

Millions need help consolidating assets

Brenda Craig / September 14, 2010

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As a financial planner and actuary, William Jack has seen the future. Depending on how the boomers manage and spend what they've accumulated the picture ranges from grim to not bad. "One man told his children, 'I plan to spend the last penny on the day I die and I hope the check for the funeral home bounces'," says Jack from his home in the beaches in Toronto. "That's fine dad," said his son. "Just don't get the date wrong."

That's one approach for sure but preparing for retirement, pulling together all the RRSP accounts, public and private pension plans, the stock and bond portfolio takes time and expertise most boomers don't have.

Another of Jack's clients pulled a chunk of money out of an RRSP to build a dream kitchen, only to realize too late that he had to pay tax on the withdrawal to fulfill his fantasy cost double what he had budgeted for. Whoops. He should have gathered together all his assets and been briefed on the rules first.

"The days when you can sit down at the kitchen table with a notepad, a pencil and an eraser and figure this all out are long gone," says Jack, a partner with the fee for service retirement planning firm Longhurst and Jack.

"The real issue is to understand what your fixed expenses are and what your discretionary expenses are," says Jack. "If you have a defined benefit plan that pays all your fixed expenses, then you're in very, very good shape," says Jack.

Consolidate, protect and reduce taxes

Sterling Rempel advises dozens of clients every year and the first step is always consolidation of assets. "It is very important for an advisor to know where things are in terms of asset allocation," says Rempel, a certified financial planner at Future Values Estate and Financial Planning in Calgary. "We need an overview of how much is there and what kind of income it can generate."

"What we try to do is set up a self-directed RRSP or locked in RRSP or Life Income Fund (LIF) that can hold most or all of their assets," says Rempel. "Then we can coordinate the asset allocation as well as the timing and amounts of retirement income they are planning for." Jack agrees. "This is an opportunity to take all these plans to collapse all these plans and fold them into one—clients shouldn't have more than two or three statements to look at every month," says Jack adding that there are significant tax advantages to be had as well.

Defined benefits pension plans in this country have largely gone the way of the dodo, at least in the private sector. But if a client is lucky enough to have one, they can opt to have the pension paid

directly to them, or they could use the once in a lifetime opportunity to unlock a percentage of that plan says Rempel in Calgary.

“The best move is to control the timing of that income so we unlock 50%, which is the maximum the rules allow, and turn it over to an RRSP or RIF,” Rempel says. Discharging some of that pension money to an RRSP could provide significant tax savings and protect the clients Old Age Security (OAS) benefit. “They may find they have too much income,” says Rempel. “They could pay taxes needlessly—or lose their OAS because their income has been forced up because they have not taken advantage of those provisions.”

And those government cheques are well worth protecting. “The government benefits are significantly better than most people realize,” says Jack. “CPP is fully funded for the next 75 years—it is not going to run out as some people think. And a couple with full OAS and CPP benefits combined is worth about \$32,000 or \$34,000 and it’s fully indexed.”

Both Jack and Rempel work with other professionals like brokers and lawyers when helping clients plan for retirement, and they recommend clients take a conservative approach to investing.

And get help

“The first thing I do with new clients is congratulate them on making the decision to consolidate accounts,” says Rempel. “It is a big mistake for individuals not to seek professional advice at retirement time,” adds Rempel. “They need someone to look over their accounts so they can maximize income and reduce taxes.”

“And part of the job is managing human behavior,” Rempel believes. “People are susceptible to feelings of fear and greed,” he says. “That can lead to ill-timed and poorly thought-out decisions that are based on emotion rather than financial realities.”

