

## Retirement Investing Approaches

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After spending likely 15 – 30 years focused on building an investment portfolio, it can be quite a challenge to switch gears when it comes time to withdrawing income from a retirement portfolio. This change leads to new ways of looking at investing as well as re-assessing habits that have been honed over decades.

Many retirees looking to generate income from investment assets often think that they can make withdrawals from their investment portfolio while also continuing to grow the assets over time. This is generally a tough goal to achieve.

If retirement money is mostly held in registered funds (RRSPs and LIRAs), then you will be required to pull out a minimum prescribed amount as set out by CRA guidelines. This amount generally starts out around a 4%-5% minimum of the annual starting capital and then slowly rises every year during your retirement years.

Whether you are able to grow your assets during your retirement will depend entirely upon the total portfolio returns, minus the actual yearly amounts you must withdraw based on the tax rules. The CRA has been patient for many decades and they now want to receive some tax revenue when tax-deferred capital is annually withdrawn.

Remember, you have had the privilege of growing your assets on a pre-tax basis for many decades with no tax payable on any capital gains or income earned in your RRSPs etc. This tax-deferral has allowed you to grow a large capital base without having to pay tax annually on any gains.

So, the "retirement challenge" is generating investment returns annually that are greater than the minimum withdrawal requirements while still having additional growth to increase your overall capital account value?

Based on your decision about your retirement income needs, you can then determine your investment strategy during your retirement years – years that could last as long as 20 years or more. A couple, both retiring at age 65, has a 50% chance of having one of them live to age 90 or beyond - according to life insurance industry actuarial statistics.

One approach is a growth strategy where you continue to invest like you did during all the previous decades when you were in your accumulation phase of life. This strategy will include accepting more investment risk than a conservative (GIC) investor would normally be willing to take on. This plan could include using growth equity investments for example. The target rate of return could be set at 6% or better (after fees) in order to both grow the account value while also meeting the minimum withdrawal levels for each age over 65.

The other approach is to manage your investment portfolio to have enough capital and income to meet your lifestyle needs only for the balance of your life. With this plan, the best-case scenario is where you see some growth in the total value of your assets, but the most likely outcome is that your total retirement assets remain flat over time. This means you would be earning somewhere around 4% - 5% per year which would be just enough in most years to cover the minimum required withdrawal amounts.

Other conservative investors may be content to earn a little less investment return and see the value of their capital deplete slowly over time – perhaps at a rate of a couple of percent per annum.

This second phase of life where investors are drawing income from a portfolio (to replace earned employment income) is known as the "de-cumulation phase". Because of these differing investing strategies, it is important to decide what kind of investor you wish to be in retirement.

[Please call us](#) [1]if you have questions about your retirement income needs.

Wishing you all the best of the Holiday Season. May you and your family have a happy, prosperous and healthy

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New Year.

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