

Portfolio advisor

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The new secrets to a successful retirement



When it comes to planning your retirement, things have changed. Shifting demographics, different lifestyle expectations and new economic realities are among the many factors prompting a whole new approach to retirement planning.

Following are some of the “new secrets” to a successful retirement – from practical strategies to help you manage your money to preparing yourself mentally and emotionally for retirement.



Define what retirement means to you

The traditional definition of retirement – where you punch out at age 65, get your golden watch and hit the golf course for a few years – is obsolete. Retirees are now approaching retirement on their terms, deciding when they retire, how they retire and whether they even retire at all.

The people now hitting the traditional retirement age of 65 – the baby boomer generation – have always done things their own way and retirement is no different. They’re staying at work past age 65, out of choice or because they need the income for their lifestyle. They’re downshifting into less demanding, more rewarding careers or businesses. They’re taking sabbaticals, working part-time or volunteering. In short, they’re completely redefining the traditional retirement years, effectively creating a new life stage between their more active working years and full-blown retirement.

What does retirement mean to you? How you answer this question will have a major impact on how you plan for life after 65, including how much you're saving, whether you need to find a new job or business, if you're moving to a new home and so on.



A longer life expectancy requires a longer-term approach

People are generally living longer compared to previous generations. Just 30 years ago, men could expect to live another four years and women another 11 years once they turned 65. But now, people can expect to live another two decades after turning 65.

That means the retirement planning strategies that worked for your parents and grandparents won't necessarily work anymore. Because you can expect to live longer, you need to make sure that you won't outlive your retirement savings. This may involve saving more before you retire, delaying your retirement age, continuing to work during retirement or supplementing your income in other ways.



Don't be too conservative with your investments

One of the most common mistakes retirees make with their investments is playing it too safe by investing primarily in GICs and bonds. But playing it safe can actually expose you to another risk – the risk of outliving your savings.

Although GICs and bonds provide safety and predictable income, they don't provide much long-term growth potential. Especially considering today's longer life spans, you need some growth in your retirement savings to ensure they last as long as you do.

As a result, it's a good idea to allocate a certain proportion of your retirement savings to growth-oriented investments like stocks. While stocks tend to fluctuate more in value than bonds and GICs, they also tend to provide higher returns over the long term (10 or 20 years). Since you're likely going to live longer compared to previous generations, you have the time to allow these fluctuations to smooth out.

A successful retirement involves more than just money

Traditionally, retirement planning has focused on the financial aspects – making sure that you save enough, invest properly, set a realistic budget and so on. But increasingly successful retirement planning is about the non-financial aspects – everything from how you mentally and emotionally prepare yourself for retirement to how you spend your time once you're retired. Following are some key non-financial strategies to help you plan a successful retirement:

- › **Develop interests beyond work.** You've probably heard stories about successful people retiring, enjoying all their free time at first, but eventually finding themselves bored, perhaps even depressed. While some people may be ready for a life where every day is Sunday, most people aren't. They need the sense of purpose – previously provided by work – to stay mentally engaged and emotionally satisfied. One way to stay mentally engaged during retirement is to develop interests outside of work – before you retire. Then, when you retire, you will have more time to focus on these other interests, which you already find rewarding.
- › **Maintain social connections outside of work.** Staying socially connected is also very important to continued mental fitness. But this can be a challenge because many people develop their main social networks through work and, once they retire, they can become socially isolated, lonely and depressed.
- › **Ease into retirement.** If possible, gradually reduce your workload as you approach retirement and increase the time you spend developing your other interests and social connections outside work.
- › **Be prepared for the shock of the first year.** Stopping work can come as a shock, especially if you haven't eased into it. Many retirees find that it takes about a year to adjust to a different pace and get settled into new routines.
- › **Think carefully before relocating.** Many Canadians imagine a sun-drenched



When it comes to reducing taxes, contributing to your RSP is just the start

You are probably well aware of the significant tax advantages offered by your Registered Retirement Savings Plan (RSP). You can make tax-deductible contributions of up to 18% of your prior year's earned income to your RSP, to a maximum of \$19,000 in 2007 (rising to \$20,000 in 2008). What's more, your contributions grow within your RSP on a tax-deferred basis, resulting in greater growth compared to investing outside an RSP. But beyond simply contributing to your RSP, there are several strategies that can help you reduce taxes and enhance your retirement savings, both inside and outside your RSP.

- › Be aware of how different investments are taxed outside your RSP. Different investments are taxed at different rates, which can have a big impact on your after-tax returns. Interest income offers no tax advantages – it is fully taxable at your marginal rate. Dividend income is essentially taxed lower due

to the dividend tax credit, while capital gains income receives the most preferential tax treatment. Only 50% of your net capital gain in any given year is taxable.

- › Shelter interest-bearing investments within your RSP. If you have both RSP and non-RSP savings, consider allocating more of your interest-bearing investments to your RSP. Interest income is fully taxable, but within your RSP that tax is deferred, resulting in greater growth.
- › Draw on non-tax-advantaged retirement income sources first. Once you've retired, you will likely have several different retirement income sources – a Registered Retirement Income Fund (RIF), non-registered savings and government benefits. Your RIF offers an important tax advantage that these other income sources don't - you don't pay tax on the investment income generated within your RIF until you withdraw it. This results in greater tax-deferred growth. You are required to withdraw a certain amount from your RIF each year, but by withdrawing only the minimum – and getting the income you need from other sources – you can maximize this tax-deferred growth.

retirement in warmer climates like Florida. But relocating separates you from friends, family and community support. Before committing to a permanent relocation, consider going on extended “vacations” first. You may find that you prefer spending just part of the year down south, or perhaps you like traveling to different destinations.

- › **Don't be in a hurry to sell the family home.** Moving to a new home at the same time you retire can intensify the shock of retirement – two major changes at once. Take your time before making your decision. You may find that you'd rather keep your existing home or simply spend more time at a second property, such as a cottage.

- › **It's not just your retirement – it's “our” retirement.** Busy with your day-to-day lives, you may not have thought about discussing how your retirement will affect your spouse. Do you have a shared vision for your retirement? How will your retirement affect your spouse's routines? Discussing these issues ahead of time can help ensure a happy retirement – for both of you.

- › **Focus on your health.** People are living longer and enjoying healthier, more active lifestyles during retirement. But it's still important to be prepared for the inevitable health issues associated with aging – ensuring you have the right support in place, that loved ones are provided for, and arrangements are made to cover any additional care you or your spouse may require.





Contributing to a spousal RSP still makes sense, despite recent tax changes

One of the most important tax advantages offered by an RSP is the ability to split income with your spouse, which can help reduce income taxes during retirement. When you contribute to a spousal RSP, you receive the tax deduction, but your spouse receives the income in retirement. This has the effect of transferring retirement income from you to your spouse, leveling your two retirement incomes and, more importantly, your tax rates. Because of Canada's graduated tax system, a couple with two similar incomes and tax rates pays less tax than a couple where one spouse has a much higher income and tax rate.

With recent tax changes, couples are now able to split income from their RSPs and pension plans without a spousal RSP. However, they can only split up to 50% of this income. Because a spousal RSP doesn't have this restriction, it still makes sense in situations where one spouse has significant retirement savings outside an RSP or pension plan.

The bottom line: you should definitely still contribute to a spousal RSP if you expect to have higher income than your spouse during retirement – and you also have significant non-RSP savings.



Your RSP may not be enough

If you are a high-income earner, your RSP may not be enough to maintain your standard of living once you retire. The reason – the legislated annual maximum limit on RSP contributions (\$19,000 for the 2007 tax year and \$20,000 for 2008).

If you earn \$120,000 or more annually, you may not be able to save enough through your RSP alone to generate a sufficient

retirement income (which many financial planners define as 80% of your pre-retirement income). Unless you're willing to make some lifestyle compromises, you may need to look beyond your RSP. Non-registered savings are a start. You could also consider enhanced retirement plans such as:

- › Individual Pension Plans, which can be suitable for self-incorporated professionals and business owners earning \$120,000 or more.
- › Retirement Compensation Arrangements, which are designed for senior executives earning \$150,000 or more.
- › Insured Retirement Plan strategy, which can provide tax-free retirement income and a tax-free death benefit.

Start planning for a successful retirement today

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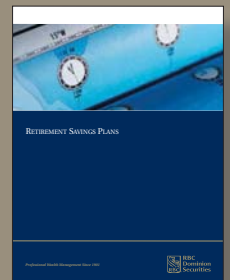
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The secrets to a successful RSP

Learn the secrets to a successful RSP by reading *Retirement Savings Plans* from RBC Dominion Securities.

This comprehensive guide, written by one of Canada's leading retirement planning experts, explains everything from the fundamentals to advanced investment strategies for your RSP.

Ask for your complimentary copy of this informative guide today.



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