



DOLLARS AND SENSE

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 have not 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 have actually retired, what you require to live on becomes more apparent.

Even still, once you've retired, circumstances change, 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 ensure you are getting all of the income that you are 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, providing you have retired. Most begin taking the CPP at age 65, and it must be taken by age 70. The OAS, also fully taxable, begins at age 65. Those with a net income of more than \$63,511 in

2007 are required to repay all or part of the maximum OAS amount.

Retired individuals 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. These are claimed when you file your personal income tax return for the year. The government automatically calculates the GST credit when they process 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 2006, it is still possible to file a T1 adjustment to claim this tax credit.

Seniors on limited incomes are eligible for the Guaranteed Income Supplement (GIS), which begins at age 65 and is not taxable. For example, if you are single in 2007 with income of \$15,096 or less, you should qualify for the GIS. (A recent Statistics Canada survey found that 200,000



seniors who were eligible for the GIS did not apply for it. It's a mistake that costs this group collectively about \$300 million a year!

Draw on every source

Your registered retirement savings plans are also a source of retirement income, providing you contributed to them during your working years. The government has extended the deadline for converting your RRSP to a RRIF or annuity from December 31 in the year you turn 69 to December 31st in the year you turn 71. Minimum RRIF withdrawal rules will also be waived in 2007 and 2008 for RRIF owners turning 70 or 71 in 2007 or 71 in 2008. This is a new planning opportunity that you should consider. Deferring the minimum payment may ensure that your OAS payment is not clawed back. You should speak with your own chartered accountant to help you with this decision.

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.

In addition if you still have contribution room in your RRSP, you can now contribute to it until the end of the year that 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.

Monitor your plan

How can you ensure you are maximizing your retirement income? The key is to continue to monitor your financial plan now that you have retired.

Another very important plan is for your Estate. Ensure that your Will meets your current wishes.

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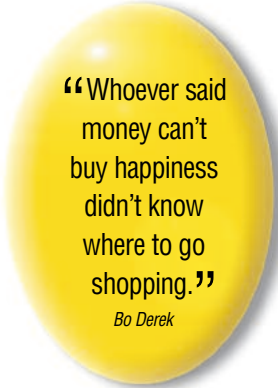
And ensure you have sought proper help to make sure that your wishes can actually be carried out and that poor tax planning does not destroy your plan.

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 your 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 longer.

While you're planning, consider writing a "living Will." These documents deal with how you wish to be cared for once you can no longer communicate or exercise your wishes.



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

Bo Derek

Think long term

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