TD - How to turn savings into income: Drawdown strategies for retirement (2025.02.05)

Course sources

- Retirement ready: Essential steps to get prepared
- How to turn savings into income: Drawdown strategies for retirement

YouTube

- **Five tips to help maximize your retirement income**
- **How I plan to optimize my portfolio drawdown in retirement**
- **Five things you can do to help safeguard your retirement plan**
- **How to estimate a safe amount of retirement spending**
- **Five tips to help maximize your Old Age Security (OAS)**
- **How to optimize your portfolio for a TFSA, RRSP and non-registered account**
- Three steps to building an estate plan in Canada
- **My plan to never run out of money in retirement**
- **How I'm simplifying my portfolio for retirement**

Retirement Calculators

- **CRA Canadian Retirement Income Calculator**
- TD Retirement Calculator

Budget / Cash Flow calculators

- **OSC Retirement Budget Calculator**
- OSC Retirement Cash Flow Calculator
- **TD Personal Cash Flow Calculator**

Other calculators

- OSC RRIF Withdrawal Calculator
- EY - Tax calculators & rates
- **CRA Pension income splitting**
- **CPP – When to Start**
- **OAS – Benefit Amount**

Slides

for you!

> "Drawing down one's savings in retirement is something very few retiree do well, even with the help of professional advisors."
> – Fred Vettese, Retirement Income for Life.

Four major steps in planning retirement income:

1. Establish spending goals
2. Identify investment savings and income sources to meet those needs?
3. Identify and manage potential risks to retirement income
4. Map a withdrawal plan

- A general rule suggests that retirement income should be about 60%-80% of your annual earnings.

Where will the money come from

What income will you use to fund your retirement?

- Here are some of the many places your retirement income can come from:
  - Personal retirement savings
  - Work pensions and locked in plans
  - Canada Pension Plan and Old Age Security
  - Part time work
  - Rental income
  - Proceeds from sale of primary residence

Source	Monthly	Annual	Annual Goal $72,000
Canada Pension Plan	$1,200	$14,400	$57,600
Old Age Security	$800	$9,600	$48,000
Work Pension	$2,500	$30,000	$18,000
Retirement Savings	$1,550	$18,600	$600 surplus

Key retirement risks to consider and potential ways to mitigate:

Longevity risk

The risk of outliving your savings and running out of money during retirement

Potential solution:

- Portfolio growth
- Withdrawal approach -4% rule
- Cover portion with pension or annuities

Inflation risk

The potential for rising consumer prices to erode purchasing power.

Potential solution:

- Indexed Pension or annuity
- Portfolio growth

Investment risk

Utilizing wrong mix of assets to ensure adequate growth of investments.

Potential solution:

- Adjust asset allocation
- Portfolio diversification

Sequencing risk

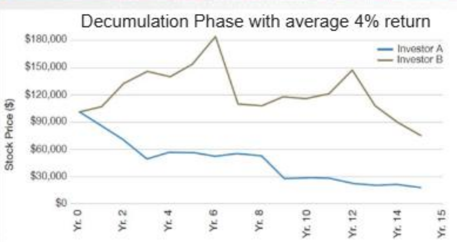
Selling in down times to support income needs.

Potential solution:

- Establish a cash wedge
- Use a bucket approach
- Adjust portfolio

A closer look at sequence of returns risk

During retirement saving different market conditions can result in same portfolio outcome (above)



During retirement spending market conditions can have a highly negative impact on the portfolio (bottom and right)

Hypothetical Illustration	Investor A's Returns	Investor B's Returns	Investor A's Market Value (withdrawing $5K/Yr.)	Investor B's Market Value (withdrawing $5K/Yr.)
Yr. 0			$100,000.00	$100,000.00
Yr. 1	-10.14%	11.39%	$84,860.81	$106,390.00
Yr. 2	-13.04%	29.30%	$68,792.68	$132,562.27
Yr. 3	-23.37%	13.40%	$47,718.61	$145,325.61
Yr. 4	26.38%	0.00%	$55,306.96	$140,325.61
Yr. 5	8.99%	12.78%	$55,280.97	$153,259.23
Yr. 6	3.00%	23.45%	$51,939.96	$184,198.52
Yr. 7	13.62%	-38.49%	$54,013.89	$108,300.51
Yr. 8	3.53%	3.53%	$50,920.35	$107,123.52
Yr. 9	-38.49%	13.62%	$26,323.25	$116,713.74
Yr. 10	23.45%	3.00%	$27,497.16	$115,215.15
Yr. 11	12.78%	8.99%	$26,012.04	$120,572.99
Yr. 12	0.00%	26.38%	$21,011.42	$147,380.15
Yr. 13	13.40%	-23.37%	$18,827.96	$107,937.41
Yr. 14	29.60%	-13.04%	$19,401.27	$88,862.37
Yr. 15	**11.39%**	**-10.14%**	**$16,611.19**	**$74,851.73**
Average Return for 15 Years	4.07%	4.07%		

That is a large difference, all dependent on the timing of drawdowns

Aim to avoid sequence of returns risk in the decumulation (spending) phase by lowering volatility, capital preservation and sustainable income. Higher yield, reduced risk and tax efficient income.

Source : https://www.guardiancapital.com/investmentsolutions/insights/retirements-hidden-risk-sequence-of-returns/

For illustration purposes only

The bucket approach

Consider a bucket approach for your portfolio as you near retirement:

How it works:

Size and holdings of each bucket determined by initial total and income required

Short-term – Income (1-5 years)

- Cash and short-term investments
- Withdrawals and emergency funds
- Reduce impact of short-term volatility

Medium term – Buffer (6-10 years)

- Income generating investments
- Low risk, low volatility equities for stable gains
- Buffer between cash and long-term bucket

Long term – Growth (10+ years)

- Growth oriented equity funds
- More volatile, higher potential for capital growth
- Aims to sustain the portfolio for later years

$360,000 portfolio:

Annual cash needed = $20,000

Emergency fund = $20,000

Short-term bucket = $80,000

3 years cash flow + emergency fund

Medium-term bucket = $120,000

6 years cash flow

Long-term bucket = $160,000

Remaining assets

Consider an RRSP Meltdown:

Purpose:

- Minimize taxation when drawing down RRSP/RRIF
- Shifting taxable investments to TFSA or lower tax options

2 methods:

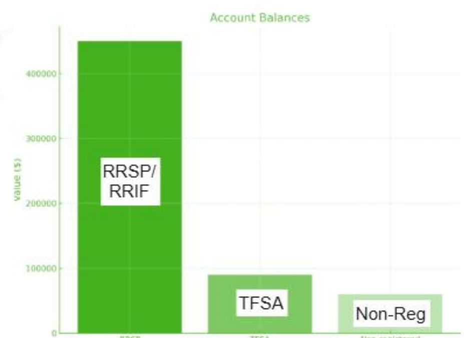
- borrowing to invest
- strategic withdrawal of RRSP/RRIF

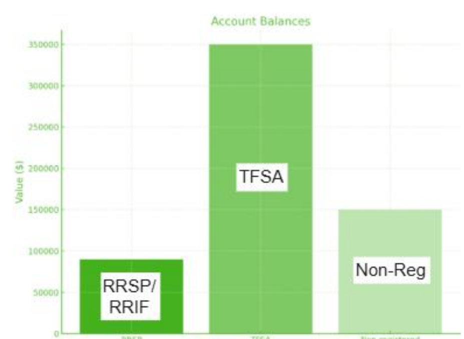
Withdraw during:

- periods of low income
- gap years before pension income

Control your tax bracket

- Maintain withdrawals within specific bracket

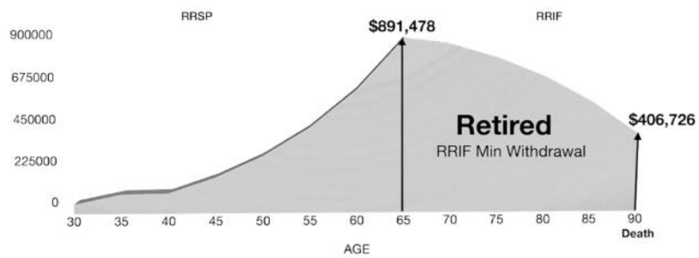




Have more left over for your family:

- Retirement at 65
- Converts RRSP to RRIF
- Withdraws minimum amount
- Result in large amount remaining in RRIF at death
- Rolls over to spouse – then to estate
- Entire RRIF + other income taxed w/in estate
- $406,726 – estate $ amount in highest tax bracket
- Potential tax payable to CRA -------------------→

RRSP to RRIF



$200,000+ one-time payment to CRA

Assumed regular taxable income of $100,000 at death, ON resident – calculated using https://www.blairfinancialservices.com/final-tax-bite-calculator/

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Chart and example sourced from Aaron Wealth Management https://www.youtube.com/watch?v=t10R4x_6e68

Potential ways to minimize taxes on retirement income?

- RRSP/RRIF meltdown
- Predictible tax bracket (avoid OAS clawback)
- Recognize how various investments are taxed
- Continue max contributions to TFSA
- Spousal RRSPs
- Income splitting on eligible pension income
- Pension income tax credit
- Estate management
- Life insurance

Can I be tax efficient?

Pension splitting example

Travis and Taylor have recently retired and are filing their taxes for the first time post retirement. Their retirement income is as follows:

Taylor	
Canada Pension Plan	$17,000
Old Age Security	$8,800
Work Pension	$24,500
RIF Income	$24,500
Total Annual Income	$74,800

Travis	
Canada Pension Plan	$9700
Old Age Security	$8,800
Work Pension	$0
RIF Income	$6000
Total Annual Income	$24,500

Since Taylor's pension income is higher than Travis, they can take advantage of **Pension Income Splitting** and allocate 50% of their RIF and Pension income, or $24,500, to Travis

Taylor's revised income $74,800 – $24,500 =$50,300
Travis's revised income $24,500 + $24,500 = $49,000

Income	Tax Amount	Total Tax Payable
$74,800	$14,014	$15,944 Before income split
$24,500	$1,930	
$50,300	**$7,103**	**$13,945** After income split
$49,000	**$6,842**	

With the revised incomes, Taylor's marginal tax rate drops from **29.65% to 20.05%,** and Travis's **remains the same at 20.05%.** This results in a tax **savings of approximately $2000.**

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Using 2024 tax bracket numbers

Next Steps

- Identify and estimate your sources of income
- Determine your timeline to start OAS and CPP
- Review your own bucket approach
- Consider an RRSP meltdown strategy
- Utilize available calculators to map out an income plan
- Develop a taxation and estate plan (consult professionals if needed)

… and keep learning from our Learning Centre

When do I take my government benefits?

Illustration of the impact on CPP and OAS based on starting age

Age	Reduction/Increase	Monthly CPP	Annual CPP	OAS Increase (delay results in 0.6% increase per month)	Monthly OAS	Annual OAS
60	60 months x 0.6% = -36%	$517.21	$6,206.52	N/A	N/A	N/A
61	48 months X 0.6% = -28.8%	$575.40	$6,904.80	N/A	N/A	N/A
62	36 months X 0.6% = -21.6%	$633.58	$7,602.96	N/A	N/A	N/A
63	24 months X 0.6% = -14.4%	$691.77	$8,301.24	N/A	N/A	N/A
64	12 months X 0.6% = -7.2%	$749.95	$8,999.40	N/A	N/A	N/A
65	N/A	$808.14	$9,697.68	N/A	$727.67	$8,732.04
66	12 months X 0.7% = 8.4%	$876.02	$10,512.24	12 months X 0.6% = 7.2%	$780.06	$9,360.72
67	24 months X 0.7% = 16.8%	$943.91	$11,326.92	24 months X 0.6% = 14.4%	$832.45	$9,989.40
68	36 months X 0.7% = 25.2%	$1011.80	$12141.60	36 months X 0.6% = 21.6%	$884.85	$10,618.20
69	48 months X 0.7% = 33.6%	$1079.68	$12,956.16	48 months X 0.6% = 28.8%	$937.24	$11,246.88
70	60 months x 0.7% = 42%	$1147.56	$13,770.72	60 months X 0.6% = 36%	$989.63	$11,875.56

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