



Lisa is in her peak earning years (early fifties) although she jokes the peak seems to be more of a hump in her case. As an elementary school teacher, Lisa can look forward to a defined benefit pension when she makes it to the magic number (age plus her years of service equals 90). A recent statement from the pension office indicates her earliest unreduced pension qualification date would be on her 60th birthday. The monthly pension benefit offered at age 60 is \$2,650 (\$31,800/year).

Lisa meets with Marcus, a financial planning professional, who asks about the lifestyle she envisions for herself in retirement. Lisa says she would like to travel extensively, renovate her condominium and learn to fly small airplanes but realizes her pension may not be adequate to finance these goals.

Marcus says regular RRSP contributions could help but these would be limited by the pension adjustment resulting from participation in the defined benefit plan at work. Currently, Lisa has no registered investments preferring instead to save any surplus cash in Canada Savings Bonds (CSB). She has \$45,000 in CSBs at the bank.

Marcus conducts a thorough review of Lisa's attitudes toward investment risk, which indicate she can easily tolerate a medium-risk approach. He recommends that she try to achieve a higher rate of return and invest more tax-efficiently by selling \$25,000 of the CSBs and re-investing the proceeds for growth in a Tax Free Savings Account (TFSA) and supplemental Registered Retirement Savings Plan (RRSP) immediately. He lays out the following strategy to allocate the remainder of the CSBs and some surplus employment income to an eight-year savings programme designed to achieve her retirement goal.

SUPPLEMENTAL RETIREMENT FUNDING STRATEGY

Current age: 52 years
Retirement age: 60 years
Difference: 8 years

TFSA contributions: \$20,000 (initially, then \$5,500 per year subsequently)
Expected rate of return: 6.4% (FPSC L/T growth rate for Canadian equities)
Future value of TFSA: **\$88,076**

RRSP contributions: \$4,000 (annually)
Expected rate of return: 6.4% (FPSC L/T growth rate for Canadian equities)
Future value of RRSP: **\$46,733**

Total registered contributions: **\$90,500**
Total value of income stream: **\$219,900** (paid over the time frame: ages 60 to 90)
Total value of growth: **\$129,400** (over the life of the plan: ages 52 to 90)

CONCLUSIONS:

- Lisa will augment her retirement income stream by approximately **\$7,330** per year by:
 - 1) Increasing her investment returns, from the current 1.5% interest rate offered on the CSBs, to an equity strategy with a return rate of 6.4%.
 - 2) Adopting a disciplined approach to retirement saving.
 - 3) By utilizing tax-efficient investment accounts, Lisa will lower her future tax bill. Since approximately 65% of the retirement income stream will come from her TFSA, Lisa will only pay income tax on the remaining 35%.
 - 4) Retirement income from a TFSA does not affect income-tested government benefits such as OAS or the GIS.