

You've retired. Now what? Well, your financial planning isn't over. In fact, you should still be checking, comparing and adjusting your retirement plan to meet current tax rules and changing circumstances. And, if you haven't already started, now is the time to ensure your affairs are in order.



Financial planning in the retirement years

By Colleen Gibb, FCA, CFE

Predicting exactly how your retirement will be is difficult. And estimating how much income you will need to live on and providing enough to cover changing tax rules is a tough job. But once you've actually retired, what you require to live on becomes more apparent.

Even so, circumstances may change once you've retired. Your health may deteriorate, a spouse may pass away and new tax changes will be announced. For these reasons, it is important to regularly review and adjust your plan.

Get your money

First, you should be certain you're receiving all of the income that you're entitled to. Ensure you have applied for Canada Pension Plan (CPP) and Old Age Security (OAS) benefits. The CPP, which is fully taxable, can start at age 60 years, providing you have retired. Most people begin taking the CPP at 65 years, and it must be taken by 70 years. The OAS, also fully taxable, begins at 65 years. Those with a net income of more than \$66,733 in 2010 will be required to repay all or part of the maximum OAS amount.

Retirees on modest incomes may also qualify for various tax credits, such as the goods and services tax (GST) credit and the provincial sales and property tax credit, which are not taxed as income. In addition, for 2009 and 2010 there is the new Ontario Sales Tax Transition Benefit (to assist with the harmonized sales tax

coming into effect in July 2010). The credit is a maximum benefit of \$1,000 for families with an annual income below \$160,000 and \$300 for individuals with an annual income below \$80,000.

All of these benefits are claimed when you file your personal income tax return for the year. The government automatically calculates the GST credit when it processes your personal tax return; however, to get the provincial property tax credit, you must actually complete a form indicating the total property taxes or rent paid in the year. If you did not do this for 2009, it is still possible to file a T1 adjustment to claim this tax credit.

Seniors are also able to claim the Senior Homeowners' Property Tax Grant. You must be 64 years of age or older on December 31, 2009 to apply and have owned and occupied a principal residence in Ontario. The maximum grant for 2010 is the lesser of \$500 or your property tax paid for 2009. The grant is available to seniors with family income of less than \$60,000 and single seniors with income under \$50,000. This grant is not automatic—you must apply for it on form ON479 with your 2009 tax return. If you were eligible for the grant in 2009 but forgot to claim it when you filed your 2008 return, it is not too late. To claim it, you must file a T1 adjustment. Your chartered accountant can assist you with this.

Seniors on limited incomes are eligible for the Guaranteed Income Supplement (GIS), which begins at 65 years and is not taxable. For example, if you are single in 2010 with an income of \$15,672 or less, you should qualify for the GIS. This must be applied for and you can contact Service Canada for an application form. You can also re-apply for the GIS benefit by filing your tax return. However, you first must apply and be qualified.

Draw on every source

Your registered retirement savings plans (RRSPs) are also a source of retirement income, providing you contributed to them during your working years. You must convert your RRSPs to a registered retirement income fund (RRIF) or annuity by December 31st in the year you turn 71.

Currently, withdrawals from your RRIF must start in the year you turn 72. The formula to calculate the minimum amount that must be withdrawn each year is based on your age or your spouse's age. (Here's a planning tip: if

your spouse is younger than you, use the lower age; this means that less will have to be withdrawn from your RRIF.) Funds from these plans are generally taxed when the funds are withdrawn.

If you still have contribution room in your RRSP, you can now contribute to it until the end of the year you turn 71. Many retirees do not realize that they can also contribute to a spousal RRSP (contribution room allowing) to the end of the year in which their spouse turns 71.

Interest and dividends from savings held outside tax-deferred plans are generally taxed when you receive them, although interest is usually taxed on an accrual basis. The appreciation realized from the sale of a house may not be subject to capital gains tax if it qualifies for the principal residence exemption. Your chartered accountant can help you determine whether the sale of your principal residence is completely or partially tax exempt.

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“Whoever said money can't buy happiness didn't know where to go shopping.”

Bo Derek

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Monitor your plan

How can you ensure you are maximizing your retirement income? The key is to continue to monitor your financial plan during your retirement.

Another very important plan is for your estate. Ensure that your will meets your current wishes. And ensure you have sought proper help to make sure that your wishes can actually be carried out and that poor tax planning does not destroy your plan.

Without proper planning, terrible situations can occur. For example, one woman designated that her grandchildren receive her RRSPs upon her death and that her only daughter receive her home. When she died, she only had the two assets. But upon death, you are deemed to dispose of everything you own at fair market value and taxes are calculated thereon. The home was no problem, as it was her principal residence and was tax free. However, the RRSPs created a large tax liability to the estate. The grandchildren were entitled to the entire RRSP (not net of the taxes owing) and the daughter was forced to sell the home in order to pay the taxes as a result of the RRSP. This situation could have been easily avoided through better financial planning.

When preparing your will, other planning opportunities will minimize taxes upon death or other future taxes. This can involve setting up a

testamentary trust, completing an estate freeze now or leaving your assets to your spouse or a spousal trust to defer the tax hit for longer.

While you're planning, consider writing a "living will." This deals with how you wish to be cared for if you can no longer communicate or exercise your wishes.

Think long-term

Planning for retirement is a long-term project. Unfortunately, many Canadians have not planned properly for their retirement. If you have failed to plan, you can still start today to ensure you receive all the benefits that you're entitled to.

Sound financial planning can become complicated, so be sure to seek professional assistance. For example, a chartered accountant will work with you to develop your plan for a comfortable retirement and to protect and maximize the value of your estate. He or she can also ensure you obtain the maximum benefit from tax credits, take advantage of opportunities to avoid the OAS clawback and receive the maximum amount from the GIS.

Professional help will give you peace of mind. You'll know you have maximized your income and minimized your taxes, allowing you to fully enjoy your retirement years. ●

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“The question isn't at what age I want to retire, it's at what income.”

George Foreman