Abigail

- Has an RRSP of $72,000
- Is 61 years old and is single with a basic full time minimum wage income of $20,000
- Wants to retire at age 65 and use RRSP income to replace earnings.
- Will have no other income except CPP and that provided through the OAS system, a small pension of $5000 a year at 65 and a small amount of interest

Abigail has heard she should buy more RRSP's as she has 'RRSP room' and some money from the sale of her mother's condo which she inherited. She has also heard that she should perhaps do something with her RRSP's now but does not know what she should do.

Abigail went **to her bank and they implored her not to cash in her RRSP's. She received media backed mainstream advice:**

- "This is your savings"
- "If anything, buy more RRSP's"
- "Avoid TFSA's if you have RRSP room and are working"
- "Avoid taking early CPP as it will be higher later"
- "Save for (not during) your retirement if you can".

Reality: Abigail should:

- Cash out her RRSP's now over next 4 years and have them at zero at age 65.
- Take early CPP a.s.a.p.
- Reinvest in TFSA's
- Change banks and change advisors.

Abigail's Balance Sheet before age 65					
Advice	CPP	RRSP	TFSA	Taxation	GIS at 65
Bank Advice	Wait for more: $685 now instead of $1,012 @ 65	Keep and get more	Avoid until RRSP maxed	Avoid marginal rate of 24% on RRSP withdrawal	Not considered in advice.
Correct advice	Higher CPP cuts GIS in half Apply now.	Cash in & avoid RRSP as it cuts GIS in half	Buy because TFSA has no effect on GIS	24% of 72k =$17,300	50% of $72k =36,000 + $17,300 = $53,300
Abigail's Balance Sheet after age 65					
Advice	CPP per month	RRSP	TFSA	METR at 65	GIS at 65
Bank Advice	Take at 65	Buy until 65	Avoid	74%	none
Correct Advice	Save $163.5/m	Buy at 65+	Buy RRSP	24%	$740.44 /m

Abigail's Retirement plan: The Bank's Plan for Abigail:			
Age	**Increases in Income**	**Decreases**	**Bottom Line**
61		No early CPP	Loses $24,900 net CPP by age 65
Until 65	Keeps RRSP until 65		Avoids $17,300 in taxation
From 65 -71	Regular CPP from age 65	Ineligible for GIS Pays taxes on RRSP's	Loses $53,300 in GIS but gains $17,900 in net CPP Pays $17,300 in tax on RRSP withdrawal
At age 71			Behind by $60,800
Each year of Old Age after age 71	Gains in net CPP	Loses 50% of GIS	$3,000 CPP gain $1,500 GIS loss for total yearly gain of $1,500
Breakeven	Abigail must live to age 111 to break even on CPP and overall strategy		Abigail better off after age 71 by $1,500 a year net but loses possible net gain of $60,800 by age 71

Abigail's Retirement plan: The Proper Plan for Abigail:			
Age	**Increases in Income**	**Decreases**	**Bottom Line**
61	Takes Early CPP		Gains $24,900 net CPP by age 65
Until 65	Cashes in RRSP of $72,000 in 4 years: puts in TFSA		Incurs $17,300 in taxation
From 65-71	Eligible for GIS	Loses CPP increment	Gains $53,300 in GIS but loses $17,900 in net CPP Pays $17,300 in tax on RRSP withdrawal
At Age 71			Ahead by $60,800
Each year of Old Age after age 71	Loses in net CPP	Gains 50% of GIS	$3,000 CPP loss $1,500 GIS gain for total yearly loss of $1,500
Breakeven	Abigail must live to age 111 to break even on CPP and overall strategy		Abigail worse off after age 71 by $1,500 a year net but has net gain of $60,800 by age 71

Notes:

1. Abigail's income (earnings) before 65 is $20,000 a year. She gets the basis non-refundable credit and pays at a combined 24% personal income tax in Ontario. That bracket for 2012 goes from $10.8 k to 42.7k of income. If she cashes out her RRSP at $18k per year, she stays within the 24% tax bracket and pays $17,300 in tax penalties on the $72k cash out. A further $8,000 in CPP may nudge her into the 31% tax bracket.

2. Abigail's income at 65 will consist of Taxable OAS of $546.07 ($6,552) and Taxable reduced CPP of $685 ($8,220). She will get an age exemption of $6720 on top of the basic $10,822 + a pension credit of $2,000. This means that her $5000 in pension + OAS and CPP ($19,772) will be almost fully protected by her credits of $19,542. She will pay tax regardless but only $55 for the whole year.

3. Abigail's early CPP has almost no tax implications unlike what she was told at her bank. She was told that she would pay tax on it. Simply not true. If she had bought more RRSP's, she would save at an METR of 24% and lose at a rate of 74% later on.

4. If she had taken her bank's advice, Abigail's GIS at age 65 would be $163.50 lower per month because she would have taken CPP at 65.

5. If Abigail starts to take out her RRSP at 65, she would lose 50 cents of GIS on every dollar + be taxed at the exact same rate had she started withdrawing at age 61. When asked, the advisor at the bank claimed to know nothing about GIS.

6. At age 65, Abigail's GIS will be reduced by 50 cents on the dollar of the income from her pension of $5,000 ($2,500) and her CPP of $8220. ($4,110) so her entitlement would go from $8,800 to $2,270.

7. However, if she used the money in her new TFSA ($72,000 -$17,300 tax= $54,700) ($11,380 in each year between age 65 and 70 which she can afford assuming a 4% rate of return within her TFSA), to register for an RRSP, she could maximize her GIS back up to the full entitlement because she would be able to deduct her RRSP contributions for the purposes of GIS eligibility.

8. Total cost of the Bank's bad advice to Abigail between age 65-71**: $60,800**

   a. $36,000 in lost GIS on RRSP's
   b. $11,772 a year over 6 years in lost GIS due to higher CPP
   c. $30,328 in lost GIS due to improper use of RRSP deductions
   d. - $17,300 (tax loss of re-registration for RRSP's at age 65 post age 71

9. Can Abigail make these losses up after age 71? Answer: No.