Achieving the Dream of Early Retirement

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Rising costs and shrinking government benefits are making it increasingly challenging for Canadians to build a nest egg that will let them retire in style. If you plan to retire earlier than the "standard" age of 65, the challenge becomes even greater.

It doesn't mean you have to give up your dream of early retirement. With careful planning and some special strategies, you can overcome the hurdle of fewer income-producing years to enjoy a prosperous early retirement. The planning begins right now.

Changing expectations

Retiring early means you'll need to re-assess some of the assumptions of your current retirement savings plan. For example, if you belong to a company pension plan, how will it be affected?

Depending on the specific plan, the pension payment to which you're entitled could be significantly lower than you'd counted on. With less time to earn employment income and accumulate savings, you will need to make your investments work harder for you to make up the difference.

The "golden rule"

The golden rule of saving for retirement is to shelter income from tax as much as you can, for as long as you can. Nothing beats a Registered Retirement Savings Plan (RSP) for maximizing long-term savings. Regardless of when you retire, you can leave your RSP intact until the end of the year in which you turn 69. Then, if you convert to a Registered Retirement Income Fund (RIF), you

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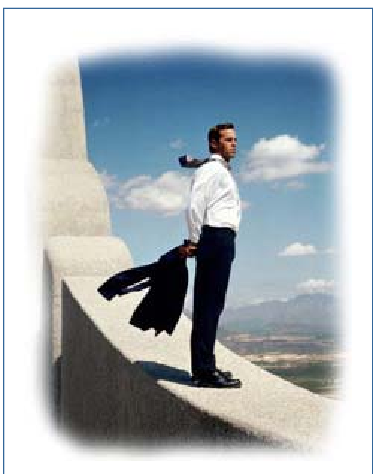


only have to take out a government-imposed minimum amount each year.

In the meantime, a good strategy may be to use your non-registered savings to provide the income you currently need. The advantage you'll gain from doing so is that your tax-sheltered savings can continue to accumulate, tax-deferred, for a longer time period. For example, you may want to rely primarily on non-registered savings early in your retirement and then use the bulk of your registered plan savings in your later years. If the income from your non-registered portfolio comes in the form of capital gains or Canadian source dividends, there's another advantage—preferential tax treatment.

Investing tax-efficiently

It's important to ensure your non-registered savings are invested as tax-efficiently as possible. All investment earnings and realized capital gains must be included in your taxable income each year. Your best choice for non-registered investing? Consider equity investments that generate capital gains and Canadian source dividend income.

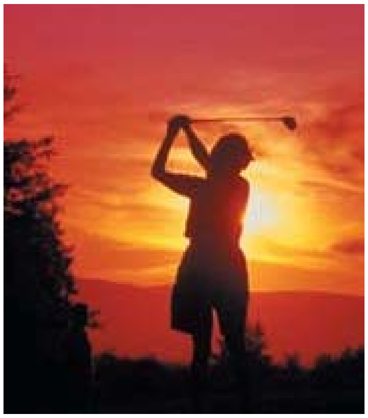
Here's why:

• Retirement is a long-term savings goal. Historically, equity investments have produced higher returns over the long term than fixed-income and cash-type investments.

• You aren't taxed on capital gains until you realize the gain by selling (or otherwise disposing of) the investment. This means you can defer tax on any gains by holding on to your investments for the long term.

• Only half of capital gains are included in your taxable income under current tax laws. By contrast, interest income is 100 per cent taxable.

• Dividend income from Canadian companies qualifies for the Dividend Tax Credit. As a result, dividends from Canadian companies are also a tax-favourable way to receive investment income.



While equity investments are a good choice for long-term investing, always keep in mind that diversification is vital to your portfolio in order to reduce risk. Make sure your total portfolio—both registered and non-registered—has a combination of stock, bond, and cash investments that are appropriate to your retirement goals and level of risk you are comfortable with.

Other sources of income

In addition to your RSP and non-registered investments, there may be other ways for you to maximize your retirement income. Have a careful look at the following possibilities:

• Life insurance: Certain insurance products, such as whole life and universal life insurance, offer an investment component in addition to the life insurance protection they provide. While your premiums are paid with after-tax dollars, policies can be structured to allow your savings to grow tax-free.

• Spousal RSP: If you're married or have a common-law partner, a spousal RSP can help equalize incomes in retirement. This can lower the total tax payable by the couple.

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• Reverse mortgage: If you have substantial equity in your home, a reverse mortgage can provide a tax-free source of income. Of course, this advantage must be carefully weighed against the loss of equity in your home.