Retirement and Savings Options

QUÉBEC EDITION

NICE
National Initiative for the Care of the Elderly
Initiative nationale pour le soin des personnes âgées
We care together
Ensemble pour le bien-être des aînés

www.nicenet.ca

Thinking about retiring?

- There are many programs that are created to help seniors with retirement.
  - You **must apply** to the programs in order to get the benefits.
  - To learn about some of the government programs for seniors, please read the *Accessing and Optimizing Pensions and Public Benefits* pocket tool.
- It is important to think about how much money you will need as you retire and age.
- Closely monitor your investment account, and make sure you understand the statements that come from your bank or brokerage firm.
- Many people consider saving for retirement by investing in some type of savings account such as a Tax Free Savings Account (TFSA) or a Registered Retirement Savings Plan (RRSP) where the investment income is not taxed while in the account.

- *Your best investment strategy may be to pay down your debt (credit card, mortgage debt, etc).*
- If housing in your area is affordable, the best way to save might be through home ownership.
- If you've accumulated substantial savings or sold your home and wish to convert the savings into a lifetime pension, then you might wish to consider annuities.
  - Life annuities can be a helpful source of income during retirement, depending on one's personal circumstances, because they pay out a guaranteed monthly stream of income.

What is a Life Annuity?

- At retirement you can purchase a life annuity from a life insurance company by paying a lump sum (by transferring money from your RRSP or by using non-registered funds) and in exchange receiving a guaranteed stream of income (on a monthly or annual basis) that will last for life.
- While life annuities provide the peace of mind of having a guaranteed income during retirement, they have some drawbacks in terms of loss of access to your capital and reduction of the value of your estate.

What is an RRSP (Registered Retirement Savings Plan)?

- An RRSP is a retirement plan that is registered with the government. It allows you to save and all earnings are tax deferred. You do not pay tax on the money earned in an RRSP until the money is withdrawn from the plan.
- You can set up an RRSP account through a bank, credit union, trust, insurance, or investment company.
- Anyone under 71 who files a tax return with earned income can open an RRSP.
  - The amount you can put in it depends on your earned income in previous years.
- RRSP contributions are deducted from your total income for tax purposes, so contributing to an RRSP can actually reduce the amount of income tax you owe in that year.
  - **HOWEVER**, when you withdraw money from your RRSP, it ***is*** considered to be part of your income for that year and it is taxed that way.

What is an RRSP? (continued)

- You can choose what you want to invest your RRSP savings in. It could be a regular savings account, mutual funds, Guaranteed Investment Certificates (GICs) or other investment products.
- If your RRSP funds are held in a GIC then penalty charges may apply if money is withdrawn before the maturity date except under certain circumstances.
- An RRSP is **NOT** an emergency fund.

RRSPs are Not for Everyone

- Each person is different and has different circumstances. If you have a low income and an RRSP, you should seek professional advice from an organization familiar with the supports for lower income Canadians about whether to cash in your RRSP.
- If you are living on a low income with a limited pension, it may not be a wise choice to invest in RRSPs.
  - Once you withdraw money from your RRSP, it is considered additional income, and it may **reduce** the money you could receive from **government benefits**. For instance, Guaranteed Income Supplement (GIS) benefits are reduced as your income increases. Specifically, the GIS is **reduced** by 50 cents for every dollar of additional income, other than Old Age Security (OAS).
  - As well, RRSP withdrawals can **increase** your rent in subsidized housing.
  - If you are going to be eligible for GIS, you might want to cash out of your RRSP **before you turn 65, or at age 60 if you are widowed**.

What is a Registered Retirement Income Fund (RRIF)?

- By December 31st of the year in which you turn 71, according to government regulations your RRSP must mature. At that time you must convert your RRSP savings into a retirement income source or you will be taxed on the full amount. One option is to move your RRSP savings into a RRIF.
- A RRIF is a registered plan that holds money you transfer from your RRSP or other registered funds.
- Your money can continue to grow on a tax-deferred basis in a RRIF.
- However, you are required to withdraw a minimum amount each year from your RRIF, which will be taxable as income in the year of withdrawal.

What is a Tax Free Savings Account (TFSA)?

- Canadians aged 18 and older can save up to $5,000 every year in a TFSA for themselves.
- You do not have to pay tax on the investment earnings in this account.
- You are **not** taxed when you take the money out of this account.
- You can choose how to invest your TFSA savings. You can choose a regular savings account, mutual funds, GICs or other investment products.

Advantage of the TFSA for Low-Income Seniors

- When you withdraw money from your TFSA, it does not affect the government benefits you may receive such as GIS and GST credits.
  - This means that you can invest money in and withdraw money from your TFSA at any time and it will not reduce your income tested government benefits.

This is one of the series of Financial Literacy for Older Adults pocket tools. For more information about NICE tools or related training events, please visit **www.nicenet.ca**

Status of Women Canada | Condition féminine Canada

NCE RCE
Networks of Centres of Excellence of Canada | Réseaux de centres d'excellence du Canada
2005-2010

NICE National Initiative for the Care of the Elderly
Initiative nationale pour le soin des personnes âgées
We care together
Ensemble pour le bien-être des aînés

www.nicenet.ca

National Initiative for the Care of the Elderly
222 College Street, Suite 106, Toronto, Ontario M5T 3J1
Telephone: 416-978-2197 | Website: www.nicenet.ca