



The ScotiaMcLeod Wealth Planning Series

Retirement Planning Handbook



 **ScotiaMcLeod**TM
Building Relationships for Life

Contents

Starting the Process	3
The Numbers	
Determining Your Expenses	4
Asset Accumulation	5
Assumptions	5
Income Sources	6
The Results	
Surplus	7
Shortfall	7
Planning Strategies	
Spousal RRSPs	9
Income Splitting	9
Investment Strategies	9
Other Retirement Issues	
Early Retirement	10
Maturing Your RRSP	11
Retirement and Estate Planning	11
Summary	12
Appendix I - Monthly Expense Summary	13
Appendix II - Statement of Net Worth	14
Appendix III - Life Expectancy Chart	15

ScotiaMcLeod's Wealth Planning Services

Building and preserving wealth demands specialized financial advice. ScotiaMcLeod has established a full range of advisory services encompassing tax, estate and retirement planning. Our Wealth Planning Series of educational booklets has been developed to assist investors in all their individual planning needs. Ask your Investment Executive about other Wealth Planning publications.

The ScotiaMcLeod Retirement Planning Handbook

In recent years, there has been a lot of focus on retirement planning. One of the reasons for this focus is demographics. A large percentage of Canadians are at the stage in life where retirement planning is a natural part of their planning process. Additionally, we have all read about the potential for reduced government assistance for most of us in retirement and the implications that will bring.

Retirement means different things to different people. For some people, retirement means having the financial flexibility to change their daily routine without worrying about their finances. For others, it means sitting back and doing all the things that they have wanted to do but never had the time to do.

However you see your retirement, one of the most important components of planning for it is time. Starting today will help ensure that you reach your retirement goals and objectives. Remember that any type of planning is a continual process that requires review and updating. Also remember that how you feel today about certain issues will probably change over time.

This publication is designed to provide an overview of the retirement planning process and the steps you can take to make sure you have done everything you can to plan for your retirement years. You need to revisit this process continually, especially as you get closer to retirement.

The process of retirement planning is relatively straightforward. Ideally, you want to make sure you have enough income and assets to live the kind of lifestyle that you want to.

However, what makes retirement planning more difficult is determining what that lifestyle will look like and then dealing with the many variables that go into the process and the pace with which they change.

The most frequently asked question surrounding retirement planning is “How much money will I need?” The answer is the same for everyone: it depends! The challenge in retirement planning then becomes figuring out what “it depends” means.

Starting the process...

Retirement planning begins with determining what your retirement will look like from a lifestyle perspective – determining what your goals and objectives are in terms of the timing of your retirement and what you want to do during your retirement. The lifestyle you lead (or want to lead) will determine what financial steps you will have to take.

What Do You Need to Know?

Everyone has different goals and objectives. The questions below are by no means all encompassing however, they are designed to help you to start thinking about some of the issues that you will have to deal with in the context of your retirement planning. Remember that your ScotiaMcLeod Investment Executive can help you with your retirement planning process.

When do you want to retire?

The timing of your retirement will help determine what asset base you will require to meet your goals and objectives.

What will you do during your retirement?

Lifestyle issues are very important for most people in retirement. An average person works approximately 2,000 hours per year. Even though you may have many activities planned for your retirement, don't underestimate what it will take to fill up this time. Remember, you may have 20 or more years of retirement.

Where will you live at retirement?

Many people view their principal residence as a source of capital at retirement. They believe they will sell the house and move to a smaller house or they will retire in another locale. However, those same people often end up staying in the house that they thought they would sell, for a variety of reasons. In some cases, the proximity to family and friends may be hard to give up or it may indeed be more emotionally difficult to sell the house than it had seemed initially. Others may not sell their homes because children have returned home. Still others stay in their principal residence because it simply doesn't make sense from a market perspective. All these are valid reasons why many people do not end up selling their home when approaching retirement. Whatever the reason, it is good practice to consider the effect on your retirement goal if your house doesn't provide you with any capital during your lifetime.

What effect will your estate planning have on your retirement planning?

For a lot of people, leaving an estate for their beneficiaries is very important. However, leaving an estate means there is a tradeoff between your beneficiaries and your retirement goals and objectives. After all, it is what is left after your retirement that will be available for your beneficiaries.

Some Other Considerations.....

- What activities will you pursue in retirement and therefore what facilities will you require? (i.e. Sporting and recreation)
- Will you do charitable work?
- Do you have special concerns with either parents or children that will influence your retirement?
- Will you change the way you manage your assets during retirement?
- Will you travel during retirement?
- Will you work part-time or start your own business?
- Will there be any big ticket purchases either at or during retirement?
- Do you expect to receive an inheritance and if so, what effect will it have on your retirement planning?
- Do you expect health to be a concern in retirement and have you taken steps to plan for it?

The Next Step...The Numbers

Determining Your Expenses

Determining what your expenses will be in retirement is a key component of the retirement planning process. It is your lifestyle that will define your expenses and therefore determine what your income needs will be. In turn, your income needs determine the asset base you will require.



After you have spent some time identifying your goals and objectives, you have taken a big step towards determining your retirement needs. Most of your goals will have financial implications you will need to take into account, if they are not reflected in your current expenses. Obviously, the more expenses you have, the more you will have to save in order to meet your retirement goals and objectives.

One method to determine your expenses in retirement is to take your expenses today and adjust them for items that will be different when you retire (eg. mortgage, travel, etc.). Another method is to use a rule of thumb that suggests your retirement expenses will be approximately 70% of what your current expenses are. Caution should be exercised when using this method as its usefulness really depends upon the age at which you are doing projections and the differences that will occur between your current expenses and your retirement expenses. Appendix I on page 13 provides a worksheet to help you determine what your expenses will be in retirement.

The flowchart above shows income needs flowing from expenses. Once you have determined what your expenses will be, you have in a sense projected your income requirements. The next step is to establish where this income will come from. Income generally flows from assets, so the next stage in determining your plan is to itemize your assets today and project what they will be at retirement.

Asset Accumulation

Your assets will produce your income in the future. As a result, it is important to determine what your asset and liability picture looks like today. Appendix II on page 14 provides a worksheet to allow you to prepare a net worth statement of where you stand today. The net worth statement can then be used to project your assets to your retirement age to give you an idea what your assets will be worth at that time and therefore what income they will produce.

Assumptions

In order to project your assets, it's necessary to use certain assumptions. The assumptions you choose will have a big impact on the final results of your projections. Be as conservative as you can when you make your assumptions as it is better to underestimate your results than to overestimate them. Remember, assumptions will change over time as markets change and as there are modifications to your goals and objectives. Your ScotiaMcLeod Investment Executive can help you ascertain the assumptions that will form the basis of your projections. The major assumptions that you will use are:

Retirement Age

This is usually an assumption that you have some control over.

Years in Retirement

This assumption is based on when you retire and how long you will live. Appendix III shows a life expectancy chart that you can use to help you determine how long you will require income in retirement.

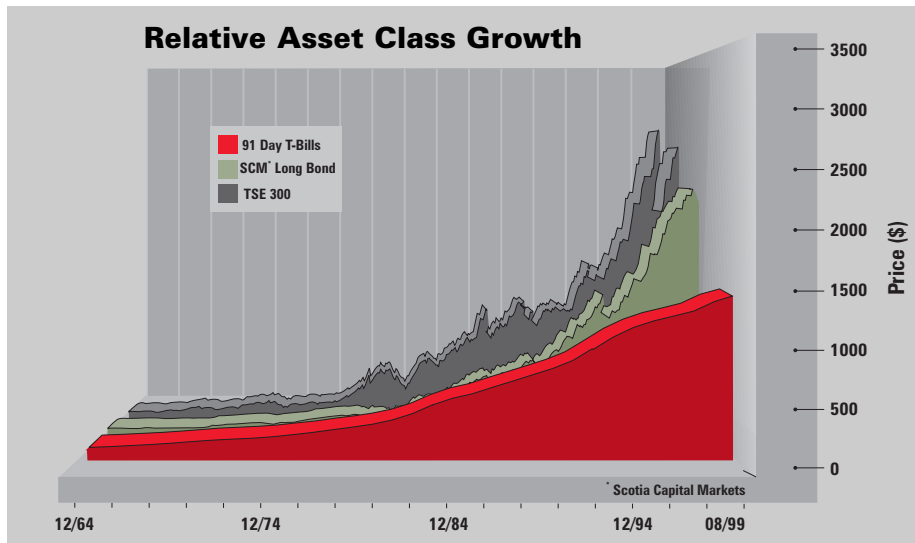
Inflation Rate

Inflation is a very important assumption that can have a significant impact on the outcome of your projections. The chart below shows the effect that various levels of inflation would have on someone with \$40,000 of expenses in today's dollars.

Inflation	Expense Amounts in	
	10 years	20 years
2.0%	48,760	59,438
3.0%	53,757	72,244
4.0%	59,209	87,645
5.0%	65,155	106,132

Investment Returns

Investment returns ultimately depend upon your risk profile and what types of asset classes you will invest in. The chart on the following page details the growth of a \$100 investment from December 31, 1964 through August 31, 1999 for various asset classes.



Tax Rates

Tax rates can also affect your projections and an effective method to use when estimating tax rates (if actual rates are not used) is to use an average tax rate. Please consult the ScotiaMcLeod “Tax Handbook for Investors” for a table of Canadian Income Tax Rates.

Once you have projected your assets to retirement, the next step is to determine your various sources of income.

A Comment on Projections

Projections of income and assets are very useful tools in determining whether you are on the right track towards achieving your retirement goals and objectives. However, it is very important to realize that projections are only a tool that provide a framework of a static point in time. Due to the various assumptions that are used when producing projections and the number of factors that can make the assumptions invalid, it is important to revisit the projections as well as your whole retirement planning process on an ongoing basis to make sure the results you previously obtained still make sense for you.

Income Sources

Pensions

For a number of people, pension plans provide the bulk of their income requirements for retirement. The amount of the benefit you are entitled to depends upon the type of pension plan that you are a member of and in many cases, what your contributions have been to the plan. Most employers issue pension statements which provide regular updates on what your accrued benefits are.

Registered Retirement Savings Plan (RRSP) Income

RRSP savings will also represent an important source of retirement income. There are many ways to take income from your plan including transferring to a RRIIF, purchasing an annuity, taking lump sum cash payments, or a combination of these.

Portfolio Income

For individuals that have managed to save excess funds outside their RRSP, they will have built up a portfolio of securities that will be available at retirement as another income source.

Government Benefits

Historically, Canada and Quebec Pension Plans and Old Age Security have provided additional benefits to eligible Canadians at retirement. Canada and Quebec Pension Plans are contributory and any income received from these plans will be based on your salary level during the contributory period. Old Age Security payments are received based on the number of years of Canadian residency prior to age 65.

Other Income

You may have other income sources from a part-time business or from rental property, for example. If this income will continue in retirement, it should be included as part of your financial resources.

The Results

Once you have estimated your expenses, projected your asset base and determined your income, you have all the necessary information to ascertain whether or not you will achieve your retirement objectives. From a financial perspective, you will either end up with a surplus or a shortfall. Make sure that you have taken inflation into account.

Surplus

If your analysis shows a surplus, you are in good shape with respect to your retirement planning. Remember however, to revisit your projections and the whole retirement planning process with your Investment Executive to make sure the results continue to reflect your circumstances.

Shortfall

If your analysis shows a shortfall, the next step is to determine what steps you can take to make up the shortfall. There are a number of alternatives you have. The most obvious alternative to make up a shortfall is to save more – this is where a trade-off between current lifestyle and future lifestyle must be made. Other alternatives include retiring later, earning more income from employment or other sources, and reducing your retirement goal.

Increased Returns

If you accept more risk in your investment strategy, you may have a greater chance of increased returns. However, this is not for everyone, and is also dependent upon your age. Generally, younger individuals can accept more investment risk than older individuals. The chart on the following page shows the difference that even a 1% higher rate of return can have over time.

The future value of \$50,000 invested today with various rates of return over a 10 and 20 year period:

Rate of Return	10 years	20 years
6.0%	89,542	160,357
7.0%	98,358	193,484
8.0%	107,946	233,048

Encroachment of Capital

Using capital as a source of income is an alternative depending upon the shortfalls in question and whether or not the capital will provide for the shortfall. Remember that when you start using capital, the income that it produces is reduced which means you need to use more capital. This will also affect your estate planning.

The Next Step

The next step is to talk to your Investment Executive about starting your retirement planning process or about ensuring you are still on track if you have already started.

Planning Strategies

As mentioned in the previous section, there are a number of strategies that can be used to improve your retirement planning. Effective retirement planning tries to equalize the assets between family members at retirement to take advantage of each individual's tax base. Some of the strategies listed below are designed specifically with that goal in mind. You may already use some of the strategies listed below, however the more you can use (assuming that they are appropriate in your circumstances), the more effective your retirement planning will be.

Spousal RRSPs

One of the most effective ways to split income between spouses is through the use of a spousal RRSP. With a spousal RRSP, the spouse with the higher asset base would make contributions to a spousal RRSP which, when withdrawn in the future would create income that would be taxed in the hands of their spouse instead of their own hands. Note that an individual's RRSP contribution limit can all be contributed to a spousal plan or it can be split between their own plan and a spousal plan in any ratio desired. There are some rules that you need to be aware of relating to withdrawals from a spousal plan. If funds are withdrawn from a spousal plan in the year of a spousal contribution or the previous two years, the withdrawal would be taxable in the hands of the contributing spouse. The only situation in which this would not be the case is one in which the withdrawal was in the form of a RRIF minimum.

Income Splitting

There are not many income splitting opportunities left between spouses, however there are a few still available. Generally speaking, the higher income (and probably higher asset) spouse should pay household expenses and allow the lower income spouse to accumulate assets in their name. Also, the higher income spouse should pay the tax liability of the lower income spouse. Beyond this, the income on income strategy can also be effective in leveling assets between spouses at retirement. This strategy is discussed further in the ScotiaMcLeod Wealth Planning Series Tax Handbook For Investors.

Investment Strategies

Investment strategies can have a dramatic effect on the accumulation of your retirement assets. Working with your Investment Executive will help you determine the asset mix and the investments that are appropriate for you.

The chart below illustrates the differences in returns of \$100,000 investment at various rates of returns and time periods.

Rate of Return (%)	15 years	20 years	25 years
8	317,217	466,096	684,848
10	417,725	672,750	1,083,471
12	547,357	964,629	1,700,006

Other Retirement Issues

Early Retirement

Early retirement is a topic that a lot of people have been exposed to over the last decade. As companies downsize, early retirements are either forced or chosen when individuals are provided with the option. Obviously the latter is most desirable from a planning perspective but both bring about a number of decisions that have to be made.

A complete discussion of early retirement is beyond the scope of this publication. Listed below however, is an outline of many of the factors you will have to consider when you are faced with an early retirement situation. Talk to your Investment Executive for more information about early retirement.

“The Package”

Evaluating early retirement usually starts with the receipt of an early retirement package from the company that you are employed with. From a financial perspective, the package will outline your options in terms of pensions, severance and any other benefits you are entitled to. You will also be asked to make decisions to allow the company to pay out your entitlements.

This is usually where you will require some assistance from a financial advisor to help determine the right option for you. Don't underestimate the significance of the decisions you are making as once they are made, they generally cannot be changed. Make sure you receive professional advice when you are evaluating your package.

Other Issues

One of the biggest issues to deal with, especially when you receive a package unexpectedly, is the emotional issue of early retirement. These feelings usually come from some of the uncertainty that you now face:

- Will you look for other work or will you actually retire?
- Does the early retirement package provide the financial resources you require?
- If the program is voluntary, what happens if you turn it down?
- What steps have you taken for your retirement planning to date?
- How will this affect the other members of your family?

Generally speaking, when you receive an early retirement package, the process of retirement planning should stay the same as has been outlined in the rest of this booklet. The only difference is that the process has been sped up for you. There are circumstances where an early retirement package can be the best thing that could ever happen to you from a financial perspective. Whether it is or it isn't, proper evaluation and planning will make the most of the package that you are offered and make any transitions easier to handle.

Maturing Your RRSP

Legislation requires that you mature (or convert) your RRSP to an income source no later than December 31st of the year you turn 69. What this effectively means is you are no longer allowed to have an RRSP. You must take the funds that have accumulated inside your RRSP and start to receive an income from them.

Although there is no choice as to the latest point in time that you must receive income from your RRSP, there are some choices as to how you receive your income.

There are four choices as to how you can receive funds from your RRSP:

- a lump sum withdrawal – not generally suggested as the whole amount would be taxable at the time of withdrawal
- annuity – use the funds to purchase an annuity that will pay out to you over your lifetime (or other chosen time frame)
- transfer assets to a Registered Retirement Income Fund (RRIF) – the most popular choice, this is essentially a continuation of your RRSP but instead of contributing to the plan you are required to take out minimum payments from the plan annually
- combination of the above

Each alternative has different tax consequences as well as advantages and disadvantages that must be evaluated in the context of your overall retirement and estate planning goals. There are a number of factors to consider when deciding upon which way to receive your income:

- income needs
- life expectancy
- estate objectives
- desire to manage your money
- guarantees/interest rates
- flexibility required

Talk to your Investment Executive for more information on your choices relating to maturing your RRSP and ask them for the ScotiaMcLeod publication *Retirement Income: Considering the Options*.

Retirement Planning and Estate Planning

Generally speaking, retirement planning goals and estate planning goals are not congruent. When you are looking at your retirement planning, remember to keep in mind the effect that your retirement planning will have on your estate planning and vice-versa.

For example, if you structure your retirement planning such that you will use all the capital that you have accumulated to support you while you are alive, there will be few, if any assets available for your beneficiaries. Conversely, if you have decided that you want to leave an estate for your beneficiaries, the amount you will be able to leave will likely have an effect on your lifestyle in retirement.

The overall message is to be aware of both types of planning. There are strategies that can help you accomplish both types of goals. Talk to your Investment Executive for more information.

Summary

Retirement planning is an ongoing exercise that changes and evolves both as you get closer to your retirement and as outside influences change. Remember that your best friend is time and that proper attention, planning and use of professional advisors such as your Investment Executive can go a long way in helping to ensure that you achieve your goals and objectives.

Appendix I

Monthly Expense Summary

	Today	At Retirement
Accommodation		
Mortgage/Rent		
Heat, Hydro, Water, etc.		
Cable		
Telephone		
Insurance		
Maintenance		
Capital Improvements		
Lifestyle		
Food		
Clothing		
Entertainment		
Vacations		
Education		
Recreation		
Miscellaneous		
Life Insurance		
Vehicles/Transportation		
Gas		
Insurance		
Maintenance		
Other		
Savings		
RRSP		
Emergency Fund		
Other		
Total Monthly Expenses		
x12		
Total Annual Expenses		

Appendix II

Statement of Net Worth

	You	Spouse	Total
Assets			
<i>Liquid Assets</i>			
Cash			
GICs/Savings Bonds			
Portfolio			
Life Insurance-Cash Surrender Value			
Other Savings			
Total			
<i>Non-liquid Assets</i>			
RRSP/Pension			
Home			
Vehicles			
Second Property			
Personal Property			
Business Interests			
Total			
Total Assets			
Liabilities			
Mortgage			
Vehicles			
Other Bank Loans/Lines of Credit			
Credit Cards			
Family Loans			
Other			
Total Liabilities			
Net Worth			

Appendix III

Life Expectancy Chart

Age	Female	Male	Age	Female	Male
40	44.02	37.96	66	19.93	15.45
41	43.05	37.01	67	19.09	14.73
42	42.08	36.06	68	18.26	14.02
43	41.11	35.12	69	17.44	13.34
44	40.15	34.18	70	16.63	12.68
45	39.19	33.24	71	15.84	12.04
46	38.22	32.32	72	15.07	11.42
47	37.27	31.40	73	14.31	10.81
48	36.31	30.48	74	13.58	10.22
49	35.36	29.58	75	12.87	9.65
50	34.42	28.68	76	12.19	9.10
51	33.47	27.80	77	11.53	8.58
52	32.53	26.92	78	10.90	8.07
53	31.60	26.05	79	10.29	7.60
54	30.66	25.18	80	9.70	7.14
55	29.74	24.32	81	9.13	6.71
56	28.81	23.47	82	8.59	6.31
57	27.89	22.63	83	8.07	5.93
58	26.98	21.79	84	7.57	5.57
59	26.07	20.96	85	7.08	5.23
60	25.17	20.14	86	6.61	4.91
61	24.28	19.33	87	6.16	4.60
62	23.39	18.52	88	5.73	4.32
63	22.52	17.73	89	5.31	4.04
64	21.65	16.95	90	4.90	3.78
65	20.79	16.19			

Derived from GAM83

This report has been prepared by ScotiaMcLeod Inc. (SMI) Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither SMI nor its affiliates accepts any liability whatsoever for any loss arising from any use of this report or its contents. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any securities and/or commodity futures contracts.

