



# **Planning for a Secure Retirement-how does your LCC plan fit in?**

**October 2013**



# When to Start Saving

- Jill at age 19 puts \$1000 into an RRSP for eight years and then stops and doesn't contribute anymore.
- Jack at age 27 puts \$1000 into an RRSP each year for 38 years.
- Both earn a return of 10%.
- Who has more money at age 65?
- Jill - \$ 427,000                      Jack - \$ 364,000



# How much pre-retirement income will you need?

70%

- Financial Planners recommend *70%* to maintain your lifestyle in retirement

50%

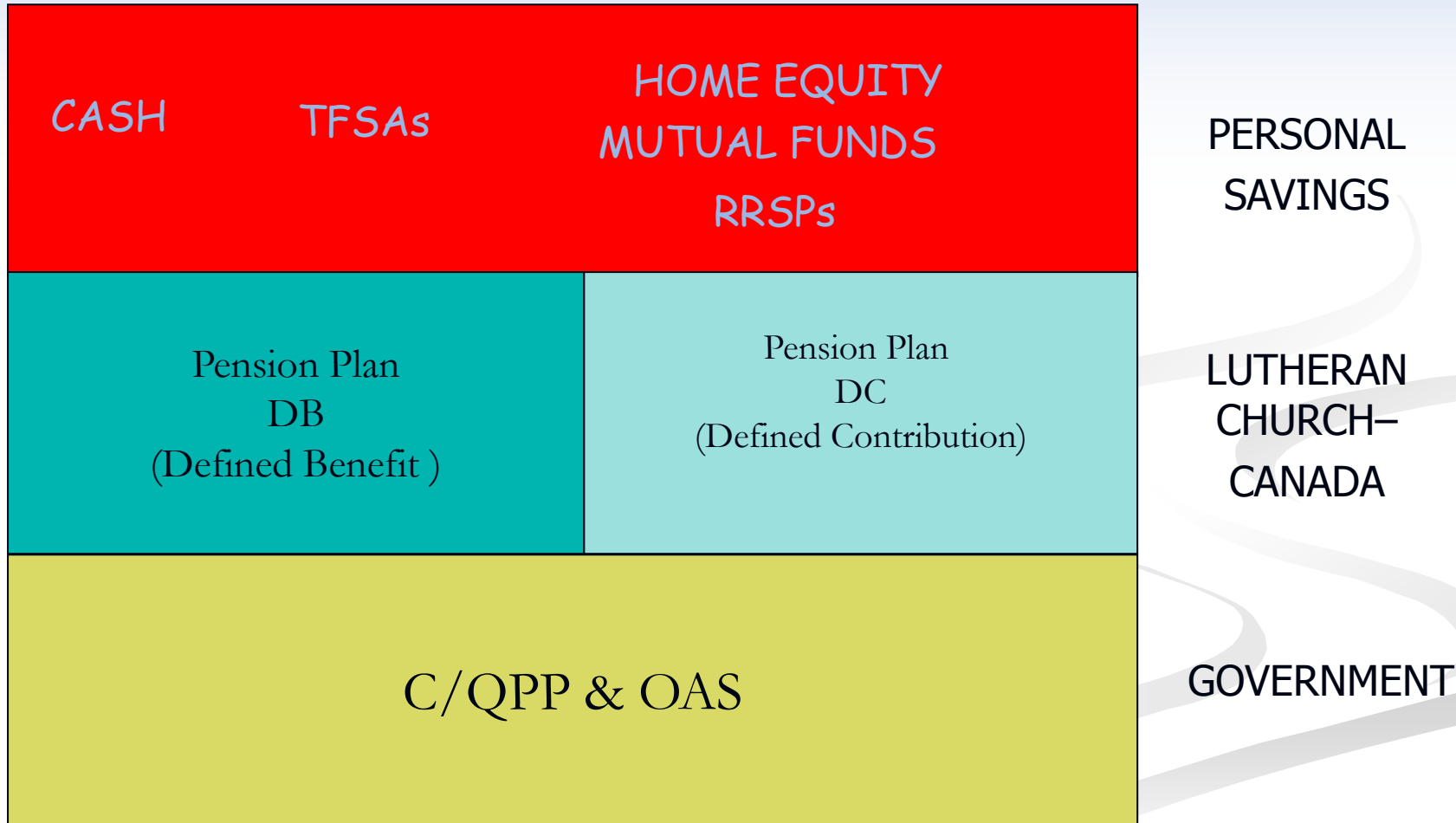
- Most retirees only need *50%* to live comfortably

100%

- You may need *100%* or more to live your dreams in retirement



# LCC Pension Plan - Sources of Retirement Income





# Old Age Security

- Monthly pension payable at age 65 ( \$546)
- Subject to residency requirements –full pension if 40 years of residence; a partial pension paid if have at least 10 years of residence at age 65
- Clawed back if net income above \$70,000; eliminated if net income in excess of \$114,600
- Subject to regular income tax
- Adjusted quarterly to changes in CPI



# Old Age Security continued

- Starting April, 2023 age of eligibility increases from 65 to 67 over a six year period
- Effective July 1, 2013 you can defer the start of your OAS by up to 5 years for a larger pension.
- Increases by .6 % per month for each month you delay to a maximum of a 36% increase at age 70.



# Canada Pension Plan

- Monthly pension payable at age 65 ( Maximum pension \$1012.50), taxable, increases by CPI
- Amount payable based on years contributed and earnings
- Designed to replace about 25% of earnings
- Pension reduced if taken before age 65 and increased if taken after age 65. Increased by 8.4% per year if pension commenced from age 65 to 70





# Government benefits – Replacement Ratio

<b>CPP</b>	<b>\$12,150</b>
<b>OAS</b>	<b>\$ 6,553</b>
<b>Total</b>	<b>\$18,703</b>
<b>Current Earnings</b>	<b>\$65,000</b>
<b>Replacement Ratio</b>	<b>29%</b>





# LCC Pension

- Both Defined Benefit and Defined Contribution pension plans will contribute to your retirement security.
- Defined benefit plan defines the benefit by a formula that considers earnings, service and the Canada Pension Earnings Maximum
- Defined Contribution defines the contributions going into the plan.



# DB Example

- Paul is 65 when he retires and has 20 years of service, his FAE are \$ 65,000 and the CPP earnings average is \$51,100
  - $1.6\% \times (\$65,000 - \$51,100) =$  \$ 222
  - $1.25\% \times \$51,100 =$  \$ 639
  - Equals \$ 861
  - Multiply by 20 \$ 17,220
  - Replacement Ratio = 26%



# Survivor Benefits

- Normal Form with spouse - Joint and 66 2/3rds Survivor, Guaranteed 5 years
  - Optional forms – Joint and 100% Survivor or Lifetime Pension, Guaranteed 10 years
- Normal form, no spouse – Lifetime Pension, Guaranteed 10 years
  - Optional form – Lifetime Pension, Guaranteed 5 years



# Defined Contribution

- Employers contribute 6% of pay
- Members contribute 4% of pay and may make additional optional contributions up to 4% of pay (contributions are tax deductible).
- Members choose investments from a suite of investment funds.



# Defined Contribution

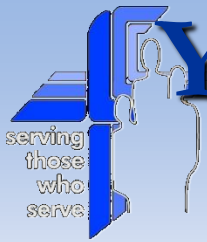
Assume employee earns \$65,000 and contributes for 20 years

Contribution	6% Return	8% Return
\$ 6,500 (10%)	\$ 239,106.	\$ 297,453
\$ 9,100 (14%)	\$ 334,748	\$ 416,434



# You can calculate how much money you will have

- Check out [www.getsmarteraboutmoney](http://www.getsmarteraboutmoney) – calculators –RRSP
- Funded by the Ontario Securities Commission
- Easy to use



# You can calculate how much money you will have

	Amount Saved			
Rate of Return	Contribution 10%	Annual Pension	Contribution 14%	Annual Pension
5%	\$ 451,084	\$ 28,875	\$ 630,852	\$ 40,382
6%	\$ 544,447	\$ 34,851	\$761,422	\$ 48,740
7%	\$ 661,224	\$ 42,326	\$ 924,738	\$ 59,194

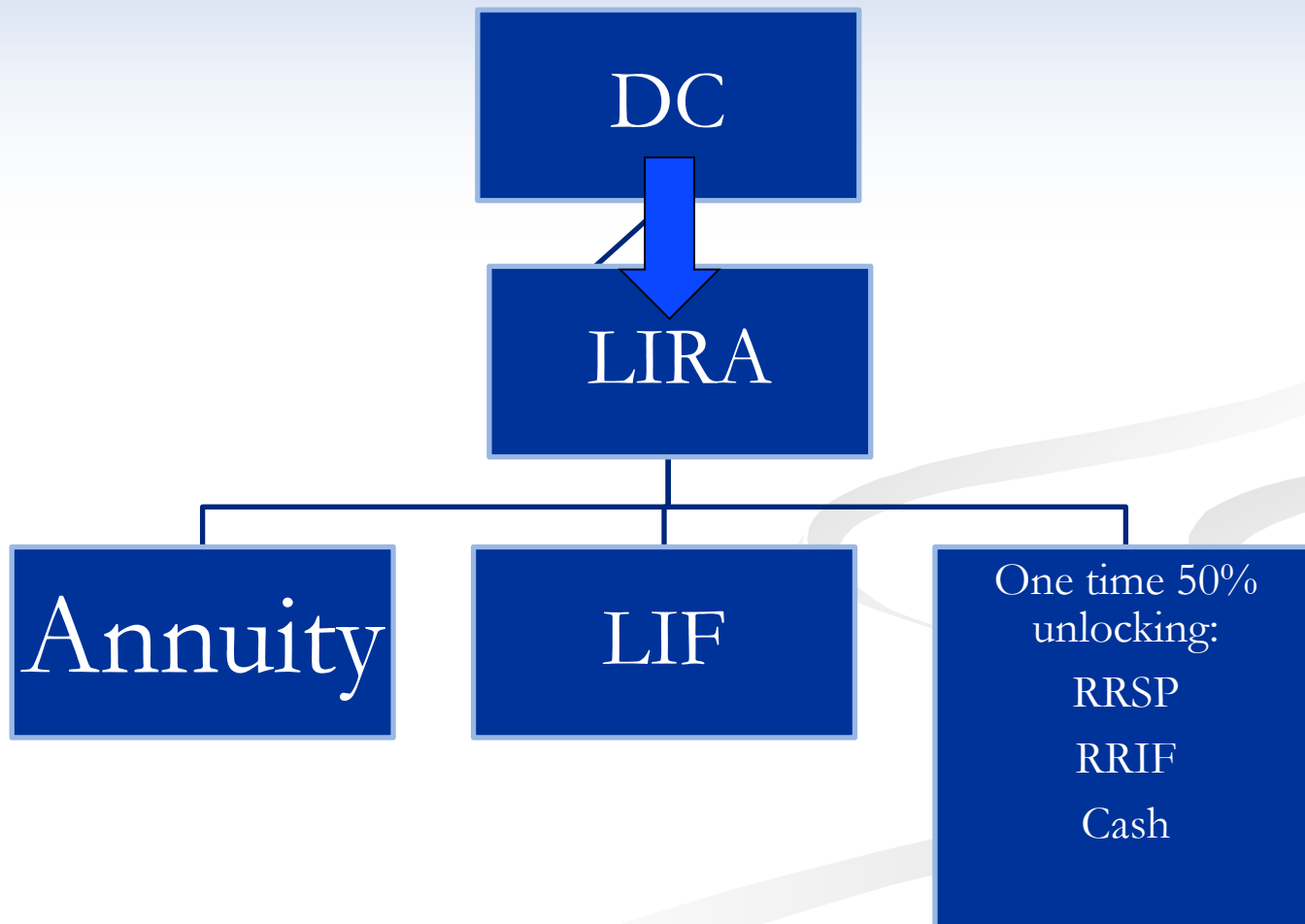
Numbers from [www.getsmateraboutmoney](http://www.getsmateraboutmoney) website

Assumes this member retires at age 65, earns \$65,000 annually and contributes for 30 years ( no salary increases assumed).





# DC Retirement Income Options





# What is an annuity?

- Similar to a pension; monthly pension payment for life in exchange for your pension money
- Available only at insurance companies
- Once chosen not typically reversible
- Applies 50+ in Alberta
- Pension Act requires that an annuity must pay a retirement income for life
- 60% of your annuity income must go to your spouse on your death (spouse may waive this)



# What is an annuity?

- Things that affect your annuity income:
  - Interest rates
  - Your age
  - Your gender
  - The options you add on (survivor benefits or guarantees)
- Cannot change the terms once contract is purchased



# What is an annuity?

- Taxable
- Guaranteed by Insurer – Assuris covers annuity payments up to \$2000 per month or 85% of payment (whichever is larger)
- Features
  - Life Annuity continues for life
  - Joint life or last survivor - includes your spouse
  - Guarantee Period length of time annuity payment guaranteed to be paid to estate.
  - Inflation Protection



# What is an annuity?

- Advantages
  - Regular flow of income
  - Do not need to worry about investments/ performance – investments controlled by insurer
  - Don't have to worry about outliving your retirement savings
- Disadvantages
  - Locked-in for life
  - Other investments may provide growth potential
  - Can't leave money to heirs



# What's \$ 100k worth

**Joint Life annuity –Male age 65 with Female spouse  
age 65**

	None	5 years	10 years	15 years
60%	\$ 466	\$ 464	\$ 459	\$ 449

**From the Sun Life annuity calculator on the Sun Life website**



# What's \$ 100k worth

## Guaranteed

	None	5 years	10 years	15 years
Male, age 65	\$ 541	\$ 536	\$ 520	\$ 495
Female, age 65	\$ 492	\$ 489	\$ 479	\$ 463

From the Sun Life annuity calculator on the Sun Life website



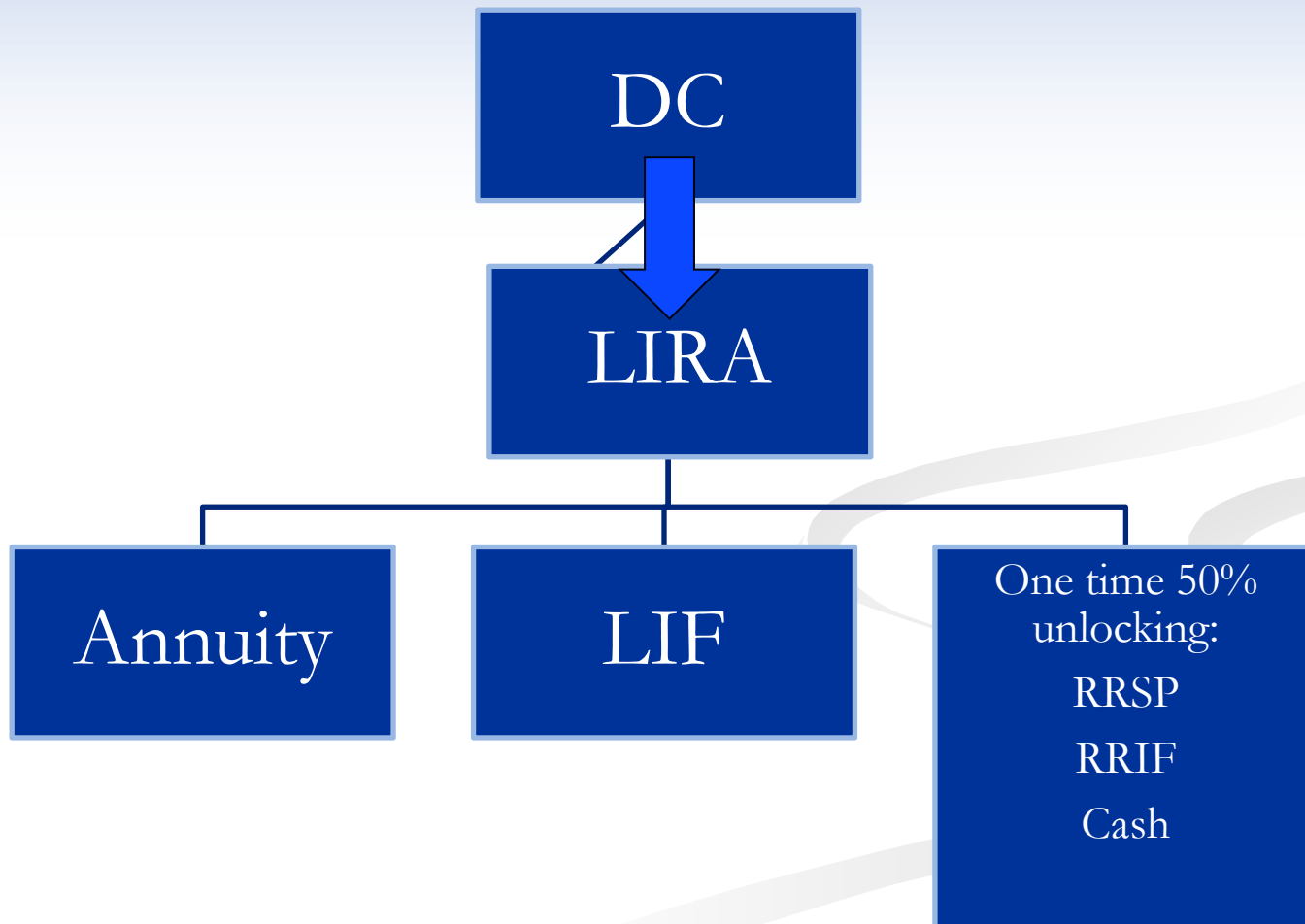


# Annuities

- Remember the employee who had contributions of 10% of salary for 20 years earning a 6% return. He had \$239,106 – that generates an annual income of \$ 15,306 according to the [getsmarteraboutmoney](http://getsmarteraboutmoney.com) website.
- Replacement ratio is 24%
- This is rough as it doesn't take into account survivor benefits for all sources of income.
- Total replacement ratio
  - Government Benefits 29%
  - DB Pension 26%
  - DC Pension 24%
  - Total 79%



# DC Retirement Income Options





# Life Income Fund

- Available at most financial institutions
- You continue to invest your funds on a tax deferred basis but you are not guaranteed a specific dollar amount of income.
- Income tax Act requires a minimum yearly payout (same as a RRIF); it is a % value of the fund as of January 1 based on your age or spouse age
- The province sets maximum and provides spousal protection.
- Cannot purchase a LIF unless spouse agrees to waive entitlement to a 60% joint and survivor annuity.



# Life Income Fund

- Annuity can be purchased at any time.
- Death Benefit – spouse can transfer to RRSP/RRIF/ or take cash (not locked-in). If no spouse, lump sum paid to beneficiary.
- Maximum withdrawals based on greater of government formula and investment gains from prior year.
- See Alberta Finance website for further information.



# **Life Income Fund –Minimum and Maximum Withdrawal at Age 65**

- Maximum withdrawals based on greater of government formula and investment earnings from prior year
  - Minimum - 4% of market value on January 1
  - Maximum - 8.22% (gov't formula – if investment gains greater they can be used)



# Life Income Fund-Advantages and Disadvantages

## ■ Advantages

- You control investments
- Estate Value

## ■ Disadvantages

- No guaranteed monthly amount
- May out live your funds



# Check these out

## ■ Sun Life website

- Annuity premium calculator
- Webcasts
  - Government Benefits
  - Drawing Income at Retirement
- Retirement Planner –helps you figure out if you are on track to meet your retirement goals

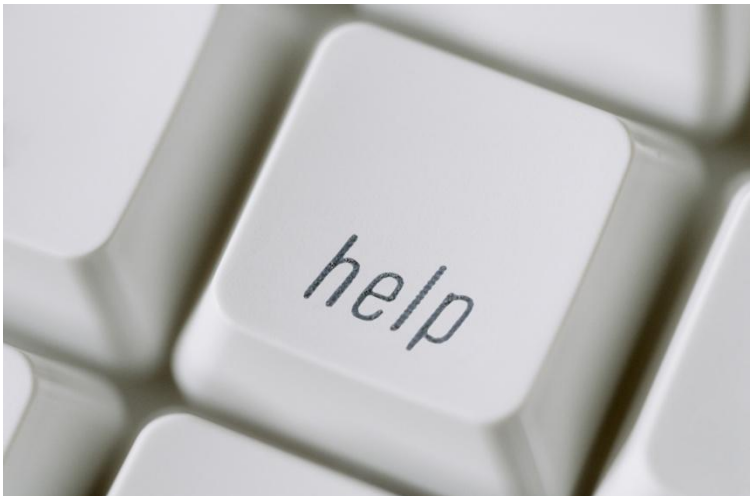




# Getting Help

## ■ Sun Life

- Phone: 1-866-733-8613 (Toll – Free) - (8:00am - 8:00pm Eastern Time.)
- Internet: [www.sunlife.ca/member](http://www.sunlife.ca/member)





# Questions





# Thank-you for listening!

