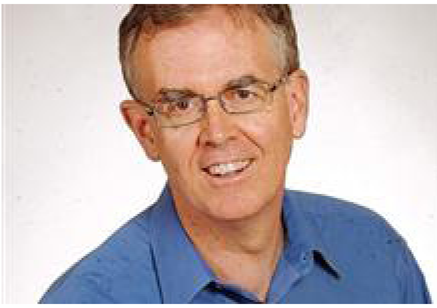

North Shore News Column.

Older & Wiser

By Tom Carney

Tax planning key to high retirement returns

IN my last column we got a hard lesson on financial planning

By Tom Carney, Special to North Shore News March 3, 2013

If you missed it, reader Ann (I've changed her name) wrote to me about her experience with her Registered Retirement Savings Plan. Ann put most of her savings into her RRSP.

Now that she is retired the withdrawals she is required to make from her Registered Income Fund have put her into a higher tax bracket and resulted in the loss of certain income-tested benefits.

Her message was that when it comes to planning for your retirement, "Don't put all of your eggs in one basket.

Since the column appeared I've heard from seniors and financial planners alike. Ann worked for an accounting firm and was advised to put most of her savings into her RRSP.

The conventional wisdom is that you should sock away as much money as you can in your RRSP when you're working full time and take it out when you have less income and you're in a lower tax bracket.

Ann assumed that she would be in a lower tax bracket after she retired. A lot of people make that assumption but it is often not true. In fact, on average when you include claw backs on several income-tested benefits for seniors, the income tax on seniors is almost 50 per cent higher than on adults under the age of 65.

What to do? In an email to me, David Gowman, a local independent consultant, suggests that seniors max out their RRSPs and then invest the tax savings in a Tax Free Savings Account (TFSA).

Almost half of those who are eligible have a TFSA but according to a recent survey four out of 10 people don't know the difference between a RRSP and a TFSA.

Stick with me here, I will try to make the distinction simple. With an RRSP you get a tax break up front and you pay tax on withdrawal. The TFSA reverses the process. There is no tax break for making the contribution but you don't pay any tax on the investment income at withdrawal.

There are three obvious benefits for seniors with respect to the TFSA. Unlike an RRSP, neither income earned within the TFSA nor withdrawals from it affect eligibility for federal income-tested benefits like Old Age Security, the GST Credit, the Guaranteed Income Supplement and the Age Credit. There is no maximum age restriction for TFSAs, while RRSPs must be closed by Dec.
31 of the year an individual turns 71. Finally, there is no age limit when a TFSA must be closed, nor is there a

minimum amount that must be withdrawn from the plan in retirement.

Is a TFSA better than an RRSP? That's probably the wrong question. It isn't black and white. RRSPs can be an effective tax planning tool for seniors. It all comes down to your individual circumstances.

Of course if you have the funds and are eligible, you can contribute to both an RRSP and a TFSA. A tax accountant can help you decide what's best for you.

The lesson here? Tax planning needs to be an integral part of everyone's retirement plan.

I'll give the last word to Mr. Gowman.

"Looking back through the prism of more than 40 years in this business, I can say truthfully that . . . those who lived to enjoy long peaceful and secure retirements did so by keeping things simple, staying conservative and never forget-ting that the safest place to live is within our own income."

Tom Carney is the executive director of the Lionsview Seniors' Planning Society. Ideas for future columns are welcome. Contact him at 604-985-3852 or send an email to lions_view@telus.net.