

Decumulation Checklist

AN ADVISOR'S GUIDE



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The Advisor Guide to the Decumulation Checklist



Decumulation planning refers to the strategic allocation of retirement assets to achieve a client's income and estate goals. It's much more complex than accumulation planning because your client must now decide how much and in what order they will spend the different assets they have accumulated.

To add value, you will need to understand what matters most to the client. Are they interested in preserving the value of their estate, or maximizing their ability to spend? How long do they need their money to last and what criteria will they use to measure the value of your recommendations? Make the wrong assumptions when recommending a decumulation strategy and you risk costing your client hundreds of thousands in lost wealth over their lifetime.

The following questions will help to clarify what matters most to your client when spending what they have taken a lifetime to accumulate.

Analysis





When planning for my retirement, I am most interested in...

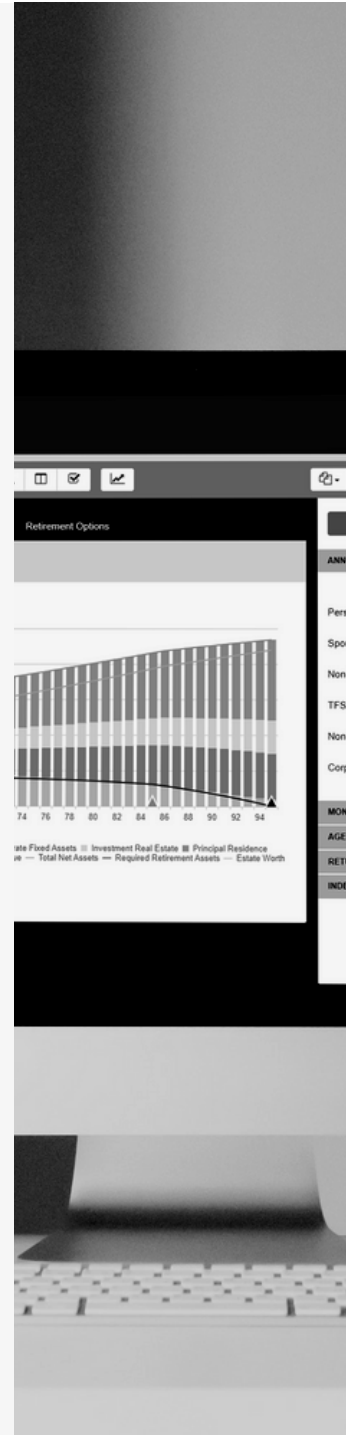
- A. The after-tax estate value that my heirs will receive when I am gone.
- B. The value of my investments to support future discretionary spending.
- C. The amount I can spend each year to support my lifestyle.

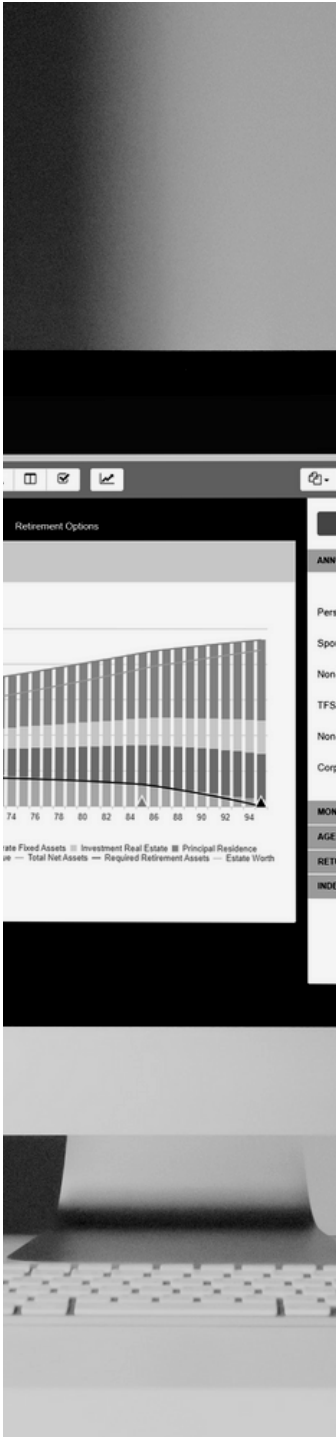
There are 3 basic goals people have when planning retirement income. These include maximizing the value of their estate by reducing terminal tax. Maximizing discretionary spending to distribute estate assets while living. And, maximizing spending in retirement while leaving a nominal estate.

Optimizing decumulation can enhance all 3, but there can only be a focus on one outcome. Simply put, the more a client spends on lifestyle, the less they will have to leave as an estate and the greater the goal for an estate, the less they will be able to spend on lifestyle.

Suggested action for answer A:

- Clients that are most interested in leaving an estate may want to draw down on registered assets first to reduce income tax on their terminal return.





- Using RazorPlan with Decumulation: In the Decumulation Settings, set data point **Optimize For Maximum to Estate**. This setting will generally reduce terminal income tax and provide the best result for enhancing estate value.

Suggested action for answer B:

- Clients that are most interested in discretionary spending may want to start RRIF minimum income at retirement and withdraw from non-registered to support discretionary spending.
- Using RazorPlan with Decumulation: In the Decumulation Settings, set data point **Optimize For Maximum to Net Worth**. This setting will generally reduce annual income tax and provide the best result for enhancing net worth.

Suggested action for answer C:

- Clients that are most interested in maximum spending in retirement may want to minimize annual income taxes to enhance the tax-sheltered growth of registered assets.
- Using RazorPlan with Decumulation: In the Decumulation Settings, set data point **Optimize For Maximum to Net Worth** and set data point **Optimize At Client Age** to equal **Life Expectancy**.



This setting will generally provide the largest amount of after-tax income over the life of the plan.

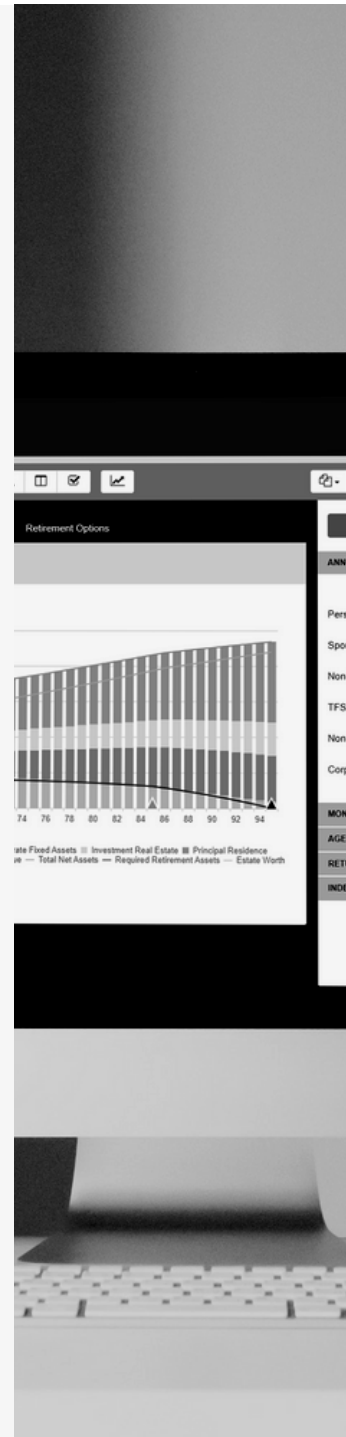
My retirement planning horizon should maximize over-all value if...

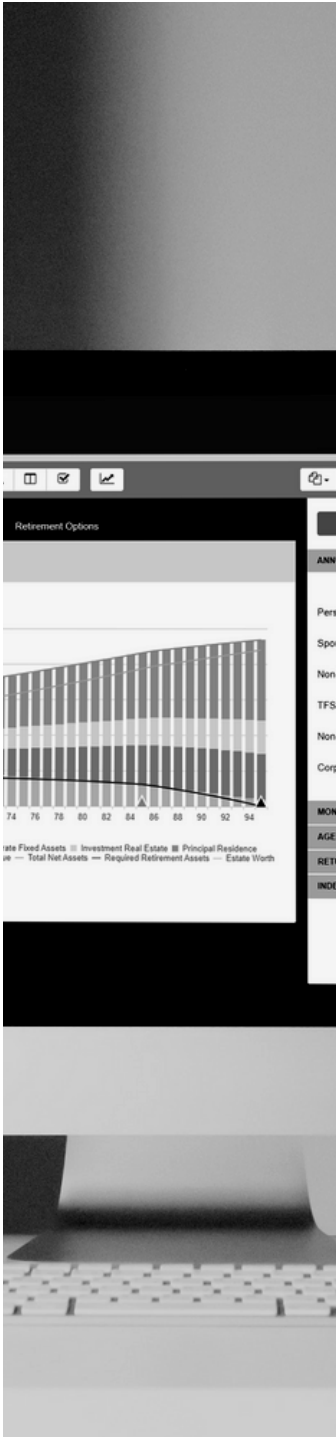
- A. I live to between age 90 and age 100.
- B. I live to between age 80 and age 90.
- C. I live to between age 70 and age 80.

The FP Canada Projection and Assumptions Guidelines suggest that a couple age 65 have a 30% chance that one person will live to age 97. Although many financial advisors will assume life expectancy at age 95 to 100 to reduce longevity risk, when recommending a decumulation strategy, you should optimize values to an age that aligns with the client's goals.

Suggested action for answer A:

- Clients that expect to live to between the ages of 90 and 100 will see value in strategies that reduce the risk of outliving their money in retirement.
- **Using RazorPlan with Decumulation:** In the Decumulation Settings, set data point **Optimize At Client Age** to age **95**.





This age setting will generally recommend a strategy that defers CPP and OAS to an age between 68 and 70, resulting in the best long-term results for the client.

Suggested action for answer B:

- Clients that expect to live to between the ages of 80 and 90 see value in strategies that provide a more balanced approach to decumulation.
- **Using RazorPlan with Decumulation:** In the Decumulation Settings, set data point **Optimize At Client Age** to age **85**. This age setting will generally recommend a strategy that defers CPP and OAS to an age between 65 and 67, resulting in the best overall results for the client.

Suggested action for answer C:

- Clients that expect to live to between the ages of 70 and 80 see value in strategies that provide early results.
- **Using RazorPlan with Decumulation:** In the Decumulation Settings, set data point **Optimize At Client Age** to age **75**. This age setting will generally recommend a strategy to start CPP and OAS as soon as possible, resulting in the best short-term results for the client.



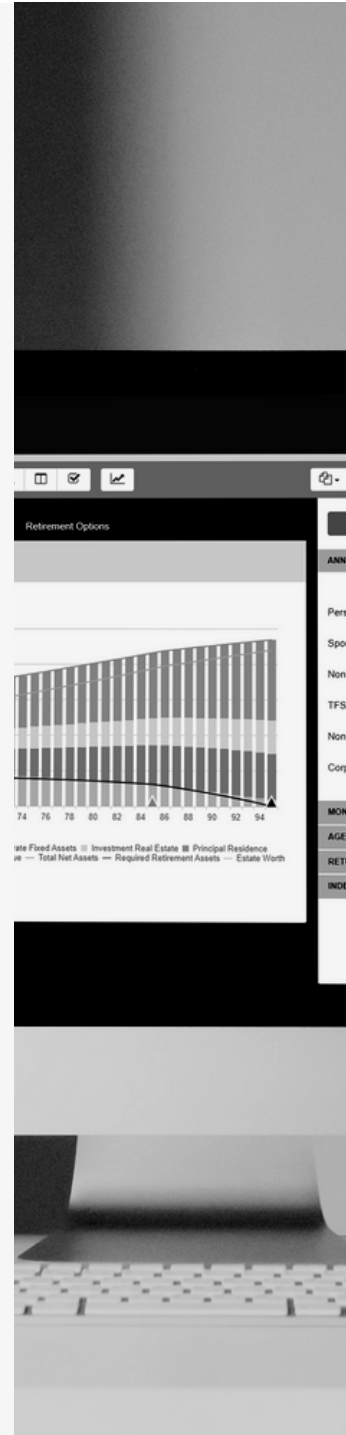
When deciding on the best decumulation plan to implement...

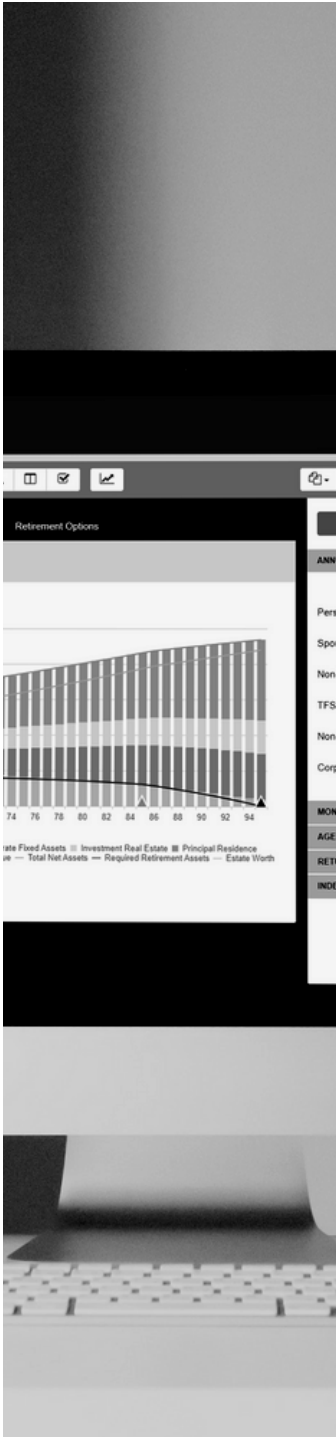
- A. I am most interested in the long-term results.
- B. I am most interested in the overall results.
- C. I am most interested in the short-term results.

The age a client thinks they will live to does not always align with how they will value a decumulation plan. Many clients will exhibit signs of FOMO, or the Fear of Missing Out, when a plan suggests deferring government benefits to take advantage of the enhanced lifetime income. The answer to this question will help you address any concerns your client may have with your recommendations.

Suggested action for answer A:

- Clients that are interested in the long-term results may be less impacted by FOMO, provided that the long-term results are measurably better than other strategies.
- Confirm that this answer does not conflict with the client's retirement planning horizon in the previous question.





If it does, you may need to discuss it in greater detail before making any recommendations.

Suggested action for answer B:

- Clients that are interested in the overall results may want strategies that offer a more balanced approach, limiting the downside in the early years while providing favorable long-term results.
- Confirm that this answer does not conflict with the client's retirement planning horizon in the previous question. If it does, you may need to discuss it in greater detail before making any recommendations.

Suggested action for answer C:

- Clients that are interested in short-term results may be more willing to implement strategies that help to reduce FOMO, even if that means long-term results are negatively impacted.
- Confirm that this answer does not conflict with the client's retirement planning horizon in the previous question. If it does, you may need to discuss it in greater detail before making any recommendations.

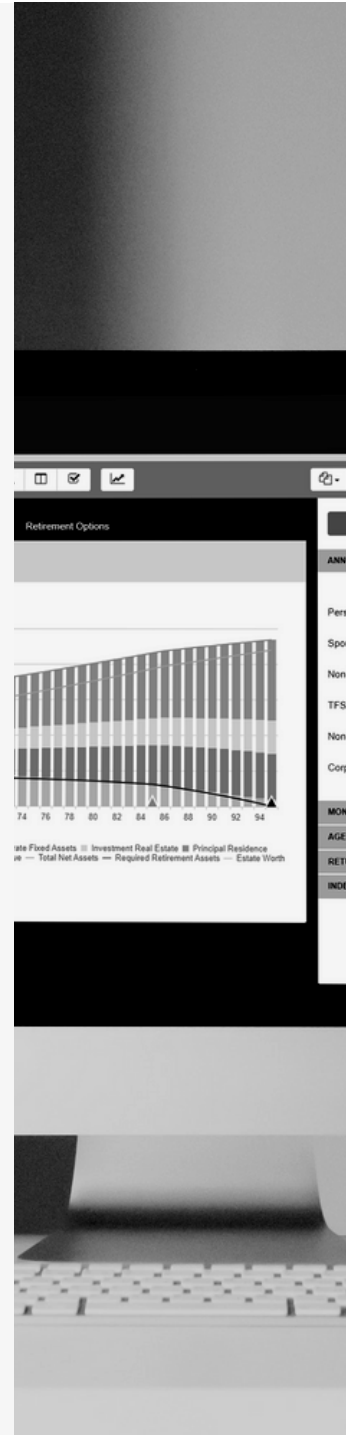


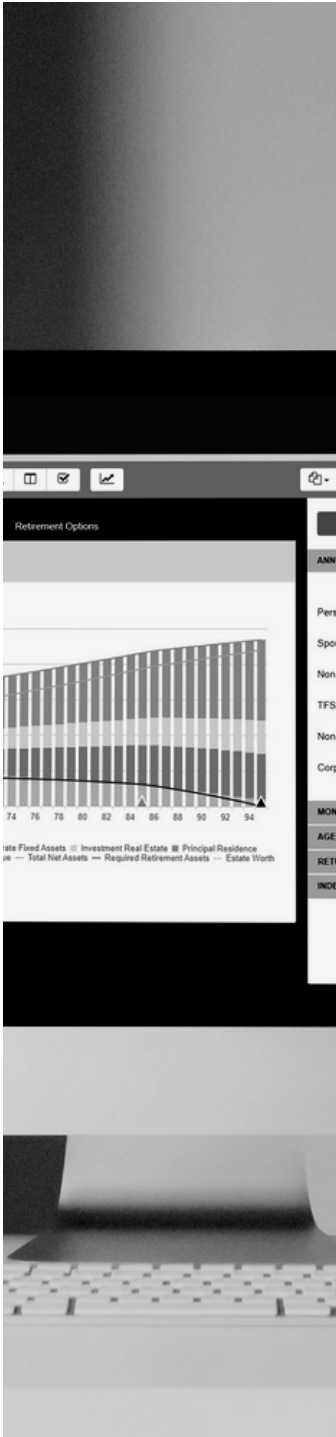
I plan to apply for Canada Pension Plan (CPP) benefits...

- A. I am currently receiving my Canada Pension Plan benefits.
- B. As early as age 60 with a reduced benefit because I might not live long into my retirement.
- C. At age 65 to get 100% of my annual benefit entitlement.
- D. As late as age 70 to increase life-time benefits and reduce the risk of outliving my savings.

The amount of CPP benefit your client is entitled to is based on how much they have contributed and how long they have been making contributions to the CPP at the time they become eligible. The standard age to begin receiving CPP is the month after their 65th birthday. However, 90% of people start taking benefits before age 65 and the average CPP recipient receives just 55% of the maximum entitlement.

An effective decumulation plan should include optimizing the age to begin CPP benefits based on overall goals and what matters most to the client.





Suggested action for answer A:

- Clients that indicate they are currently receiving CPP benefits can cancel their benefits up to 12 months after they start receiving it. They must request the cancellation in writing to Service Canada and pay back all the CPP income they have received.
- For clients that have received 12 or less months of CPP benefits, ask them to complete the CPP/OAS Checklist from the Essential Decumulation Toolkit to determine if stopping benefits would add value to the decumulation plan.
- Using RazorPlan with Decumulation: For clients that have received more than 12 months of benefits, in the Decumulation Settings, Uncheck data point Calculate CPP Start Age. This will prevent Decumulation from optimizing the client's CPP start age.

Suggested action for answer B:

- Clients that plan to start CPP benefits as early as age 60 may not be aware of the lifetime cost of starting benefits before age 65.



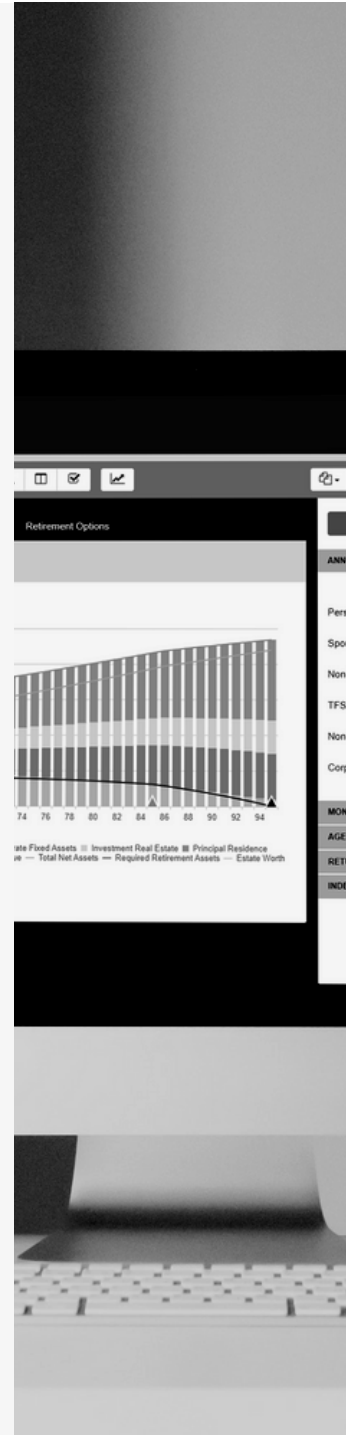
- Ask the client to complete the **CPP/OAS Checklist** from the Essential Decumulation Toolkit and review all **Yes** answers with them to highlight why it is important to optimize CPP benefits as part of a comprehensive decumulation plan.

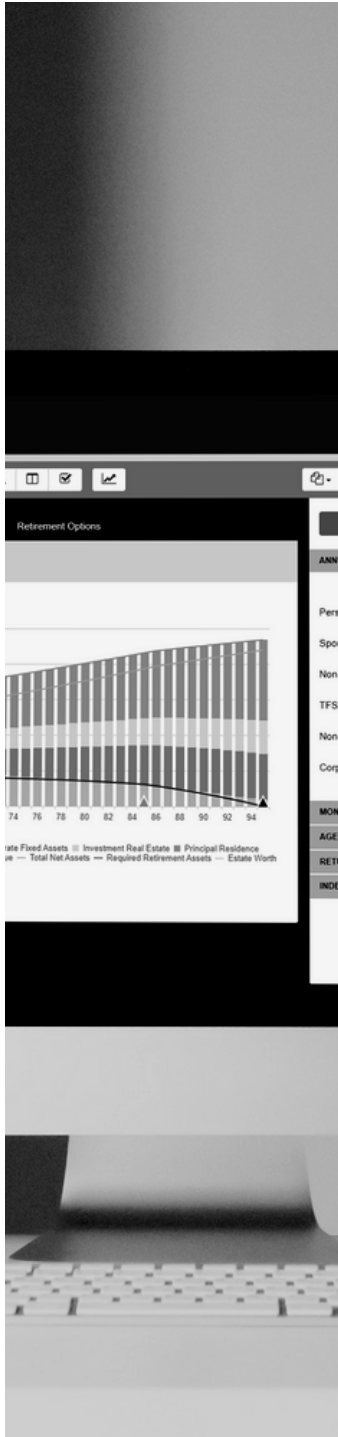
Suggested action for answer C:

- Clients that plan to start CPP benefits at age 65 may not be aware that they can receive 42% more if they defer starting benefits to age 70.
- Ask the client to complete the **CPP/OAS Checklist** from the Essential Decumulation Toolkit and review all **Yes** answers with them to highlight why it is important to optimize CPP benefits as part of a comprehensive decumulation plan.

Suggested action for answer D:

- Clients that plan to defer CPP benefits to age 70 likely know they will receive 42% more than if they start benefits at age 65.





- **Using RazorPlan with Decumulation:** In the Decumulation Settings, make sure the data point **Calculate CPP Start Age** is **Checked**. This will optimize CPP start age to determine if 70 is optimal based on the goals and what matters most to the client.

I plan to apply for Old Age Security (OAS) benefits...

- A. I am currently receiving my Old Age Security benefits.
- B. As soon as I am eligible at age 65 because the rules may change in the future.
- C. At an age that reduces the risk of having my benefit entitlement "clawed-back".
- D. As late as age 70 to increase life-time benefits and reduce the risk of outliving my savings.

The OAS pension is a monthly payment available to Canadians aged 65 and older who meet the legal status and residence requirements. Your client can elect to defer receiving their OAS pension for up to 60 months (five years) after the date they become eligible in exchange for a higher monthly amount.

An effective decumulation plan should include optimizing the age to begin OAS



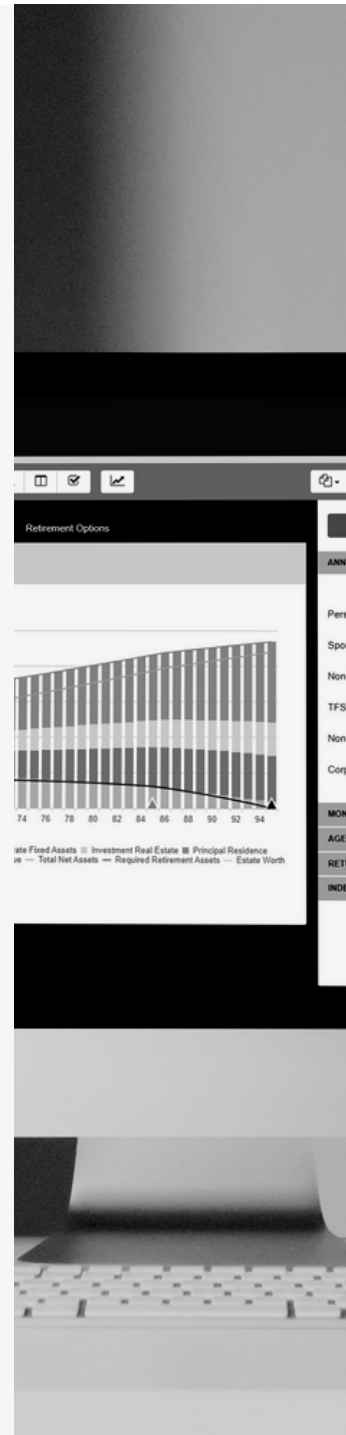
pension based on overall goals and what matters most to the client.

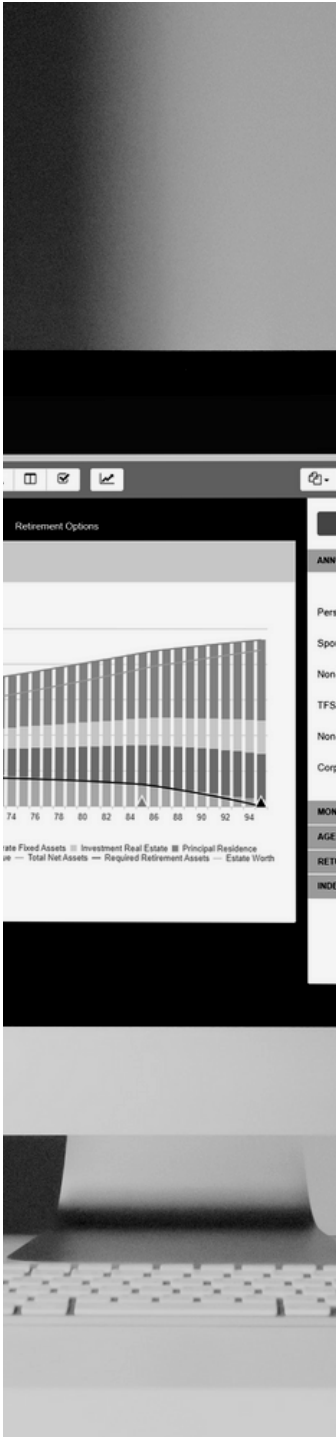
Suggested action for answer A:

- Clients that indicate they are currently receiving OAS pension can cancel their benefits if it has been less than 6 months since they received their first payment. They must request the cancellation in writing and pay back all the OAS income they have received within 6 months.
- For clients that have received less than 6 months of OAS pension, ask them to complete the CPP/OAS Checklist from the Essential Decumulation Toolkit to determine if stopping benefits would add value to the decumulation plan.
- Using RazorPlan with Decumulation: For clients that have received 6 months or more of OAS pension, in the Decumulation Settings, Uncheck data point Calculate OAS Start Age.

Suggested action for answer B:

- Clients that plan to start their OAS pension at age 65 may not be aware that they can receive 36% more if they defer starting benefits to age 70.
- Ask the client to complete the **CPP/OAS Checklist** from the Essential





Decumulation Toolkit and review all **Yes** answers with them to highlight why it is important to optimize OAS pension as part of a comprehensive decumulation plan.

Suggested action for answer C:

- Clients that understand how the OAS clawback works will value any advice and insight you can provide to optimize their benefits.
- Ask the client to complete the **CPP/OAS Checklist** from the Essential Decumulation Toolkit and review all **Yes** answers with them to highlight why it is important to optimize OAS pension as part of a comprehensive decumulation plan.

Suggested action for answer D:

- Clients that plan to defer OAS pension to age 70 likely know they will receive 36% more than if they start benefits at age 65.
- **Using RazorPlan with Decumulation:** In the Decumulation Settings, make sure the data point **Calculate OAS Start Age** is **Checked**. This will optimize OAS start age to determine if 70 is optimal based on the goals and what matters most to the client.



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