

How to align retirement assets with your life goals



Many workplace plan members can choose from several buckets of retirement income. They need a comprehensive plan to create a reliable paycheck when it's time to decumulate.

"The biggest challenge retiring plan members face is determining how to create a plan that can sustainably support their desired retirement lifestyle," says Eric Monteiro, senior vice-president, Group Retirement Services at Sun Life. "Plan sponsors are telling us they want to help their plan members navigate this chapter."

Last month in this decumulation series, we started to look at retirement income options. Now we'll dive deeper into what a plan member might own, what to do with it, and how plan sponsors can help by relying on the expertise of their plan providers.

A first step for plan members on this journey is determining those assets, says Dr. Moshe Milevsky, a professor of finance at the Schulich School of Business at York University in Toronto.

"Answering the question of 'what do I own?' is more complicated for individuals in their 60s and 70s compared with those starting out saving for their future in their 20s," says Dr. Milevsky, a leading authority on retirement assets and related planning issues.

Plan members might have two or three defined contribution (DC) accounts scattered around, a group or individual Registered Retirement Savings Plan (RRSP), a Tax-Free Savings Account (TFSA), individual investment accounts, Canada Pension Plan (CPP) and Old Age Security (OAS). Some people may even qualify for the Guaranteed Income Supplement (GIS) if their annual retirement income is below a certain threshold.

Once this accounting process is complete, the next step involves helping members determine their objectives for this capital. Generally, members fall into three groups, Dr. Milevsky suggests.

- One says "I want to live on the minimum amount so my kids get everything when I die."
- At the other end are members who basically say "I want to die broke, spending all my wealth in the most efficient way to have the highest standard of living possible in retirement."
- The third group is often the largest, falling somewhere on the spectrum between the two poles. Typically, these members want a sustainable retirement income to meet their needs, while leaving an estate for beneficiaries.

After this initial discovery comes the trickier part of retirement income planning. "Now, they have to align their assets with their goals," Dr. Milevsky says.



"The biggest challenge retiring plan members face is determining how to create a plan that can sustainably support their desired retirement lifestyle," says Eric Monteiro, senior vice-president, Group Retirement Services at Sun Life. "Plan sponsors are telling us they want to help their plan members navigate this chapter."



Life's brighter under the sun

Group Retirement Services are provided by Sun Life Assurance Company of Canada, a member of the Sun Life group of companies.
© Sun Life Assurance Company of Canada, 2022.



Minimizing risk

Some retiring members are fearful about planning missteps. One thing sponsors should make clear – with the support of plan providers – is the full picture of retirement income sources, including CPP, OAS or GIS.

Still, Dr. Milevsky notes retired individuals can withdraw too much from the wrong assets at the wrong time. Or they can select inappropriate investment strategies. Plan sponsors, members' financial advisors and Sun Life experts can help navigate these risks.

"The biggest value-add for members going through this big change is to work with a retirement consultant. Someone who can help them navigate the complexities of converting the nest egg they worked hard to build over their careers into income," says Christine Potvin, vice-president of the Client Solutions Centre at Sun Life.



"The biggest value-add for members going through this big change is to work with a retirement consultant. Someone who can help them navigate the complexities of converting the nest egg they worked hard to build over their careers into income," says Christine Potvin, vice-president of the Client Solutions Centre at Sun Life.



Understanding the rules, limitations and strengths of their workplace pension plans is essential. Many plans are DC, which will require shifting the plan to a life income fund (LIF) to generate income before the end of the year that individuals turn 71.

Members may have other options. For example, they may be able to unlock 50 per cent of their pension, shifting it to a RRSP or Registered Retirement Income Fund (RRIF), says Frank Pao, CFP, a retirement consultant¹ for Sun Life. This unlocking, if deemed suitable following a needs analysis, can offer flexibility, Pao says.

(This depends on where they reside. Rules permit unlocking in Alberta, Manitoba, and Ontario for instance, though not in B.C. or Quebec.)

Unlocking is potentially helpful, for example, because annual maximum withdrawal amounts don't apply to RRIFs.

Frank Pao says unlocking a portion, when possible, can be beneficial in the absence of other flexible individual assets such as a TFSA, non-registered savings and RRSPs. That's because individuals can draw more retirement income if needed.

One thing to remind members is that all withdrawals from registered accounts—individual or employer-sponsored—are considered taxable income. As a result, large withdrawals from unlocked assets may be taxed at higher marginal rates, depending on members' overall income in a given year. As well, pension income splitting with a spouse will affect taxes.

Another income option for consideration is converting a portion or all retirement savings to an annuity. Annuities ensure you will never outlive your savings, which creates a sustainable, predictable income, similar to that of a defined benefit pension.

That said, "annuities aren't very popular," Dr. Milevsky points out. The reason? Fixed income assets such as bonds underpin annuity income streams, and bond yields are very low due to the historically low interest rate environment.

Still, a guaranteed income from an annuity, layered with CPP, OAS and other assets (like a TFSA), may provide the right mix of cash flow for some retiring members.

Others prefer the flexibility of a LIF. It offers control over investments inside the account, and the amount of income they want to receive; appropriate levels of risk to hedge against inflation; and the ability for what remains upon death to be part of the estate.

Plan sponsors can help enlighten members on available investment strategies for the LIF, as well as on rules regarding annual minimum and maximum withdrawals.

¹ Registered as Financial Security Advisors in the province of Quebec.

New options on the horizon

Canada introduced legislation in 2021 to support two new lifetime income options: the Variable Payment Life Annuity (VPLA) and the Advanced Life Deferred Annuity (ALDA).

The VPLA will allow members to benefit from investment and longevity pooling. This results in higher streams of income in retirement, and offers protection from outliving their savings. The annual VPLA payments will vary each year based on the investment returns and longevity experience of the pool, but payments will continue for life.

The ALDA provides guaranteed lifetime income at a set amount starting at age 85, and also protects against outliving savings.

Additional legislation is still needed to make these options a reality. But it's encouraging to see more solutions coming to help members address this key risk.

Creating a plan

Members will need help creating a retirement income plan that considers how workplace pension income sources fit with other fully taxable sources, such as CPP, OAS, locked-in retirement accounts (LIRAs) from previous employers, and RRSPs.

Sun Life can help members build a comprehensive plan using advice of in-plan consultants alongside cutting-edge software. The combined strength of this approach can suggest tax-efficient strategies like pension splitting with a spouse and avoiding OAS claw-backs.

"Often, a plan aims for most spending to come from taxable registered accounts, while funding vacations and home renovations with non-registered savings and TFSAs," says Pao.

As Dr. Milevsky notes, encouraging members to get objective, expert advice is often the best guidance sponsors can provide. He says advisors play a similar role to a medical doctor, only with financial health instead of physical health.

"When it comes to understanding the rules surrounding retirement income, it's hard to Google an answer providing clarity for an individual situation," Dr. Milevsky says.

"No one thinks do-it-yourself surgery is a good idea. It's the same with retirement planning: people need professional advice."

Next up, what do the 2022 changes to the OAS pension mean for retirement and income planning? We'll examine that in the fourth instalment of this decumulation series.

“

"No one thinks do-it-yourself surgery is a good idea. It's the same with retirement planning: people need professional advice."

”

