Retire Rich Roadmap

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THE GLOBE AND MAIL

ILLUSTRATIONS BY SAM ISLAND

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investing and retirement
for The Globe and Mail

Retire Rich Roadmap 2023

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CONTENTS

RETIRE RICH ROADMAP

1 What is your retirement age, anyway?

PAGE 4

2 How much your retirement will cost vs. how much you're making right now

PAGE 10

3 Building your retirement nest egg, piece by piece

PAGE 16

4 Which parts of your retirement are you already paying for?

PAGE 22

5 Tying everything together with a will and insurance

PAGE 30

What is your retirement age anyway?

Most financial planning is really retirement planning

Welcome to Retire Rich Roadmap – I'm so glad you're here. My name is Paul Brent and I frequently write about investing and retirement for The Globe and Mail. Let's dive right in.

For many working-age Canadians, retirement is a far-off, hazy objective. For the detail-minded, it might finally start coming into focus in their mid-30s. But for those with more of a "live for today" attitude toward money and planning, thoughts of retirement pop up only when friends start bailing from the work force or they start sympathizing with the characters in retirement ads.

"How do you see your retirement?" is one of the standard questions financial advisers ask their clients in their first meeting. It is just as likely to produce a blank stare as a coherent answer.

Advisers ask the question not because they want their clients dreaming about seniors-only cruise ships or wintering in a tropical climate but because most financial planning is really retirement planning.

If you are established in your career and have some assets, an appreciating net worth, and a predictable pension or registered and non-registered equivalents, you can reasonably ask: When should I retire?

It's such a great question that a well-known financial company built an entire advertising campaign around an aspirational number that's well below the official retirement age.

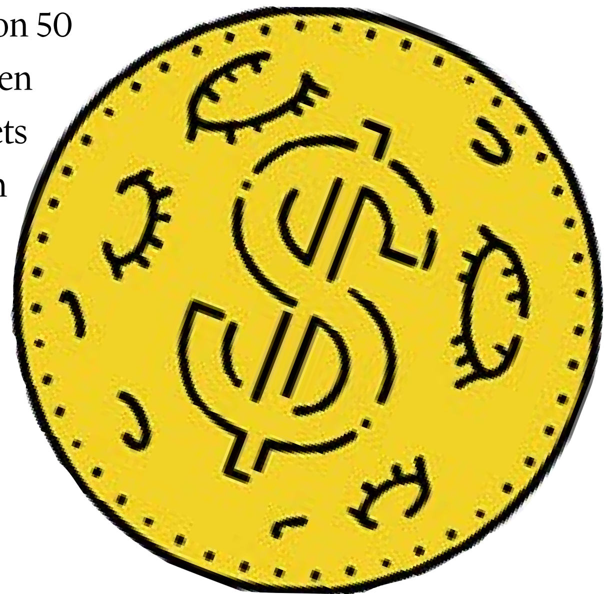
When can you check out?

Quitting the rat race or – to put it more positively – leaving a career you love for a comfortable and financially secure life has a certain brutal math to it that anyone who has run a simple retirement calculator can see. Here's one from the Government of Canada website.

The main inputs are your current age, your annual pretax income, your retirement savings/pension as well as additional sources of income in retirement beyond the bare-bones federal Old Age Security and Canada Pension Plan.

That can give you a rough idea of your monthly post-retirement income in a decade or two in the future and whether you can call it quits "early" or at a more traditional age for leaving the work force.

The Globe's retirement readiness calculator is aimed to line up the income requirements you had during your career against forecast living costs in retirement, known as the retirement ratio. Frugal types may be comfortable on 50 per cent of their working income in their golden years, while the financial industry typically sets it at 70 per cent. Some of us may even plan on spending as much in retirement as we did while fully employed.



The math plus adjustments

Determining when you can retire is driven by the basic math of your age and the assets you have now and will accumulate by the time you hit your chosen retirement milestone, such as age 55, 60 or 65.

It can be a sobering exercise or generate a pleasant surprise that an earlier career-end date is possible.

There is also some wiggle room for those inclined to move the date closer by simple adjustments such as saving more and spending less, eliminating high-cost debt, cutting "unnecessary" expenses (such as trimming the family auto fleet) or shifting to a less expensive home or city.

There are also non-financial questions you should be asking yourself and your partner beyond simply when to retire. Do you want to live large with extensive

travel and vacation properties? Do you want to stay in your current home or downsize? Will there be a significant inheritance coming your way from elderly family members?

A reality check

For most of us, the cold hard facts are getting colder and harder: Guaranteed income in the form of defined benefit pension plans is a rarity today, higher taxes from all levels of government make saving and investing harder, house values buoyed by ultra-low interest rates can no longer be counted on to rise year after year and markets remain unpredictable.

Rising inflation for basics such as food, energy and housing has also eaten into spending power. That means that your retirement portfolio has to at least keep pace with inflation – not always guaranteed when markets can plunge as rates and inflation spike as they did last year.

One of the foundations of retirement planning is ensuring that you will not run out of money before you die.

Reasons you may not have the glitzy retirement you expected include not saving enough, retiring earlier than you really should have, over-reliance on risky assets or overspending on your lifestyle. Some people also end up financially assisting family members, eroding a nest egg that was intended to last for decades.

Fit to be retired

Beyond calculating your monthly cash flow needs and piling up the required assets to cover it, here's a checklist for those who believe they are ready for that final paycheque.

- **Are you/can you be debt-free?** If you are still carrying a hefty mortgage on your principal residence or vacation property (or sizable investment loans, a sizable line of credit or loans on expensive new vehicles), your retirement is not as bulletproof as you think.
- **Are you financially streamlined?** Do you deal with multiple banks, have

a number of registered retirement savings plans and tax-free savings accounts, accounts scattered at different institutions and a multitude of credit cards? Reduce the clutter, confusion and likely extra expenses that come with having your assets spread across a number of financial institutions and consolidate your finances. This will simplify drawing your retirement income to better monitor cash flow, investments and taxes.

- **Are you dependant free?** Do you still have financially dependent children who need stipends for education or housing or aging parents that require support? Are those costs factored into your retirement finances?
- **Is your portfolio optimized for stable and predictable income generation?** Likely your retirement portfolio is a mix that may include a pension, RRSPs, taxable investment accounts and other sources such as rental properties. Is the construction of your portfolio optimized for stable income generation and tax efficiency?
- **Non-financial considerations:** Are you mentally ready for leaving the work force? Retirement is a major life change. Your social network shrinks and your day-to-day living no longer revolves around work. Have you got a fun and rewarding retirement figured out or are you entering blindly? This applies particularly to those who choose to retire early. Emerging research has found that retirement can be a shock to the system with the loss of structure and routine. Beyond the loss of the network of work friends and weekday social interaction, there can be a decline in perceived status that came with a prominent position. Many new retirees also suddenly find themselves with too much free time and not enough rewarding activities and interests.

Try this at home

- Run the retirement calculator for your ideal retirement age. Then try a few

variations such as five years prior to that desired age as well as five and 10 years after.

- Is debt holding you back? Chances are your mortgage is your largest debt and is a drag on your finances. Can you pay it off sooner and what are your pre-payment options?
- Are you leaking cash? Scrutinize your monthly credit card statements. Are you making regular payments on little-used services, memberships or large impulse purchases? What can you cut?
- Like the financial adviser asks, what is your ideal retirement? Is it a time filled with rewarding adventures, friends and family, hobbies and activities or simply an ill-defined after-work life?

Part One: Compare your month-to-month costs

Many of these costs will be the same after you retire, but going into retirement debt-free can a big difference maker. You can adjust your monthly retired costs or leave them the same as your expenses while working.

	WORKING	RETIRED
Utilities	180	180
Property taxes		
Groceries		
Wine, beer, liquor		
Gasoline		
Public transportation		
Mortgage payments		
Rent		

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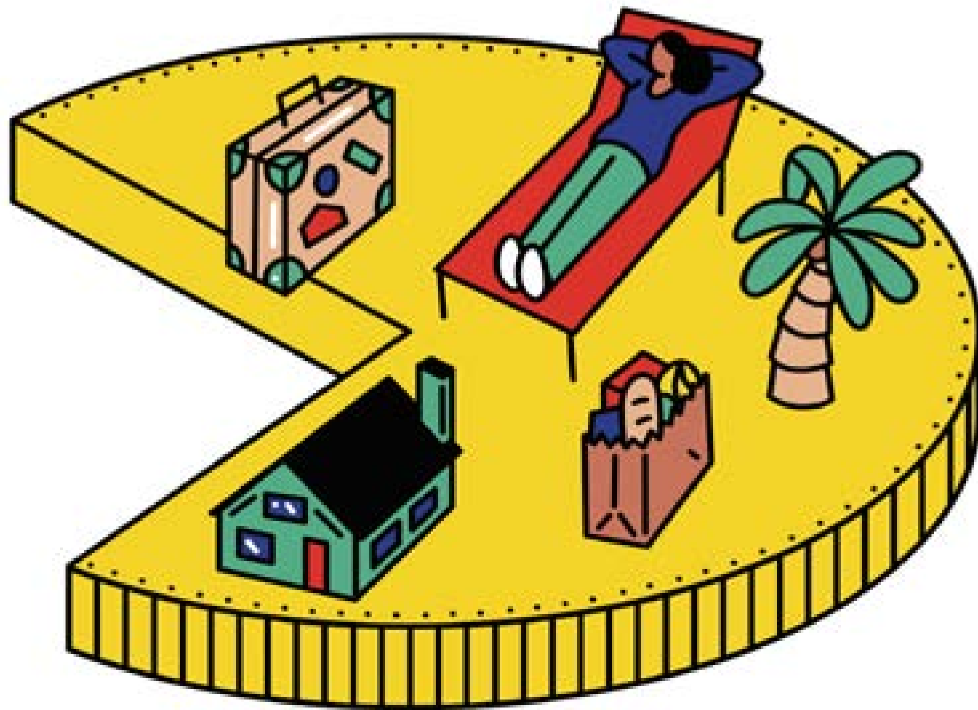


How much your retirement will cost vs. how much you’re making right now

Figuring out your month-to-month retirement expenses will help you determine the big financial goals

In the first chapter, "What is your retirement age, anyway?," we briefly mentioned the idea of the retirement ratio, or what percentage of your working income you expect to live on when you leave the office for good.

Now, let's dig deeper into determining your retirement cash-flow requirements by dissecting your lifestyle costs today and extrapolating those numbers into the future. The goal is to come up with an accurate picture of what it costs to keep you clothed, fed and sheltered (and all those taxes and fees paid) and forecasting what you will need every month when you take off your office wear for the last time.

Figuring out how much you are going to need every month in your post-work life is at the core of retirement planning. You can't know how much you will need socked away in savings, investments and pensions if you have no idea how much you will realistically need month-to-month in retirement. (Knowing how long you will live would be useful information, too, but at best we can make some educated guesses on your departure date).

Financial types generally default to saying you'll need 70 per cent of your current monthly expenses in retirement. Some people are frugal by nature and can live on far less, while others are determined to live large, an outlook best exemplified by those gleeful "We're spending our kids' retirement" bumper stickers.

For those with a faraway horizon, say age 35 right now, it's safe to assume your peak earning years are ahead of you in your 50s and 60s.

If you are making $100,000 a year in your best earning years, you would need $70,000 annually in retirement income. That percentage could drop to 60 per cent or less if a couple were to retire with a paid mortgage and children who are out of the nest and no longer a financial burden. Assuming a 20-year retirement starting at 65, that works out to $1.4-million. The age 65 target is not

arbitrary. It's the age when you can receive full benefits from your Canada Pension Plan (CPP). It's also pretty close to 64.5 years, which was the average retirement age in 2021.

What are you getting from the government?

Government programs should be factored into any calculation. The maximum CPP payment in 2023 is $1,306.57 per month or $15,679 per year. Old Age Security (OAS) will provide a max of $698.60 per month for those over 65 and $768.46 per month for those over age 75, based on income eligibility. Those earning $137,331 or more annually are not eligible for OAS.

Complicating factors need to be addressed as well. If you want to retire earlier, say 55 or 60, your time in retirement will be longer and your savings pile will need to be larger because you will be drawing from it for longer. As well, many advisers warn that assuming 20 years in conventional retirement starting at 65 puts you at real risk of outliving your savings if you make it past 85. Mortality stats back that up. For a group of 1,000 men who retire this year at age 65, 918 will make it to 75, and more than half will make it to 89.

Other ways to size your retirement pile

Beyond the 70-per-cent retirement principle, other rough guides to calculate how much you will need in retirement reflect different aspects of financial goal setting, investing and portfolio construction.

There's the 4-per-cent withdrawal-rate method. Often used in the financial services community, this principle means you build up a portfolio that will provide a set amount of annual income at a 4-per-cent withdrawal rate. So if you required an income of $60,000 annually, you would need $1.5-million in savings.

The rate of 4 is based on historical market returns of 7 per cent and annual inflation of 3 per cent. Those underlying assumptions show just how devastating

the current combo of high inflation and shaky markets can be for retirees. Some experts, including the rule's creator, now say 5 per cent is a better withdrawal-rate target.

The nice thing about the 4- (or 5-) per-cent rule is that it can be used just as well for those who want to retire early, say age 50 or 55, as those who retire at 65 or beyond.

Multiples of 10 to 14

Much like the 70-per-cent rule, this approach rests on using your last few years of income as a guide for how much you'll need to save in retirement. You multiply the amount made in those (presumably peak) earning years by between 10 and 14.

Fix today and your future self will thank you

Whether you expect to be a saver, big spender or that average 70-per-cent-er, it's safe to assume costs in retirement are only going to rise in the future. Government-supported health care is already under strain so it's wise to expect to be paying a greater share of your medical costs.

But the first step in the planning process is not looking forward but rather looking at your current costs.

What do you spend month to month currently? This list includes regular bills such as mortgage/rent, utilities, food and entertainment, clothing, transportation, insurance, taxes and maintenance.

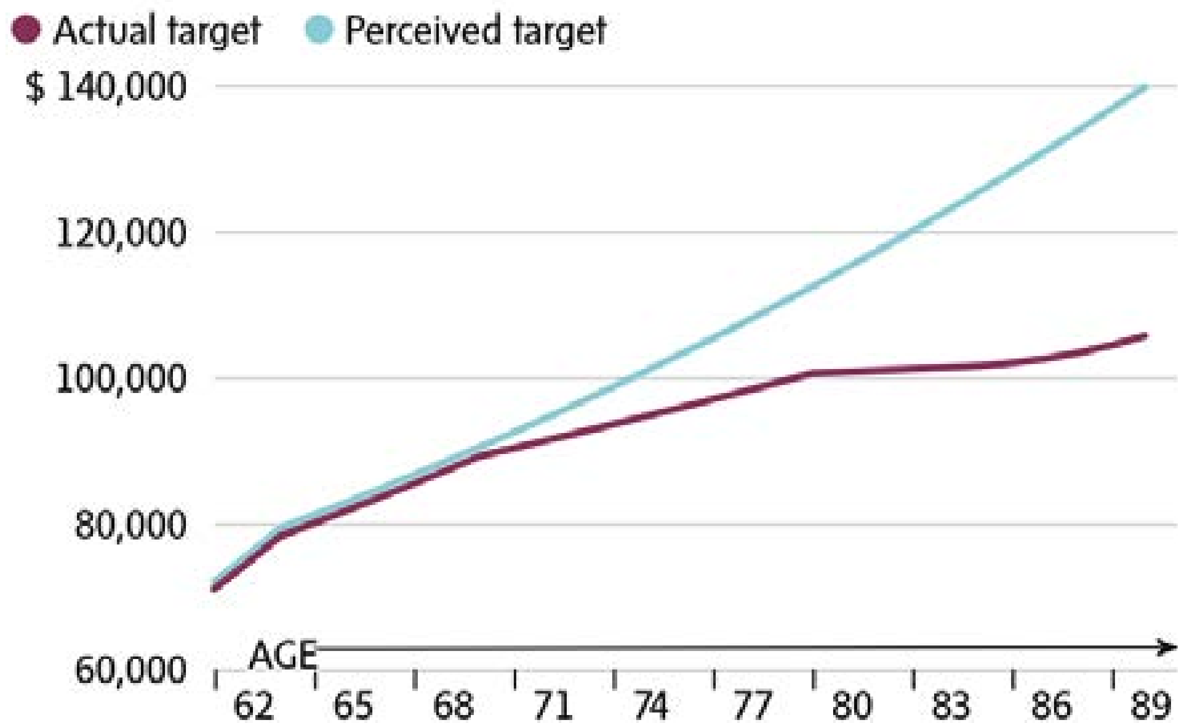
The federal government optimistically states that Canadians spend 35 to 50 per cent of their income on housing and utilities, while conceding people living in big cities typically pay a larger percentage of monthly income on the basics.

Most people have a rough idea how much they spend each month. If you don't, now is the time to dig out your credit card and bank statements to see what your money is spent on month to month. You also need to approximate those sneaky and less predictable expenses such as vehicle and home repairs.

Fixed versus variable

Determining and tracking fixed expenses should be easy as they are regular monthly or annual charges that appear on your credit card/bank statements in roughly the same amount. They might include child-care bills, membership fees, loan repayments, phone/internet/TV bundles and insurance premiums. Variable expenses are not predictable from month to month and include food and entertainment, vacations, vehicle repair and home maintenance.

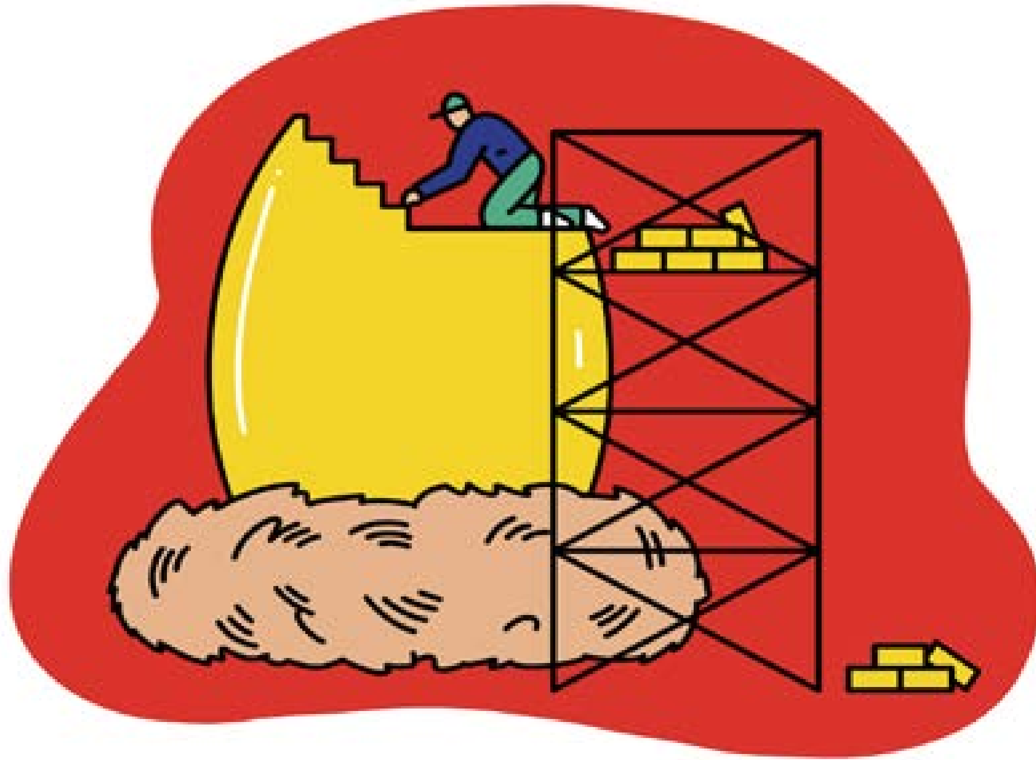
A graphic look



Most Canadians believe that a retiree's income needs tend to increase with inflation, writes Frederick Vettese, former chief actuary of Morneau Shepell and author of the book, Retirement Income for Life. Academic studies from Germany and other countries indicate this is not true. Actual income needs do rise with inflation until age 70 but rise more slowly in one's 70s and 80s. Once a retiree reaches age 90 or so, income needs once again rise with inflation. In the chart, inflation is assumed to be 5 per cent a year for 2023 and 2024 and then 2.2 per cent a year in future years.

Try this at home

- Run our retirement calculator to get a better handle on the costs you have today and compare them with what you can expect in retirement.
- How much is the government going to kick in? These tables will give you an idea of how much your CPP will be if you elect to take it early or at 65.
- Ask tough questions of your adviser. If you are like the roughly half of Canadians who don't know how much they need to save for retirement, it's time to find out what your trajectory might be. You may be pleasantly surprised – or you may need to buckle down.



Building your retirement nest egg, piece by piece

It's time to learn the abbreviations that can help you in your golden years

This chapter is all about building a lifetime of wealth to set you up for a comfortable retirement – and maybe even have some left over to pass along to later generations.

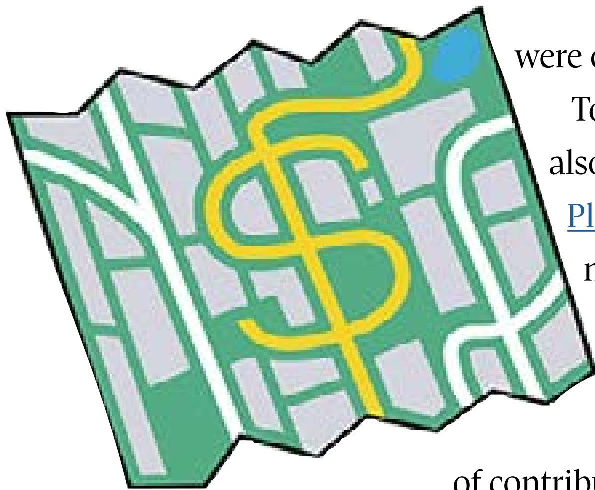
First there are the basics. Do you have an RRSP? How about a TFSA? Or a non-registered portfolio? What about alternative investments? What options are available for diversification?

Let's walk through what should be the pillars of your investment portfolio, some lesser-known options and long-term approaches to wealth building in general.

Registered vs. Non-registered

Registered Retirement Savings Plans are the key element of most Canadians' retirement investments because the government offers tax incentives for us to make contributions to those accounts. Your RRSP can hold a variety of qualified investments including stocks, bonds, guaranteed investment certificates (GICs), mutual funds and exchange-traded funds (ETFs), and cash. Precious metals and commodities cannot be held in RRSPs. They can protect investments from tax up until you reach the age of 71. At that point, they "mature," and must be withdrawn and transferred to a registered retirement income fund (RRIF) or used to buy an annuity.

Tax-free savings accounts act as the sidekick to RRSPs and offer some unique benefits and more flexibility. Unlike an RRSP, the TFSA has no associated tax deduction, meaning contributing to it will not help you pay less in taxes right away. However, while RRSP withdrawals are taxable, money you take out of your TFSA is not subject to taxation. For building wealth, they are better viewed as investment accounts, rather than traditional savings accounts which pay minimal interest. TFSAs can offer better "bang for the buck" in tax benefits for students or those with low taxable earnings. For 2023, the TFSA contribution limit is $6,500 and, for those who have not yet set up a TFSA, you can deposit a total of $88,000 if you



were over 18 in 2009.

To assist with soaring education costs, Ottawa also created the Registered Education Savings Plan for parents and caregivers to put away money. Available for each child up to the age of 17, RESPs allow for tax-free growth of savings. In addition, the federal government will match up to 20 per cent of contributions through the Canada Education Savings Grant. (For $2,500 invested annually, the government will contribute the $500 maximum). RESPs can be eligible for additional grants through the Canada Learning Bond and provincial programs.

Beyond registered plans, investors should consider making non-registered investment accounts part of their retirement portfolio. Non-registered accounts are not tax-deductible, but funds in those accounts can be invested in places with their own tax benefits, such as Canadian dividend-paying stocks. Highly taxed interest-paying investments – such as bonds – should be put in registered accounts along with potentially high-growth stocks and ETFs.

Because you are in the wealth-creation or nest egg-building business, you want to make your registered investments regular, automatic, and as large as possible.

If your employer offers a group plan with matching contributions, increase your annual contributions to get the maximum match from the company. Your work is offering free money for your retirement – take it. Make sure that when your salary goes up, you increase your RRSP contribution, especially if it comes with employer matching. Another simple way to juice your RRSP growth is to make contributions at the beginning of the tax year rather than during the mad tax year end like most Canadians. This strategy produces years' worth of extra growth by getting that money invested and growing earlier.

Pay attention to investment costs and complexity. Do you own a multitude of funds that all hold the same equities and bonds and carry return-eating fees? It

might make sense to hold a smaller number of ETFs that offer better diversification, less duplication, and lower fees.

Real estate

Most Canadians are heavily exposed to real estate as an investment if they own a home or condo, however it's really best considered as a long-term opportunity.

Given the skyrocketing home prices, many Canadians see owning their own home as a great way to also build a nest egg. But financial planners advise against treating a home or condo as a de facto retirement savings account. It can be time consuming – and costly – to sell a home when the time comes. Further, many seniors have been struggling to downsize because of a lack of suitable retirement housing in Canada. By selling your home to address a cash crunch, you create a new problem: Where to live?

That said, it's hard to deny that home ownership does offer an advantage when it comes to retirement savings. A recent study by Mercer Canada found that people who rent through their careers must save 50 per cent more than homeowners to have a sufficient retirement income. It's entirely possible to make that happen, as this article explains. It's also possible to generate retirement income from your home without selling it through options like a Home Equity Line of Credit (HELOC) or reverse mortgage. (For more on these options, see this story by Ana Pereira.)

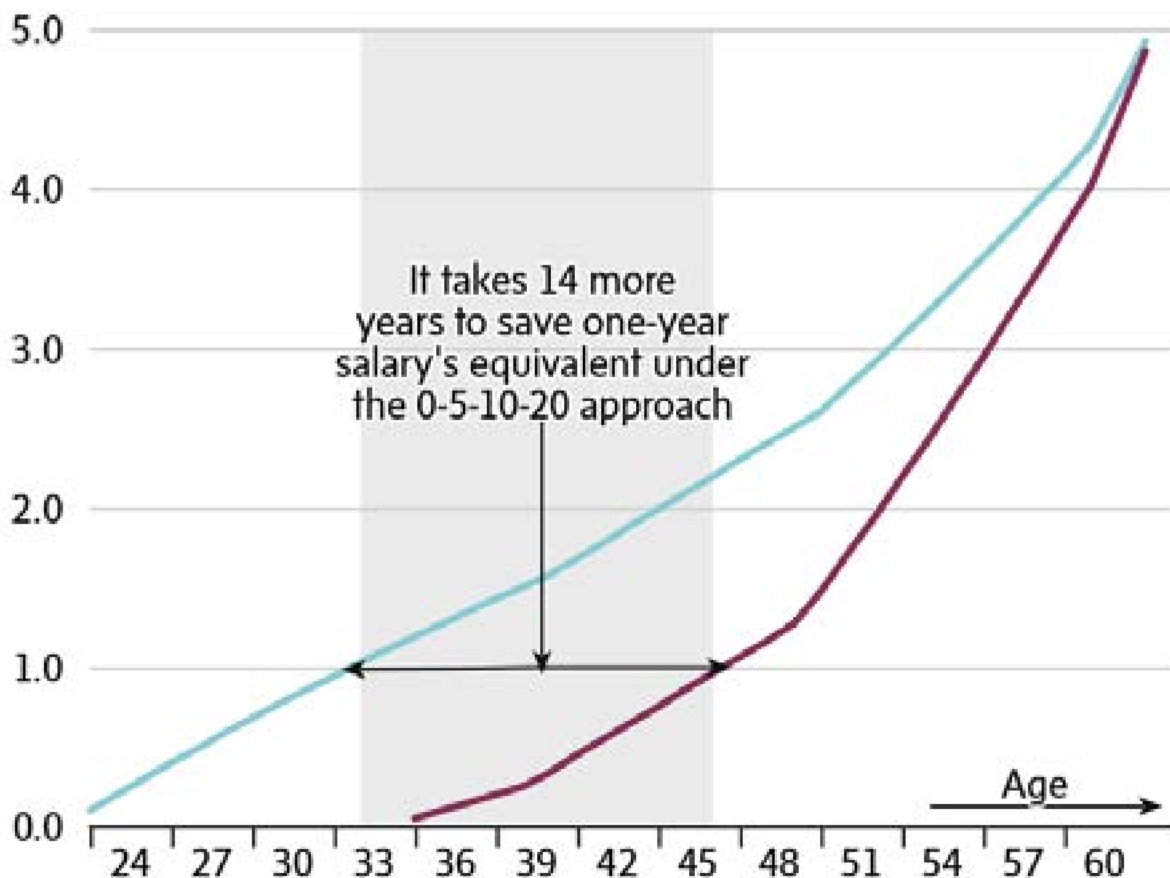
But what about investing in real estate beyond your family abode? The hot market has made it into an attractive option. Real estate falls under the alternative investment class along with private equity and debt. Compared with stocks, bonds, and funds such as ETFs, real estate tends to be a more complex investment and is less liquid, but offers diversification and potentially higher returns in the form of steady rental income and asset appreciation.

Beyond real estate, other alternative investments (not stocks, bonds, or cash) include private equity and venture capital (investments in companies not publicly traded), hedge funds, and real assets such as commodities, precious metals, land,

and equipment.

A graphic look

Consider this hypothetical situation for Jack, writes Frederick Vettese, former chief actuary of Morneau Shepell and author of Retirement Income for Life. Jack's earnings triple in real terms over a 40-year career and he finishes with pay that is double the national average. If Jack retires at 63, he should aim for retirement savings



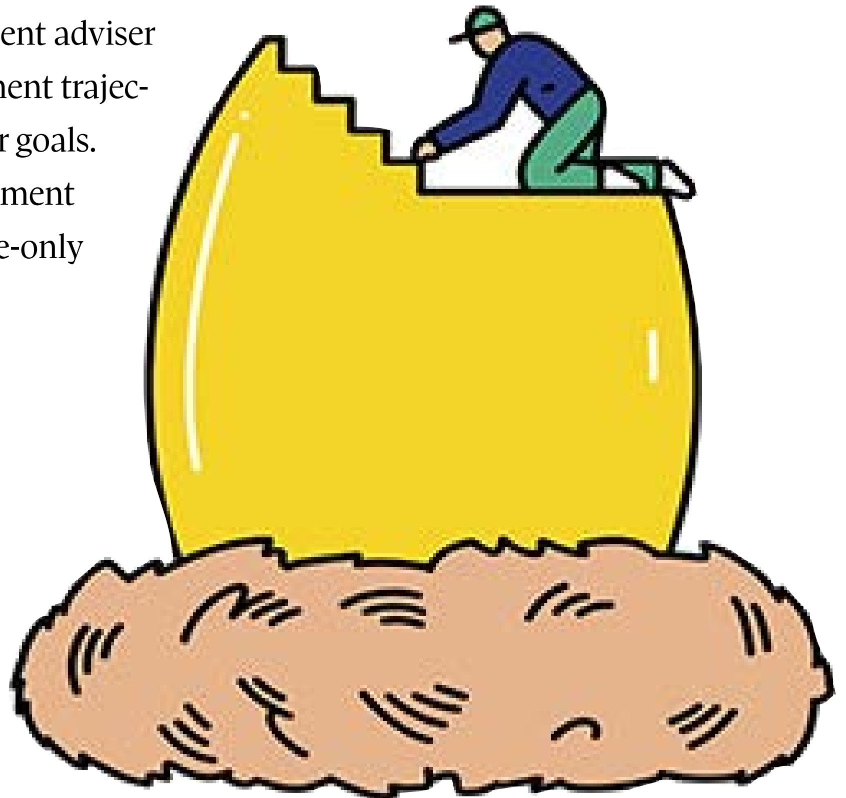
that are at least five times his final year's pay.

The chart shows two ways to get there. Jack could save 10 per cent of his pay every year for 40 years or he could wait until age 35 to start saving and then save 5 per cent from 35 to 39, 10 per cent in his 40s and then 20 per cent from 50 until retirement.

Saving a flat 10 per cent is hard to do in Jack's early working years but it is less risky if he is laid off or retires earlier than planned. Saving based on the 0-5-10-20 schedule fits in better with how Jack's disposable income increases throughout his career but it's not for the faint of heart. Note: it takes Jack 14 more years to save one times salary under the 0-5-10-20 approach.

Try this at home

- Regardless of your age, determine how much you have saved currently for retirement.
- Sit down with your investment adviser to see whether your investment trajectory is going to achieve your goals.
- If you do not have an investment adviser, consider hiring a fee-only adviser for a status check.



Which parts of your retirement are you already paying for?

Keeping track of how much you'll receive from CPP, OAS, or employer pension plans can be challenging

This chapter is all about building a lifetime of wealth to set you up for a comfortable retirement – and maybe even have some left over to pass along to later generations.

At the tender age of 14, rock hopeful Paul McCartney wrote the lyrics to what later became the Beatles hit When I'm 64. The famous chorus asks what will happen when a young lover reaches the titular age: "Will you still need me, will you still feed me?" For Canadians past 64, the answers to those questions are yes and yes, sort of.

Older Canadians are needed – and their votes are definitely needed by political parties. Seniors tend to turn out at the polls in greater numbers than any demographic, meaning politicians cater to them. As to "feeding" seniors, there is financial support when you turn 65 (or 64 or 60), although most of us will go through our working lives with only a vague idea of how much Ottawa is going to help us when we retire. Some of us will also benefit from pension plans offered through our employers, but keeping track of how much we'll receive from those programs can be similarly challenging.

So just what financial programs are available for senior-aged Canadian retirees?

Are you down with CPP?

For most of us, the biggest chunk of change we can expect from Ottawa to support our retirement will be the Canada Pension Plan, a monthly taxable benefit designed to replace part of your working income.

Whether you are eligible and just how much you are going to get each month depends on a few factors. Specifically your age when you start to receive CPP, your contributions and your average yearly income.

At the bare minimum, you need to have made at least one contribution to the CPP during your working years (a low bar) and you must be at least 60 to be eligi-

ble to collect it.

CPP is not an exclusive club. The vast majority of us are eligible for it by dint of having worked at any time in our adult lives, declared income, and filed taxes. No one asked whether you wanted to contribute the plan. CPP is mandatory, so you were never given a chance to opt out when you were young and knew better (which might be a good thing).

How much can you collect? While the payout formula is a bit complicated, finding out precisely what you are eligible to collect and at what age is pretty straightforward. You can find your total contribution to the plan in your annual Notice of Assessment or on your employer-supplied T4.

For 2023, CPP says the maximum monthly amount you could receive as a new recipient starting the pension at age 65 is $1,306.57. Most of us will not receive that much. CPP reports that the average monthly amount paid for a new retirement pension (at age 65) in April 2023 is $760.07.

A big swing factor for the size of your CPP payment is when you elect to take it. In addition to your total contribution, your monthly CPP payment will depend on whether you opt to take it "early" at age 60 or wait until 65 or even 70.

CPP benefit calculations are based on the assumption that you will select benefits at age 65. For those that elect to take it at early, they lose 0.6 per cent for every month prior to age 65. That comes out to a loss of 7.2 per cent per year or, for those who take it when they are first eligible at 60, a loss of 36 per cent. You can also elect to defer payments until age 70, which will result in a total increase of 42 per cent to your payment.

You can run your own scenarios to figure out what age you should begin to collect CPP with The Globe's CPP calculator tool.

Experts generally agree that it is better to wait it out if you can and get the maximum benefit at 70. Reasons for taking CPP at 60 include the simple fact that you need the money right away or you are in declining health ("use it or lose it," in other words). CPP is indexed to inflation.

CPP is considered by some experts as an anti-poverty measure, designed to

provide the bare minimum or 25 per cent of a person's income in retirement. The government, recognizing that or mindful of those millions of senior voters, has been raising annual CPP contribution rates since 2019. The so-called CPP "enhancement" will over time allow the plan to replace 33 per cent of a person's average lifetime earnings rather than the current 25 per cent.

It will not make much difference for those close to retirement as it is taking effect over decades, but it will make a big difference for those just entering the work force.

Understanding OAS

Ottawa's other cornerstone for seniors' retirement is the Old Age Security (OAS) payment. As with CPP, it is a monthly payment intended to support seniors in retirement.

Not everyone is eligible for OAS. To receive the max OAS payout, you must be a Canadian citizen or permanent resident and have lived 40 years of your adult life in Canada. Those who have lived here less than 40 years will get a reduced payout. People who have lived in Canada less than 10 years are not eligible for any OAS benefit.

Unlike CPP, you can't take OAS early. You must be 65 or older. You can, however, elect to delay taking it up until age 70. For every month after 65 that you hold off taking OAS, your payments will increase.

The math is the same as for CPP: By taking OAS at age 70, you increase final payments 0.6 per cent per month or by 36 per cent in total. Last year, the feds fulfilled a promise of boosting OAS payouts for those 75 and older by 10 per cent. That should encourage seniors to delay taking OAS until age 70 because it gives them an additional $13,000 in total.

OAS is subject to clawbacks based on your retirement income. The current maximum is $691 per month or $8,292 per year for those 65 to 74 and if you exceed a threshold ($82,000 in 2022), your payment will be partly reduced. For those 75

and older, the monthly maximum is $760.10.

Those with little or no retirement savings should choose to take OAS at 65 to take advantage of the Guaranteed Income Supplement (GIS). A tax-free monthly benefit added to OAS for pensioners with low incomes, it pays single retirees with incomes below $21,168 excluding OAS up to $1,043.45 per month, or 12,521 per year.

Employee pensions

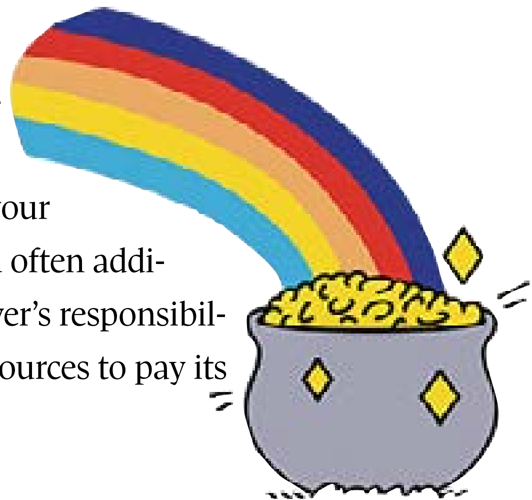
In addition to government programs, many Canadians will also have a pension through their employer. These fall into two major categories: defined contribution (DC) and defined benefit (DB). In planning your retirement, it's important to know which kind of pension you have, and how to calculate how much money it will offer in retirement.

Defined contribution plans

With this type of pension, both the employee and employer make regular contributions to the plan, typically based on a percentage of your income. That money is then invested on the employee's behalf and your eventual retirement income is determined by how well those investments perform.

Defined benefit plans

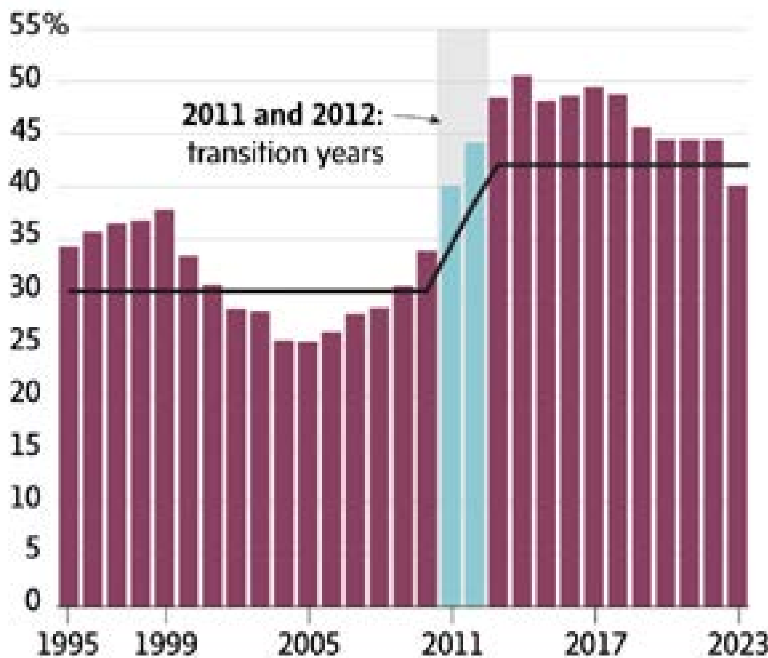
If you have a defined benefit pension, you are guaranteed a set monthly income in your retirement. The amount that you can expect is determined by a formula that takes into account your salary, your years of service at the company and often additional factors such as your age. It is your employer's responsibility to ensure the pension fund has sufficient resources to pay its members' benefits.



This article by Matthew Ardrey offers a deep dive into the benefits and drawbacks of DC and DB, along with the calculations for determining a pension's value.

It's well worth investigating whether your workplace pension, combined with government programs, will still feed you. And best to ask those questions before you're 64.

A graphic look



If you wait until 70 to start CPP pension, writes Frederick Vettese, former chief actuary of Morneau Shepell and author of Retirement Income for Life, the amount payable is adjusted upward. The adjustment factor – the "bump" – was just 30 per cent until 2010 but it has been 42 per cent since 2013 (2011 and 2012 were transition years). When you compare CPP pension starting at 70 with what you would be receiving if you started at 65, however, the bump has actually been more than 42 per cent between 2012 and 2022. (The reasons are technical and involve the difference between wage inflation and price inflation.) In 2023, the bump was less than 42 per cent, which is why he recommended that 69-year-olds in 2022 start their CPP that same year rather than waiting until 70. In another month or two, we will have a better idea of what to expect for 2024.

Try this at home

- Dig out your latest Notice of Assessment to determine your CPP payment and whether you can maximize it by waiting until 70 to collect it.
- Reduce your clawback. If your retirement income will exceed OAS income thresholds, there are some tactics to bring it down. Those include income splitting and shifting income-generating assets to TFSAs.
- Determine whether you have a DC or DB pension through your employer.

Tying everything together with a will and insurance

Making sure your will is up to date (or exists at all!) and that your insurance is in place will be a financial reassurance to you and your loved ones

In my brief career as a life insurance agent, it was drilled into me to ask prospective customers one simple question: What happens if you don't come home tomorrow?

Most people had no response and looked nervously toward their partner for an answer.

It shouldn't be a surprise. Nobody wants to think about their death and who wants to spend money today to prepare for that depressing inevitability?

In this, the last chapter of the Retire Rich Roadmap, we cover the "what if?" question and what you need to do to ensure you don't leave a big mess behind for your loved ones.

There are plenty of moving parts to this guide, but you should end up with a solid plan in the event you or your partner don't come home tomorrow.

Become a legally recognized ghost

Who doesn't want to call the shots even after they are gone? With a will and accompanying legal instruments, such as trusts and insurance policies, you can ensure that the wealth and possessions you have accumulated will go to the family, friends or charities of your choosing. A well-crafted last will and testament allows you to call the shots from beyond the grave.

An Angus Reid Institute poll recently found that half of adult Canadians don't have a will – an extraordinary figure. Of those who do have a will, many likely have one that is out-of-date and fails to account for new assets or life-changing events such as marriage, children, divorces, etc.

Many believe that creating a will is a cumbersome, time-consuming, and expensive process. It can be if you have significant wealth in the form of real estate, businesses and investments. (But that should be a nice problem to have).

It's logical to assume that wealthier families with more assets would naturally

have a far higher percentage of wills than the rest of Canadians. That's not the case, according to Legalwills.ca, a will preparation company. Its 2016 survey of 2,000 adults found that higher-income Canadians (earning $100,000-plus annually) were less likely to have an existing or updated will than those with more modest incomes.

Experts recommend that people review their wills every five years. In addition, major family events (births, deaths, divorces) and financial changes such as new businesses or real estate assets should prompt updates to wills.

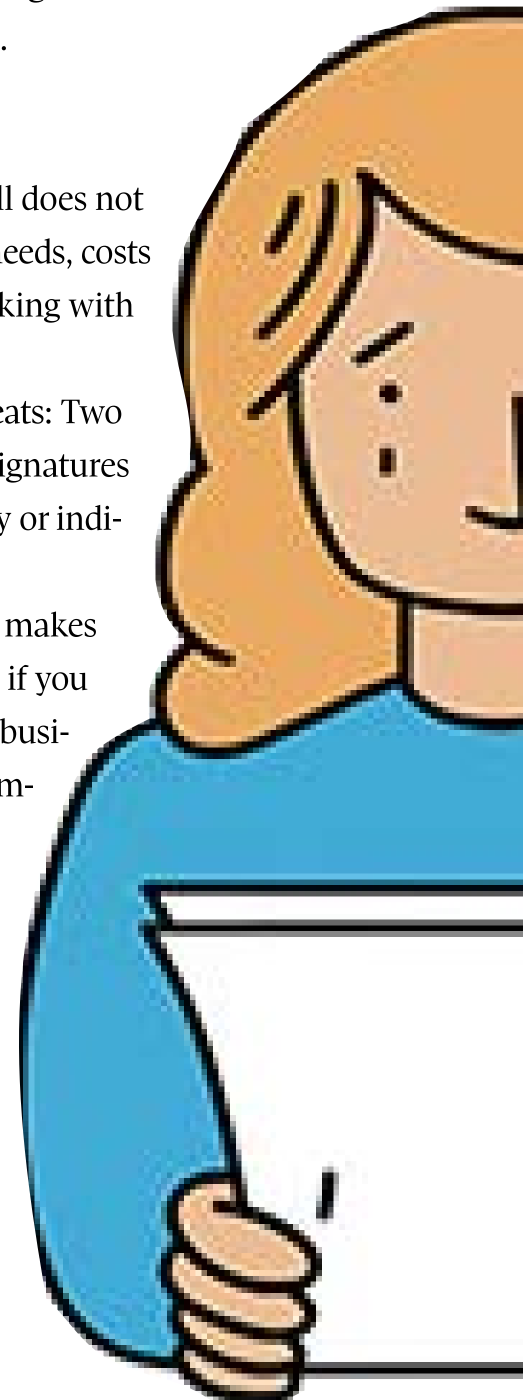
Some will nitty gritty

Unlike the common perception, the creation of a rock-solid will does not have to be expensive or time consuming. Depending on your needs, costs can range from less than $100 to more than $1,000 when working with a lawyer, largely depending on the complexity of your estate.

You can buy an online will kit and do it yourself. A few caveats: Two witnesses need to both watch you sign the will and add their signatures to the document themselves. These witnesses cannot be family or individuals named in the will.

While you don't need a lawyer to help you draft your will, it makes sense to work with one in certain circumstances. They include if you have a sizable estate with multiple real estate holdings, own a business, have a complicated family structure such as a blended family, or have a beneficiary with physical or mental challenges.

A will can also serve as an estate planning and tax minimization tool. Some assets such as a home jointly owned with a spouse do not become part of the estate and are passed directly to the spouse. As well, registered accounts (such as tax-free savings accounts, registered retirement savings plans or registered retirement income funds) that have separately named beneficiaries bypass the estate process and probate



taxes.

The process is laid out in Rob Carrick's guide to naming a beneficiary of your TFSA, RRSP or RRIF.

Worst job ... ever

Perhaps the most important aspect of will-making concerns naming an executor.

The executor is sort of the CEO of your death, responsible for carrying out your will's instructions and finalizing your estate. Duties include dealing with banks, insurance companies and government entities and communicating with beneficiaries and family members. It can be a thankless job so choose your executor carefully. Vancouver lawyer Stephen Hsia says executors should have the "three Ts" of trust, time and territory (residing in Canada). Appointing a non-resident executor could have potential tax consequences.

I would add a fourth "T" to the list: terminal. Do not appoint an executor (at least without a named alternate), who is unlikely to outlive you because of age or ill health. More detail on wills can be found in this excellent Globe article about creating a legal will.

No will, no problem?

Up until now, we have laid out the how on wills. What about the why?

Dying without a will – or "dying intestate" in legal lingo – is about the worst thing that you can do to your family and loved ones. Not having a will guarantees the process will be longer, messier and could cause strife among those you leave behind.

Dying intestate means the government will decide who inherits your assets, with every province and territory using different intestate rules. You are not only dead, you are voiceless.

That means no opportunity to minimize taxes, or ensure family members receive the assets you wanted them to have.

Death, taxes (and insurance)

Death and taxes are sadly inevitable. Insurance should be too.

In fact, insurance is mandatory in Canada. Third-party liability insurance for vehicle owners has been government-mandated for decades. Similarly, mortgage insurance is required for home buyers who have less than a 20-per-cent down payment, and chartered banks forcefully promote insurance for most of the mortgages they provide. (Mortgage insurance is a great deal for lenders, btw).

When it comes to insuring lives and livelihoods, however, Canadians are in the "what me worry?" camp. Nearly half of Canadians do not have life insurance (despite internet searches for life insurance peaking during the pandemic).

According to online insurance provider policyme.com, 44 per cent of Canadians do not have life insurance. Of those that do have insurance, nearly two-thirds (62 per cent) have it through their employers and more than half of those (55 per cent) have no additional insurance.

Here are two rough and general rules about life insurance. The older you get, the more expensive it gets. The more you want it or need it, the harder it may be to get. For example, if you have serious health conditions such as cancer or heart attack or stroke, it may be impossible or prohibitively expensive to get coverage.

How much is enough insurance?

Most employer-backed life insurance policies will provide one to two years' worth of salary in a payout, which in no way makes up for the loss of years or decades of income. In reality, working adults with dependent children may need coverage that is 10 times their annual income or more, depending on debt levels and other unique factors.

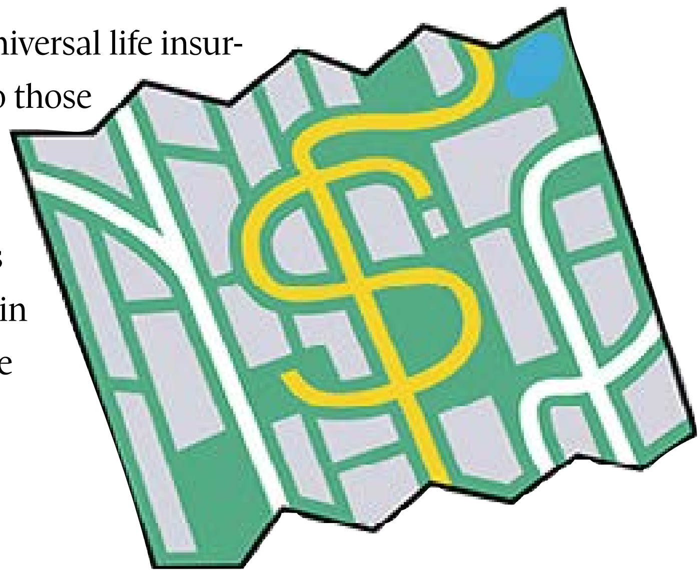
There is a handy Globe calculator to give you some idea of how much life insurance you require.

There is also the question of whole life versus term life insurance. A simple way to look at the two options is that you "own" a whole life insurance policy versus "renting" insurance for a shorter term such as 10 years. Continuing the rent versus

own analogy, it is much cheaper to rent insurance with a term policy than buying a whole life policy. Term insurance may make sense for younger adults with dependants and debts to provide for today. Older, debt- and dependant-free adults may need no insurance at all.

Besides the peace of mind that comes with knowing your loved ones are taken care of, the best attribute of life insurance is that the payouts are generally tax-free. In fact, life insurance can play a role in tax and estate planning because of its tax-free status.

In addition to whole and term life policies, universal life insurance is a more niche product that may appeal to those who have maximized registered investment vehicles such as TFSAs and RRSPs. Insurance that carries investment characteristics as well as a cash value, universal policies can rise and fall in value, and premiums could potentially rise if the underlying investments underperform.



The most important type of insurance

What's the most important type of insurance for Canadians to have? Hands down it is disability insurance, according to Manulife Securities financial adviser Kurt Rosentreter.

Rather than insuring your life, disability policies insure your income and your most important asset, namely your future earnings potential. It will pay you partial (often tax-free) income over the term of your disability.

The numbers for disability insurance (DI) are even worse than for life insurance generally. Less than half of working Canadians have disability insurance through their employer and most without employer policies have not purchased DI themselves.

How much it costs depends on the type of policy (short or long term) and

factors such as age, length of benefit, health, and coverage amount. Employer-provided DI tends to be the cheapest for individuals, however long-term coverage may need to be purchased privately.

Critical coverage

The final piece of the insurance portfolio is critical illness insurance. As the name implies, it provides financial benefits in the event a breadwinner is unable to work because of an illness or condition such as cancer, heart attack or other serious illness.

CI policies generally cover a long list of specific critical illnesses and will provide a lump sum or series of payouts for the medical condition. Insurance payouts hinge upon a medical diagnosis and a doctor's confirmation that your illness fits in the insurance policy's definition of "critical."

CASH NEEDS
INCOME NEEDS
AVAILABLE ASSETS

Your life insurance need

Cash needs	$353,000
Income needs	$1,518,000
Total cash & income needs	$1,871,000
Less available assets	$2,500
Life insurance need *	$1,868,500

* A positive amount indicates an insurance need. A negative amount indicates an insurance surplus.

A sample test run of the Globe insurance calculator. Try it to see where you are deficient.

Try this at home

- What is in your insurance "portfolio" today? Do you know what your employer-provided package includes? How much is the life insurance worth? Do you have disability or critical illness coverage?
- Try running the Globe insurance calculator to see where you are deficient.
- If you have a financial adviser, review insurance coverage for you and your partner.
- If you have a will, how long ago did you create it? What has changed in your life since then?
- What non-financial assets (family heirlooms, sentimental possessions, etc.), do you want specific family and friends to inherit that are not included in your will?

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