Tax Free Savings Accounts (TFSAs) last.

Registered Accounts Last - This strategy involves creating retirement income from non-registered funds first, and postpones the use of registered funds as long as possible. The second priority is given to Tax Free Savings Accounts (TFSAs), leaving registered funds last.

Determining a Winning Strategy - With all other factors being equal, the winning strategy provides a client longevity and the highest estate value, net of taxes and fees, at life expectancy. The differences in the net estate value represents the income tax savings of the winning strategy.

About Our Strategy Comparison

We've run a retirement income withdrawal plan three different ways to produce an after-tax annual retirement income of **$47,845**, changing the priority of withdrawal in each scenario. Solving for the same after-tax retirement income in each scenario, we used the average estates net of taxes and fees to determine the strategy that pays the least amount of income tax

Retirement Income Plan

$47,845 is Sandra's maximum annual income, after tax.

Winning Strategy
Registered Accounts First
$315,036 in Net Assets at Mortality

1st Runner Up
Non-Registered Accounts First
$253,671 in Net Assets at Mortality

2nd Runner Up
Registered Accounts Last
$241,045 in Net Assets at Mortality

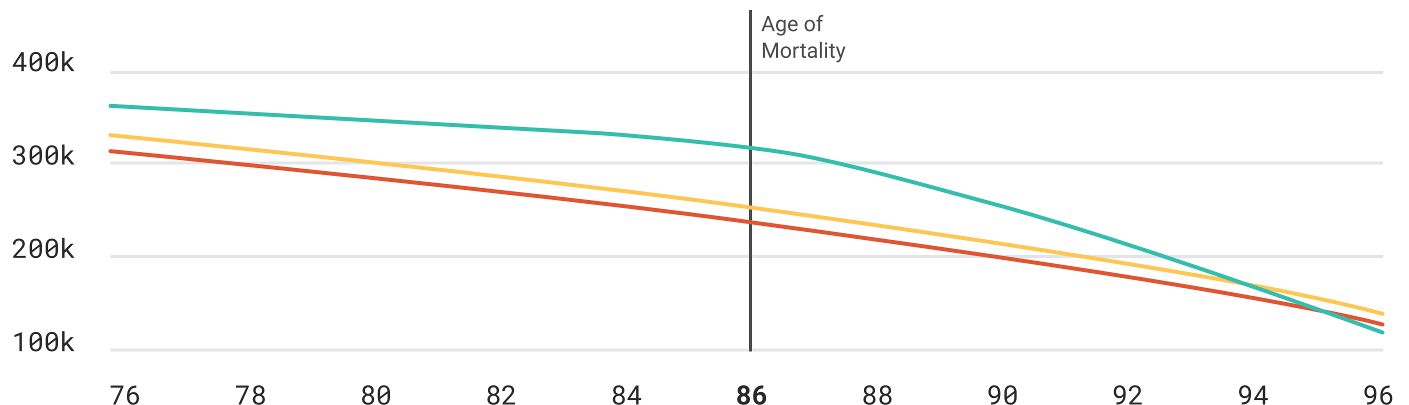
The Registered Accounts First strategy provides an expected Net Estate Value at mortality that is **$61,365** greater than the runner-up.

By prioritizing an even meltdown of registered funds from the beginning of retirement to mortality to generate income, the Registered Accounts First strategy pays $68,553 more in cumulative taxes leading to $99,354 less in gross estate value at mortality relative to the runner-up. Despite this deficit in the gross estate, this strategy pays $160,719 less in probate and terminal return taxes meaning it's expected net estate value at mortality is actually $61,365 greater than the runner-up, making it optimal as it is expected to retain the most value while paying out the same income amongst all compared strategies.

Difference of Net Estate at Mortality (Age 86)

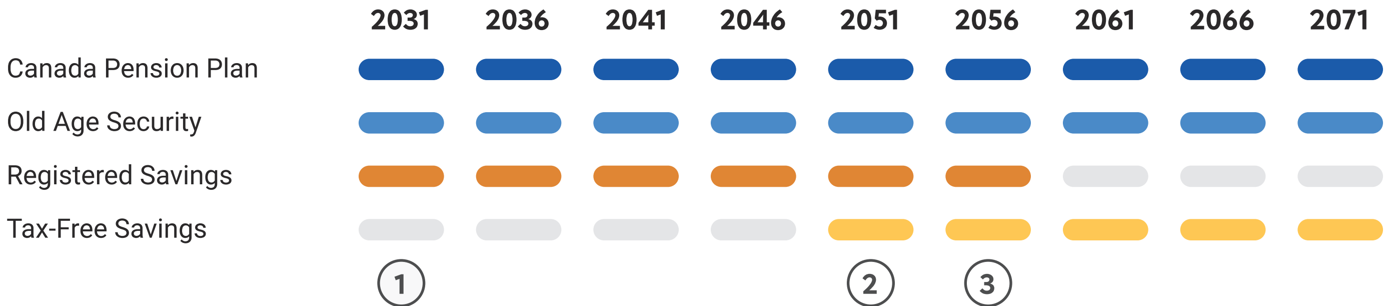
	Cum. Taxes	Gross Estate	Estate Fees + Tax	Net Estate	Difference
Registered Accounts First	$444,876	$361,130	$46,094	$315,036	$0
Non-Registered Accounts First	$376,323	$460,484	$206,813	$253,671	$61,365
Registered Accounts Last	$379,697	$461,943	$220,899	$241,045	$73,992

Net Estate Projection



Income Plan Timeline

By comparing the net estates under differing withdrawal strategies, we've determined that the Registered Funds First strategy would pay the least income tax overall. This strategy involves creating retirement income from registered funds first, reducing risk of leaving highly taxable investment accounts to an estate.



1. Sandra begins taking **CPP** and **OAS** payments. Sandra converts her **RRSP** to a **RRIF** and begins taking payments. Sandra converts her **DC Plan** to a **LIF** and begins taking payments
2. Sandra's **RRIF** account depletes. Sandra begins **TFSA** withdrawals to replace **RRIF** income
3. Sandra's **LIF** account depletes. Sandra increases **TFSA** withdrawals to replace **LIF** income.

Key Considerations

Investing while withdrawing is different than investing while saving.

When withdrawing funds on a regular basis for retirement income, the order (or the "sequence") in which you receive your investment returns can make a significant difference in how long that income lasts. This concept is known as the Sequence of Returns Risk. Protect yourself by reviewing the proportion of fixed income that makes up your retirement income.

When do you convert your RRSP to a RRIF?

When you reach retirement, a registered retirement savings plan (RRSP) has the option of turning into a registered retirement income fund (RRIF). To provide a sustainable retirement income and minimize your income and estate taxes, we've calculated an average annual RRIF payment of $43,169 starting at age 65. At an assumed rate of return of 5%, this investment will reach $0 at age 86.

3 more key considerations on next page.

Key Considerations

We found some OAS Clawback in your projection.

Because of high taxable income levels, we project that you will be required to re-pay some of your Old Age Security (OAS) benefit to the government, known informally as the "OAS Clawback." An OAS Clawback situation involves one of the highest effective marginal tax rates experienced by Canadians. Consider reducing the amount of income taken from registered investments over other vehicles and consider investing for capital gains over dividends to reduce your clawback.

OAS Clawback in Retirement Year

You are expected to have some of your Old Age Security clawed back in your first year of retirement. Because OAS Clawback is calculated based on the previous year’s taxable income level, it is possible that we have projected an OAS Clawback for this first retirement year even though your taxable income level has decreased relative to the previous year when you were still working. If this is the case, your correct OAS entitlement for the year will be calculated and the difference paid to you when filing income taxes in the following year. Alternatively, you may submit form T1213-OAS to the Canada Revenue Agency in your first year of retirement to request a reduction in OAS Clawback sooner by detailing the decrease in your taxable income that is expected to occur.

Save even more income tax with charitable donations.

The tax credit system in Canada is very generous to charitable donors. Charitable donations in Canada are eligible for both federal and provincial donation tax credits, with combined incentives of up to 53% in some provinces. You can claim charitable gifts up to an annual limit of 75% of your net income – a number that rises to 100% for gifts made in the year of death and the year before.