Charting your course to retirement success

There are many recipes for retirement success, but the key ingredient for almost all successful retirements is good planning. Since Canadians are living longer than ever before, chances are that many people will spend 20 years or more in retirement. With so much potential time in retirement, planning takes on greater importance. To help you get what you want out of retirement — and with the financial resources you'll need to do it — there's no better time than now to revisit the planning process with your CIBC Advisor. Here are 5 effective steps you can take to chart your course to retirement success.

1. Determine retirement lifestyle and approximate cost

Different retirement lifestyles have different financial requirements. For example, if you are planning to travel the world, you will have higher expenses than if you are planning to stay home and volunteer at your favourite charity. So, the first step in the retirement planning process is to identify the type of lifestyle you want to lead in retirement.

To estimate the amount of retirement income you will need to support your desired lifestyle, it's often easiest to think in terms of a percentage of pre-retirement income. Estimates of retirement income needs can vary considerably from person to person, typically ranging from 50% to 100% of pre-retirement income. The amount that's right for you will depend on both the type of lifestyle you plan to lead and the financial demands you may face in retirement. For example, you must consider whether major debts, such as your mortgage, will be paid off, and whether you will have financial dependents to support, like children or elderly parents.

2. Identify income sources

Once you and your CIBC Advisor have determined how much money you expect you will require, you need to estimate how much income you'll be able to generate in retirement. There are generally 3 sources of retirement income in Canada:

- **Government pensions.** The 2 main government pensions combined could provide over $19,200 in annual retirement income at age 65. First, almost all working Canadians contribute to either the Canada Pension Plan (CPP) or Quebec Pension Plan (QPP) and are entitled to receive CPP/QPP benefits starting any time from age 60 (on a reduced basis) to age 70 (on an enhanced basis). Although the maximum amount payable to contributing Canadians at age 65 is approximately $12,460 per year, many people do not receive the maximum. Service Canada reports that in July 2014 the average CPP payment was approximately $7,200 per year.

  If you work while receiving CPP you may increase your retirement income. If you are between the ages of 60 and 65 and working, you must contribute to CPP. From ages 65 to 70 you can choose not to contribute to CPP or you and your employer can continue to contribute to CPP and increase your Post-Retirement Benefit (PRB).

Second, Old Age Security (OAS) is a non-work-related pension paid to all qualifying Canadians at age 65, with a maximum annual benefit of roughly $6,765. The OAS pension is a non-contributory monthly taxable benefit. The age of eligibility for OAS will gradually increase from 65 to 67, starting in April 2023, with full implementation by January 2029. You must meet certain OAS citizenship and residency requirements to qualify.

In July 2013, a new process was implemented by Service Canada to automatically enroll eligible seniors to receive their OAS pension. If you are eligible for the automatic enrollment, Service Canada will send you a letter to notify you the month after you turn 64 years of age. If you do not receive this notification letter then you do not qualify for automatic enrollment and you must complete the regular application process.

The OAS pension benefit amount is reduced when you reach a certain level of annual income ($71,592 in 2014) and is clawed back entirely if your income is $116,103 or higher.

- **Employer pensions.** Most large employers, and even some of the smaller ones, provide employer pensions. The maximum amount an employer's defined benefit registered pension plan will provide for someone with 35 years of service is approximately 50% to 70% of pre-retirement income. However, since few people stay with one employer for this length of time, pensions can be much lower.

  Furthermore, if the employer offers a defined contribution pension plan (which is becoming more popular), then the level of income an employee will receive in retirement depends greatly on the performance of the chosen investments. Employer pension plans come in many different forms, and obtaining an accurate estimate of what your pension will provide is an important step toward assessing how much you will need to save personally for retirement. Consider discussing your pension statement with a CIBC Advisor, who can help with questions you may have about it.

- **Personal savings.** You will need to rely on personal savings to make up any difference between the amount of pension income you'll receive and the amount of retirement income you'll need. Personal savings may consist of both your RRSP – which must be converted into a RRIF or annuity by age 71 – and other savings/investments, including Tax-Free Savings Accounts. Personal assets might also include your home or other real estate and ongoing business interests.

3. Bridge any income gap

Once you and your CIBC Advisor have assessed what you expect your retirement income needs will be and estimated what your current level of personal savings will provide, you can determine whether there is any gap in your savings. If a gap exists, there are a number of strategies to bridge the gap to meet your financial goals for retirement.

In consultation with your CIBC Advisor you might consider doing one or more of the following:

- **Increase your savings.** Determining the amount of your savings well before retirement gives you time to increase your personal savings to meet your retirement income goal. A regular investment plan can help you stay disciplined by using a structured savings program that takes into account flexibility and tax efficiency.

- **Invest more aggressively.** If you have taken a very conservative approach to investing and can tolerate more investment risk, you may want to consider adding higher-yield bonds and equity investments to your portfolio to increase your long-term return potential. Your CIBC Advisor can work with you to shift the asset allocation in your portfolio to help meet your financial objectives within your risk tolerance.

- **Delay retirement.** Each year that you delay retirement is one less year you will need retirement income, and one more year you can try to save more towards achieving your goals. Delaying retirement may also increase the value of your employer pension and CPP/QPP benefits. Qualified Canadians who are over 65 can keep working and still receive their monthly Old Age Security pension income.

- **Consider part-time work or a second career.** If you are thinking about a second career, or if you simply want to keep active in the workforce, paid work during the retirement years can make a significant difference to financial planning and the amount of money you will have available. Even modest earnings can help bridge the income gap, and working part-time may also help with the emotional challenge of adjusting to retirement.

4. Develop a retirement income plan

An important consideration in retirement income planning is making sure you make the most of the assets you have saved. When you retire, your CIBC Advisor will continue to assist you with financial planning to help structure your portfolio to generate the long-term income you need.

Don’t wait until retirement if you want to make the most of the retirement income planning process. You must be proactive and attend to your future retirement needs well before the time comes. Your CIBC Advisor will guide you through the required steps by helping you quantify your goals using CIBC’s financial planning software, determining any gaps that might exist and working with you to build your retirement plan.

For example, as much as 10 years before retirement, you can work with your CIBC Advisor to start shifting your investment strategy so your portfolio contains more secure income-producing investments to meet upcoming cash-flow needs. Your CIBC Advisor can also help you identify potential tax-saving opportunities to split pensions and other income, annuities, RRSPs, RRIFs and deferred profit sharing plans. Once identified these strategies can be discussed with your tax advisor to determine how they can be of benefit in your specific situation.

5. Talk to your CIBC Advisor

If you're wondering about what steps you should take to position yourself to accumulate the financial resources you'll need in retirement, contact your CIBC Advisor. They can help you chart a course to retirement success and develop a strategic financial plan to make the most of your resources. Together you can work towards making your retirement dreams a reality.

For more information

talk with your CIBC Imperial Service® Advisor today | **visit** cibc.com/ImperialService | **call** 1-888-839-7298