

# Never Think NEVER

VOL. 5 | NO. 4



## A made-to-measure retirement

*Planning your retirement is one thing. Strategically managing the capital you've accumulated and maintaining your standard of living is another altogether. The trick is to prepare. Because achieving peace of mind and living your dreams is not something you make up as you go along!*

### Demographic Challenges

It is no secret that life expectancy is continuing to climb. In the past decade, the average lifespan of Canadians has increased by three months a year. From a statistical standpoint, the odds are 50% that one spouse in every couple of 65 year olds will live to see 90. And today, women and men have a 50% chance of living to the age of 86 and 83, respectively.

These simple statistics point to the importance of carefully planning this phase of your financial life, since the duration of retirement is slowly but surely catching up with that of professional life.

### Financial Challenges

Retirement planning also means taking into consideration a wide range of financial challenges that can either boost or reduce your financial stability upon retirement.

#### 1. Inflation

Did you know that an annual inflation rate as low as 2% can translate into a loss of purchasing power of nearly 35% after 15 years?

#### 2. Budget management

Make sure your income is able to keep pace with your current and future financial needs. Consider gradually building some financial wiggle room so you can stay on top of your budget.

#### 3. Premature depletion of your capital

Take the time to complete your investor profile and follow the recommendations of your advisor or financial planner.<sup>1</sup>

#### 4. Contingency planning

It's always a smart idea to protect yourself by taking out insurance coverage against serious illness, disability, or loss of independence. If you live in Quebec, be sure to complete a mandate in case of incapacity. In Ontario, you should have an attorney draw up a continuing power of attorney for property and a power of attorney for personal care.

### Family Challenges

Deciding whether or not to bequeath an inheritance to your loved ones is a personal choice. However if you decide to leave them property, plan carefully because this can have an impact on the financial resources available to you in retirement. Estate planning should take into account income tax that will have to be paid on any bequeathed property. It may be worth taking out life insurance to prevent your spouse or surviving family members from being saddled with heavy debts.

These considerations are even more important if yours is a blended family, in which case you should take special care in planning the transfer of your financial heritage.

### Personal Challenges

It's not always easy to ensure a financially comfortable retirement. In Canada, only 43% of workers have a company pension fund. For the other 57%, their retirement income is often limited to personal savings and government benefits (which barely cover your basic needs). This is one of the reasons many retirees opt to go back to work full or part time.

## What is the Real Situation?

Reality doesn't always hit until you are actually retired. Is this really the time of your life you've been dreaming of? A survey of retirees conducted in 2008 by Desjardins Financial Security revealed the following:

- 73% still had debts (mortgage, credit cards, car loans)
- Only 29% had savings of over \$100,000
- 70% wanted to make changes to their lifestyle
- 81% wished they had saved more
- 83% would have liked to work longer
- 28% were confident they could meet their financial needs

These figures illustrate the importance of accumulating sufficient capital and planning how best to use it, to avoid a disconnect between your desired standard of living and what you can actually afford.

But how much is enough money at retirement? That's a very personal question. One way to put it is that your target objective should be an income that allows you to live the retirement you have planned.

Regardless of how much money you have upon retirement, keep in mind that it's important to

- Preserve and grow your capital
- Reduce your income tax
- Balance your income to maintain your desired standard of living
- Make sure you have sufficient insurance coverage
- Plan the transfer of your property, if you so desire

By managing your TFSA transactions properly, you will avoid paying a penalty to the tax authorities.

<sup>1</sup> At all caisses Desjardins, financial planners and group savings representatives work on behalf of Desjardins Financial Services Firm Inc.

## TFSA: Beware of overcontributions!

It is important to manage your TFSA transactions as carefully as your RRSP contributions. Your TFSA gives you the flexibility to withdraw money from your account tax free. However, you cannot make up for withdrawals by contributing to your TFSA the same year otherwise you may end up overcontributing.

In other words, if you contribute the maximum in a single year and withdraw money in the same year, **you cannot top up your TFSA again in the same year to compensate. By doing so, you will exceed the maximum allowable contribution.**

You must always stay within the TFSA dollar limit, which includes

- Your annual TFSA contribution limit (\$5,000 a year plus indexation, if applicable)
- Any unused TFSA contribution room from the previous year
- Any withdrawals from your TFSA **in the previous year**

### Example of TFSA contribution room

1.	Maximum allowed in 2009	\$5,000	
2.	Maximum allowed in 2009	\$5,000	
	Maximum allowed in 2010	+ \$5,000	
	Total allowed in 2010	\$10,000	
3.	Total allowed in 2010	\$10,000	
	January 2010 contribution	\$7,000	
	Unused contribution room in 2010	\$3,000	→ \$3,000
4.	Amount held in the TFSA	\$7,000	
	Withdrawal in July 2010	- \$6,000	→ TFSA withdrawal: \$6,000
	TFSA balance July 2010	\$1,000	

5. Maximum amount that you can invest in your TFSA in 2011?

6.	2011 maximum	\$5,000	
	Unused contribution room from 2010 (\$10,000 – \$7,000)	+ \$3,000	←
	TFSA withdrawal in 2010	+ \$6,000	←
	<b>Total permitted in 2011</b>	<b>\$14,000</b>	



Cooperate to shape our destiny

Printed in winter 2010  
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