2020 ADVANCED RETIREMENT INCOME PLANNING

CASE STUDY

ADVISOR USE ONLY

Sun Life Global Investments

Workshop pre-read

The following case study will be referenced throughout this workshop. In preparation, please review this material in advance.

There are several combinations in which the income for this couple could be generated. So, while there isn't "just one solution," we'll walk through the steps to create a retirement income plan with your Clients.

Assume that Ken and Shirley, the couple in this case study, have agreed to consolidate their assets and resulting income streams with you.

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Case study | Ken and Shirley Waters

Ken (age 62) retired two years ago and Shirley (age 61) retired when she was 55.

Ken retired at age 60 after his employer was bought out by a larger competitor. The agreement for purchase provided a retirement incentive for longer-term employees. Ken took advantage of this offer. A portion of this was rolled, as a retiring allowance, into a self-directed Registered Retirement Savings Plan (RRSP) at ABC Financial. The current value is $82,000. The balance of the severance was paid out over two years and delivered sufficient income so that, along with Shirley's pension income, neither Ken nor Shirley have drawn on any personal assets or government benefits.

The company also had a Defined Contribution Pension Plan (DCPP). When leaving the firm, Ken elected to move his $195,000 pension balance into a Locked-In Retirement Account (LIRA) with Superior Fund Co.

He was also a member of his company's Deferred Profit Sharing Plan (DPSP). When Ken left the firm, he transferred his DPSP account to an existing RRSP at "LifeCo Inc". This account is now worth $250,000.

Ken hasn't started receiving income from any of his personal assets or government benefits. He's chosen to defer these since his income needs were met by the balance of the severance along with Shirley's pension income.

Shirley retired at age 55. She was a vice president of sales for a prominent, international firm. In addition to her group benefits, Shirley was fortunate to participate in the company's DCPP. Her annual income from that pension is $24,000.

Her pension income is in the form of a joint annuity, 100% to survivor, with a 15-year death benefit guarantee. There's no indexing provision for her income. Her pension income isn't an integrated benefit, so it won't reduce when she begins either her Canada Pension Plan (CPP) or Old Age Security (OAS). She's also made contributions to her own RRSP. That account at ABC Financial now stands at $156,000.

Shirley has a non-registered account in her name that is an inheritance from her late mother. It currently has a value of $216,000.

In addition, Ken and Shirley have jointly-owned assets. They include Guaranteed Investment Certificates (GICs) and two monthly income funds at three different financial institutions. Interest and distributions on these accounts are being reinvested. Their respective Tax-Free Savings Accounts (TFSAs) are invested in GICs.

During their working years, Ken and Shirley made maximum contributions to CPP.

They have no debt and own no other real estate aside from their principal residence valued at $625,000. They don't have any extended health benefits that they can carry into retirement. Both are in good health and don't own any life or health insurance.

Family is important to them. They spend a lot of time with their two adult children, Allison (who's married to Sean) and Dillon (who's married to Jill), and three grandchildren. Everyone lives in the same province.

Although Ken and Shirley have assets at a few different institutions, they've worked primarily with one advisor at ABC Financial who recently retired. They're not totally comfortable with the new advisor they've been assigned to. At the same time, they've reached a point where, with the end of the severance money, they need to start thinking about taking income from their own assets and want some direction.

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Priorities

Income security

Being certain you won't outlive your income

1	2	3	4	5	6	7	8	9	**10**

Using capital assets

Willing to reduce the value of your assets to create your income

1	2	3	4	5	6	**7**	8	9	10

Highest possible income today

Use all assets to create the largest income immediately

1	2	3	4	**5**	6	7	8	9	10

Health risk management

Minimizing the use of your personal assets for health-care costs

1	2	3	4	5	6	7	**8**	9	10

Coping with inflation

Having your income grow to maintain purchasing power

1	2	3	4	5	6	**7**	8	9	10

Tax reduction

Explore strategies to pay less tax on your income

1	2	3	4	5	6	7	8	**9**	10

Estate transfer

Leaving assets to family rather than taxes

1	2	3	4	5	6	7	8	**9**	10

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Assets and cash flow

The details of their income-producing assets and cash flow are as follows.

Ken

Asset	Location	Value	Annual income
Pension	CPP if started today (78.4% of max)		$10,272
	OAS at 65 (estimated)		$7,608
LIRA	Superior FundCo (50% equity/50%/ fixed income) (max monthly income at 62 would be $1,130)	$195,000	
RRSP	LifeCo Inc. (Balanced portfolio 60% equity/ 40% fixed income)	$250,000	
	ABC Financial (Monthly income fund 100%)	$82,000	
Joint	XYZ Bank (income fund)	$30,000	$1,240
Open	ABC Financial (income fund) KLM Trustco GIC	$42,000 $28,000	$1,575 $910
TFSA	KLM Trustco GICs	$17,500	

Shirley

Asset	Location	Value	Annual income
Pension	CPP if started today (71.2% of max)		$9,324
	OAS at 65 (estimated)		$7,962
	Defined benefit pension		$24,000
RRSP	ABC Financial (Balanced portfolio 60% equity/ 40% fixed income)	$156,000	
Open	ABC Financial (Laddered GICs and a bond fund)	$216,000	$4,300
Joint	XYZ Bank (income fund)	$30,000	$1,240
Open	ABC Financial (income fund) KLM Trustco GIC	$42,000 $28,000	$1,575 $910
TFSA	KLM Trustco GIC	$26,600	

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Lifestyle objectives

- They're content in their current home and have no intentions of making any changes now or in the near future.
- They want to spend more time travelling during the winter.
- They haven't worked over the last two years but haven't ruled out some consulting work in the future. They do some volunteer work with the Cancer Society.
- Both are in good health and maintain a regular fitness routine.
- An issue for Ken and Shirley is the time, attention and money they bestow on Allison and Sean's children. Dillon and Jill don't have children. Although nothing's been said, Shirley and Ken both feel they're not treating their own two children equally.

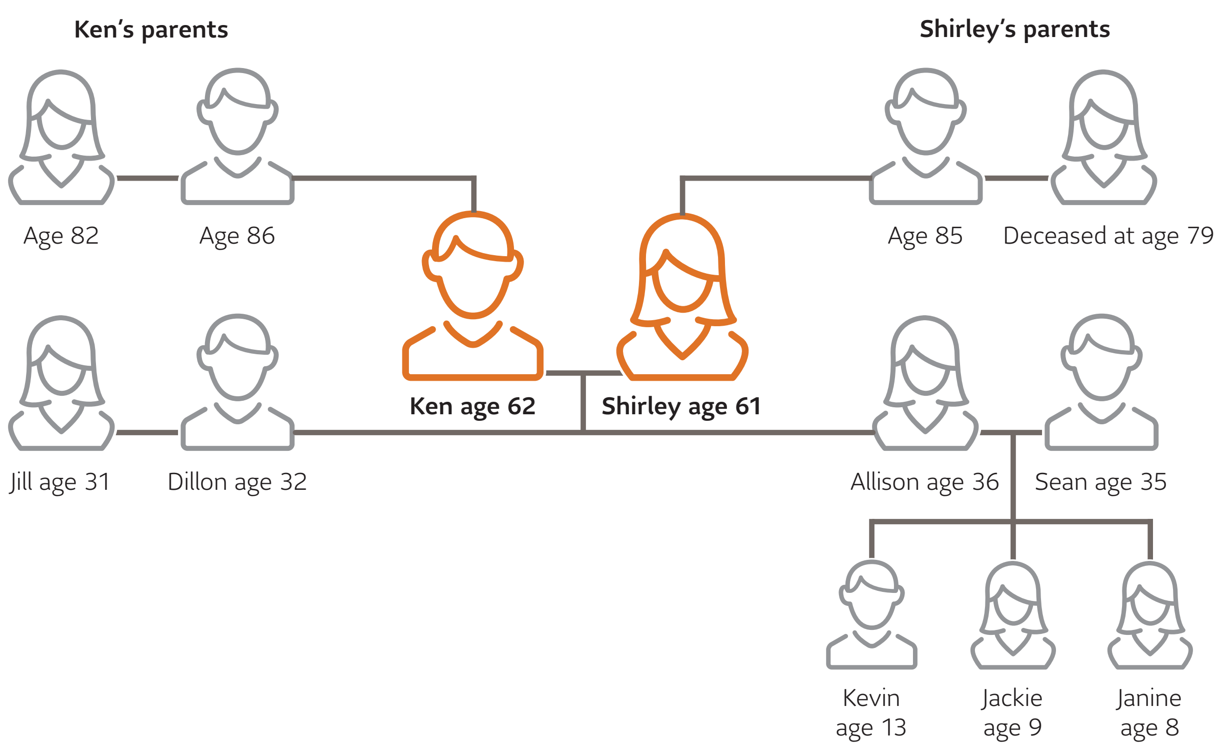
Income target

After reviewing a detailed budget of anticipated expenses, they've determined that their after-tax household income target is $6,500 per month. This would include their basic needs of $4,000, and $2,500 for extras including going south in the winter. In your initial discussions with them, they agreed to look at suggestions for personal health insurance and long term care (LTC) coverage. If they acquire this coverage, they'll fund it on an annual basis from their non-registered capital. As such, it won't enter into the monthly income target.

In their province of residence, for each of them, it would take approximately $48,000 of fully-taxable income to have an after-tax cash flow of $39,000 ($3,250 per month).

An important factor in their money considerations is that their investor profile suggests an asset mix of approximately 60% equity and 40% fixed income.

The Waters family



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The new advisor at ABC Financial has suggested the following to Ken and Shirley as part of a strategy to create the income they need:

- Defer using their CPP benefit until they each turn age 65.
- Defer their OAS entitlement to age 70.
- Defer using their registered plans for as long as possible to allow them to grow on a tax-sheltered basis.
- Use their non-registered holdings to create income over the next few years while the registered accounts grow. Withdrawals should come primarily from Shirley's open account.
- Plan to have their income indexed fully throughout their retirement to maintain their purchasing power.

Ken and Shirley mentioned some of their concerns and objectives to a close friend who also happens to be a client of yours. They've arranged to meet with you to discuss what they're looking for and, having learned more about the kind of work you do, have asked you to review their situation with them.

Build a comprehensive retirement income plan

Agenda

- Introduction to the retirement income market
- Tax Considerations: The foundation of the retirement income plan
- Case Study Application: The six steps to creating a retirement income plan

Learning objectives

- Enhance your knowledge of the components necessary to develop a comprehensive retirement income plan (taxation, layering income, etc.)
- Introduce a reusable retirement income planning process to current clients and prospects to help you retain and bring on new business
- Identify strategies to get sources of income working tax efficiently all the way through retirement

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