

Retirement Income

Retirement Seminars
2023-2024



Disclaimer



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This presentation is not complete without commentary.



HOW MUCH IS ENOUGH?



Replacement Rate

- The general rule has been that a replacement rate of 70% will sustain a worker's standard of living after retirement.

$$\text{Replacement Rate} = \frac{\text{Retirement Income}}{\text{Final Employment Earnings}}$$

- There is no basis for this rule in the literature.
- So what replacement rate do I need to sustain my standard of living?
 - It depends...



Let's Compare

Teacher A

- Age 40
- Married
- Three Children
- \$85 000 Earnings

Teacher B

- Age 40
- Married
- No Children
- \$85 000 Earnings

70% Replacement Rate = \$59 500



Let's Compare

Teacher A

- Spouse is a stay-at-home parent.
 - \$0 spousal earnings
- Kids will leave home at retirement
- Mortgage will be paid off at retirement

Teacher B

- Spouse is a successful professional
 - \$150 000 spousal earnings
 - No pension plan
- Currently living beyond means with a large line of credit and significant credit card debt



Let's Compare

Teacher A

- A significant portion of Teacher A's salary has been used to pay the mortgage and support 3 children and their activities.
- Teacher A has never had the use of significant portion of their salary.
- Teacher A can likely maintain their current standard of living with a lower replacement rate.

Teacher B

- Teacher B will carry a significant debt load into retirement and will need income to support this debt load.
- Teacher B is not supporting their current standard of living with their current income.
- Teacher B will likely need a higher replacement rate to support their current standard of living.



Living Standards Replacement Rate (LSRR)

- Bonnie-Jean MacDonald (FSA, PhD) advocates for the use of the Living Standards Replacement Rate.
- The LSRR is not a universal rule.
- The LSRR must be determined by each individual.



Living Standards Replacement Rate

$$LSRR = \frac{\textit{Retirement Money to Spend}}{\textit{Working Life Money to Spend}}$$

- The target for an LSRR then would be 100% to maintain the same standard of living.
- If there is a desire for an improved standard of living in retirement, the LSRR would need to be greater than 100%.
- If there is a plan to reduce the standard of living in retirement, the LSSR could be reduced to less than 100%.



LSRR Calculator



Reality

How much money are you spending?

- Income – Net Savings – Taxes



Projection

How much money will there to be spend in retirement?

TPP + CPP + OAS + Personal Investments - Taxes



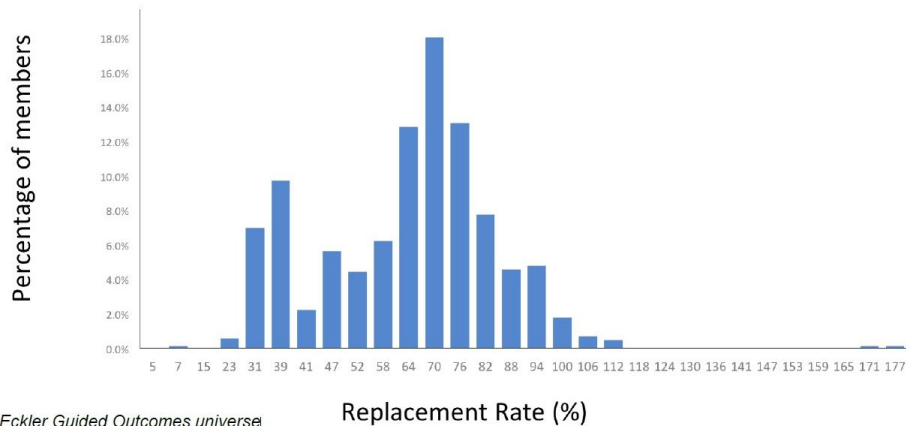
Visualization

What expenses do you anticipate in retirement?

- These will vary from person to person and scenario to scenario



120,000 Canadian Workers Conventional Replacement Rate Needed



“Typical” Plan Member



Has between 30 and 35 years of pensionable service.



May have some other sources of income but TPP/CPP/OAS will be the main sources of income in retirement.



Wants to keep a similar standard of living so will need a similar amount of disposable income.



Retirement Income Adequacy

- To achieve an LSRR of 100%:
 - Pre-retirement disposable income equals post-retirement disposable income.
- Some things you should consider:
 - Taxation;
 - Deductions;
 - Spending patterns; and
 - Income sources.



Taxation

- Canada has a progressive income tax system.
- The income tax rate increases as you earn more.
 - Tax brackets are used where the tax rate increases from one bracket to the next.
- Upon retirement, you typically earn less.
 - Income that is removed was taxed at the highest tax rate.
- As you age, new deductions become available.
- Pension income splitting may save tax.



Pension Income Splitting

- TPP income **can** be split on the tax return.
- Higher income spouse declares that a portion of their Teachers' Pension income is transferred to their spouse.
 - Lower marginal tax rate results in less tax paid and the couple 'keeping' more of the pension income.
- CPP Income **cannot** be split on the tax return.
 - Both spouses must apply to split the CPP income.
 - Even split of eligible CPP income.



Payroll Deductions

- Assuming you do not return to work, you will not be required to pay the following deductions (2023 amounts):

	TC5/ITC	TC6/ATC1	TC7/ATC2	TC8/ATC3
TPP	\$9 449.71	\$10 665.89	\$11 392.19	\$12 082.85
CPP	\$3 754.45	\$3 754.45	\$3 754.45	\$3 754.45
EI	\$1 002.45	\$1 002.45	\$1 002.45	\$1 002.45
LTD	\$713.25	\$795.67	\$845.01	\$891.85
NSTU	\$850.00	\$850.00	\$850.00	\$850.00
Total	\$15 769.85	\$17 067.46	\$17 844.09	\$18 581.61



Payroll Deductions

	TC5/ITC	TC6/ATC1	TC7/ATC2	TC8/ATC3
Salary	\$81 514.00	\$90 934.00	\$96 572.00	\$101 926.00
Total Deductions	\$15 769.85	\$17 067.46	\$17 844.09	\$18 581.61
Percentage Available Before Taxes	80.65%	81.23%	81.52%	81.77%



Disclaimer

- The following calculations are examples only to give an idea of impact on income.
- **Each member's personal calculation will vary.**



Assumptions

- Teacher is under age 65 when working and retired.
- Teacher's best 5 years is calculated as 96% of final year's salary:
 - Approximation of average of last 5 years.
- Teacher is single.
- Teacher has no other sources of income.
- Teacher is resident in Nova Scotia.
- Teacher only claims basic tax deductions.



Net Income TC5/ITC with 35 years of service

	Pre-Retirement	Retirement	Difference
Pre-Tax Income	\$81 514.00	\$54 777.41	\$26 736.59
Tax	(\$16 254.90)	(\$11 155.95)	
Post-Tax Income	\$65 259.10	\$43 261.46	\$21 637.64
Payroll Deductions	(\$15 769.85)	(\$0.00)	
Net Disposable Income	\$49 489.25	\$43 621.46	\$5 867.79
Per Month			\$488.98
Per Pay			\$225.58

Replacement Rate (net income only) = \$43 621.46/\$49 489.25 = 88%



Net Income TC5/ITC with 30 years of service

	Pre-Retirement	Retirement	Difference
Pre-Tax Income	\$81 514.00	\$46 952.06	\$34 561.94
Tax	(\$16 254.90)	(\$8 692.98)	
Post-Tax Income	\$65 259.10	\$38 259.09	\$27 000.01
Payroll Deductions	(\$15 769.85)	(\$0.00)	
Net Disposable Income	\$49 489.25	\$38 259.09	\$11 230.16
Per Month			\$935.85
Per Pay			\$431.93

Replacement Rate (net income only) = \$38 168.79/\$49 489.25 = 77%



Net Income TC6/ATC1 with 35 years of service

	Pre-Retirement	Retirement	Difference
Pre-Tax Income	\$90 934.00	\$61 107.65	\$29 826.35
Tax	(\$19 327.93)	(\$13 466.56)	
Post-Tax Income	\$71 606.07	\$47 641.09	\$23 964.99
Payroll Deductions	(\$17 067.46)	(\$0.00)	
Net Disposable Income	\$54 538.62	\$47 641.09	\$6 897.53
Per Month			\$574.79
Per Pay			\$265.29

Replacement Rate (net income only) = \$47 641.09/\$54 538.62 = 87%



Net Income TC6/ATC1 with 30 years of service

	Pre-Retirement	Retirement	Difference
Pre-Tax Income	\$90 934.00	\$52 377.98	\$38 556.02
Tax	(\$19 327.93)	(\$10 346.65)	
Post-Tax Income	\$71 606.07	\$42 031.33	\$29 574.75
Payroll Deductions	(\$17 067.46)	(\$0.00)	
Net Disposable Income	\$54 538.62	\$42 031.33	\$12 507.29
Per Month			\$1 042.27
Per Pay			\$481.05

Replacement Rate (net income only) = \$42 031.33/\$54 538.62 = 77%



Net Income TC7/ATC2 with 35 years of service

	Pre-Retirement	Retirement	Difference
Pre-Tax Income	\$96 572.00	\$64 896.38	\$31 675.62
Tax	(\$21 153.23)	(\$14 894.82)	
Post-Tax Income	\$75 418.77	\$50 001.57	\$25 417.20
Payroll Deductions	(\$17 844.09)	(\$0.00)	
Net Disposable Income	\$57 574.68	\$50 001.57	\$7 573.11
Per Month			\$631.09
Per Pay			\$291.27

Replacement Rate (net income only) = \$50 001.57/\$57 574.68 = 87%



Net Income TC7/ATC2 with 30 years of service

	Pre-Retirement	Retirement	Difference
Pre-Tax Income	\$96 572.00	\$55 625.47	\$40 946.53
Tax	(\$21 153.23)	(\$11 461.06)	
Post-Tax Income	\$75 418.77	\$44 164.41	\$31 254.36
Payroll Deductions	(\$17 844.09)	(\$0.00)	
Net Disposable Income	\$57 574.68	\$44 164.41	\$13 410.26
Per Month			\$1 117.52
Per Pay			\$515.78

Replacement Rate (net income only) = \$44 164.41/\$57 574.68= 77%



Net Income TC8/ATC3 with 35 years of service

	Pre-Retirement	Retirement	Difference
Pre-Tax Income	\$101 926.00	\$68 494.27	\$33 431.73
Tax	(\$22 886.59)	(\$16 251.13)	
Post-Tax Income	\$79 039.41	\$52 243.15	\$26 796.26
Payroll Deductions	(\$18 581.61)	(\$0.00)	
Net Disposable Income	\$60 457.80	\$52 243.15	\$8 214.65
Per Month			\$684.55
Per Pay			\$315.95

Replacement Rate (net income only) = \$52 243.15/\$60 457.80 = 86%



Net Income TC8/ATC3 with 30 years of service

	Pre-Retirement	Retirement	Difference
Pre-Tax Income	\$101 926.00	\$58 709.38	\$43 216.52
Tax	(\$22 886.59)	(\$12 579.57)	
Post-Tax Income	\$79 039.41	\$46 138.81	\$32 900.60
Payroll Deductions	(\$18 581.61)	(\$0.00)	
Net Disposable Income	\$60 457.80	\$46 138.81	\$14 318.99
Per Month			\$1 193.25
Per Pay			\$550.73

Replacement Rate (net income only) = \$46 138.81/\$60 457.80 = 76%



When to Draw CPP?

- That is **YOUR DECISION**.
- Historically, although it appears to be changing, the majority of our members report that they elect to receive CPP early.
- Our members tell us they consider:
 - Health
 - Overall income profile
 - Other income
 - Time value of money

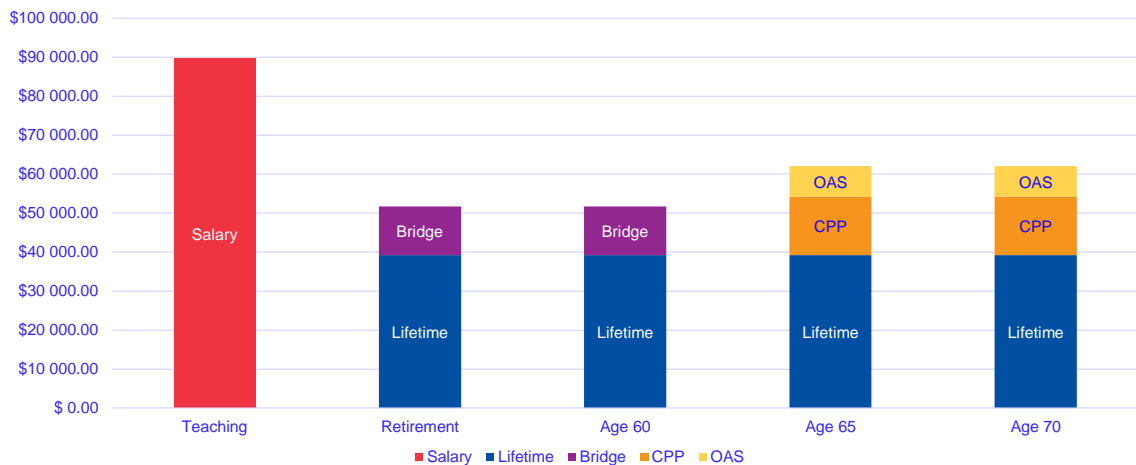


When to Draw CPP?

Early (60 – 64)	Normal (65)	Deferred (65 – 70)
<ul style="list-style-type: none"> • Smaller monthly payment • Paid for a longer period ??? 	<ul style="list-style-type: none"> • Normal monthly payment • Paid for a shorter period 	<ul style="list-style-type: none"> • Larger monthly payment • Paid for a shorter period



CPP & OAS at Age 65

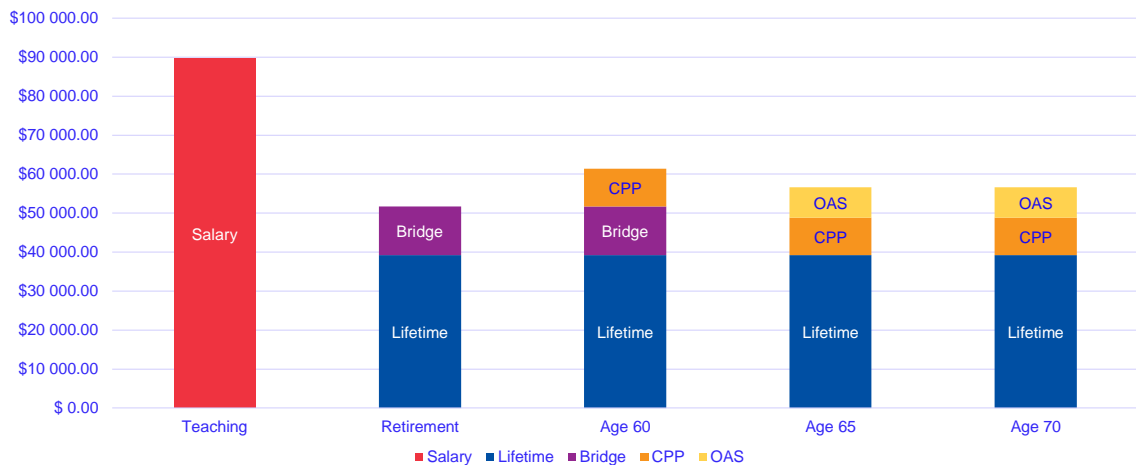


Net Disposable Income – CPP at Age 65 TC6/ATC1 With 30 Years of Service

	Pre-Retirement	Retirement – Age 65	Age 65
Salary	\$90 934.00		
TPP - Lifetime		\$39 863.52	\$39 863.52
TPP – Bridge		\$12 799.08	\$0.00
CPP (Maximum)			\$15 678.84
OAS (Maximum)			\$8 383.20
Tax	(\$19 327.93)	(\$10 346.65)	(\$13 727.00)
Post-Tax Income	\$71 606.07	\$42 031.33	\$50 198.56
Payroll Deductions	(\$17 067.46)	(\$0.00)	(\$0.00)
Net Disposable Income	\$54 358.62	\$42 031.33	\$50 198.56
Replacement Rate		77%	92%



CPP at Age 60 & OAS at Age 65

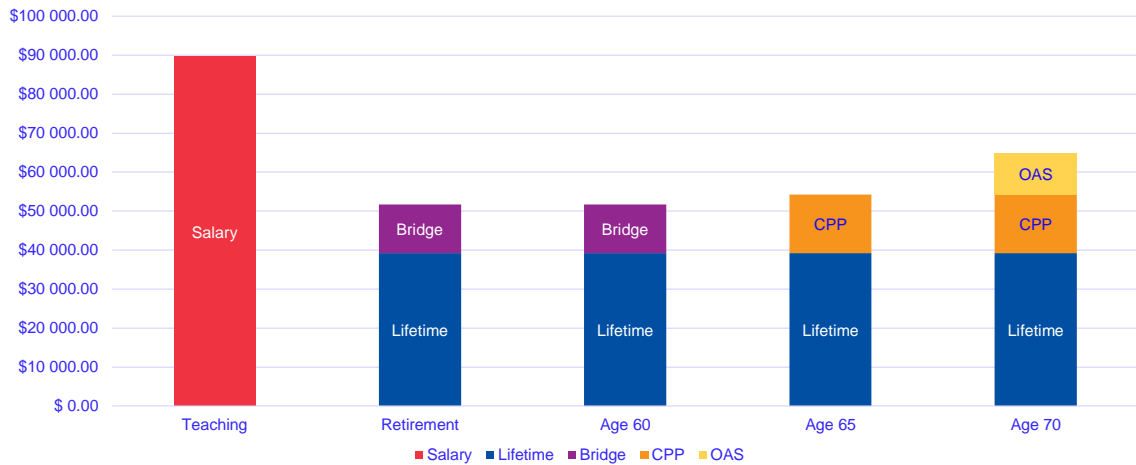


Net Disposable Income – CPP at Age 60 TC6/ATC1 With 30 Years of Service

	Pre-Retirement	Retirement – Age 60	Age 60 - 65	Age 65
Salary	\$90 934.00			
TPP - Lifetime		\$39 863.52	\$39 863.52	\$39 863.52
TPP – Bridge		\$12 799.08	\$12 799.08	\$0.00
CPP (Maximum)			\$10 034.56	\$10 034.56
OAS (Maximum)				\$8 383.20
Tax	(\$19 327.93)	(\$10 346.65)	(\$14 066.00)	(\$11 471.00)
Post-Tax Income	\$71 606.07	\$42 031.33	\$48 631.16	\$46 810.28
Payroll Deductions	(\$17 067.46)	(\$0.00)	(\$0.00)	(\$0.00)
Net Disposable Income	\$54 358.62	\$42 031.33	\$48 631.16	\$46 810.28
Replacement Rate		77%	89%	86%



CPP at Age 65 & OAS at Age 70

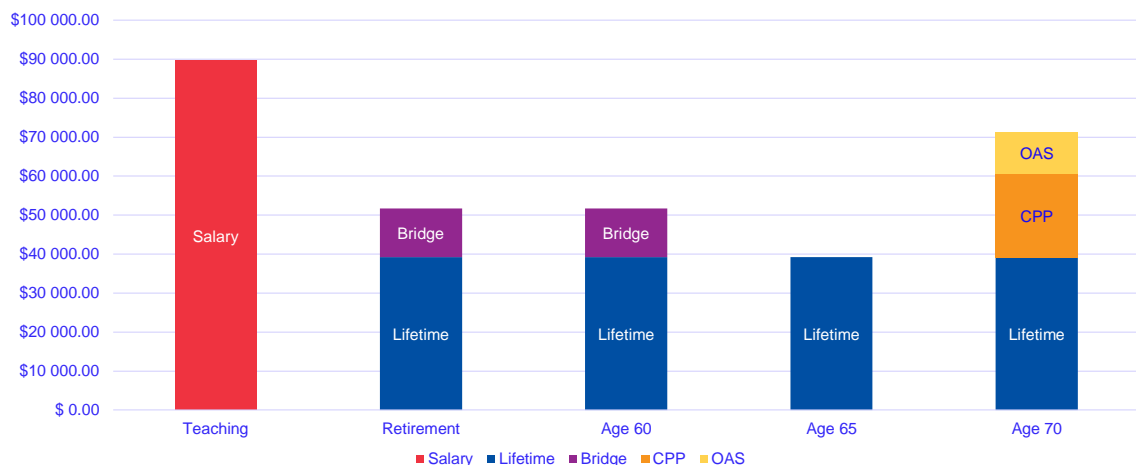


Net Disposable Income – CPP/65 & OAS/70 TC6/ATC1 With 30 Years of Service

	Pre-Retirement	Retirement – Age 60	Age 60 - 65	Age 65	Age 70
Salary	\$90 934.00				
TPP - Lifetime		\$39 863.52	\$39 863.52	\$39 863.52	\$39 863.52
TPP – Bridge		\$12 799.08	\$12 799.08	\$0.00	\$0.00
CPP (Maximum)				\$15 678.84	\$15 678.84
OAS (Maximum)					\$11 401.15
Tax	(\$19 327.93)	(\$10 346.65)	(\$10 346.65)	(\$10 381.00)	(\$14 941.00)
Post-Tax Income	\$71 606.07	\$42 031.33	\$42 031.33	\$45 161.36	\$52 002.51
Payroll Deductions	(\$17 067.46)	(\$0.00)	(\$0.00)	(\$0.00)	(\$0.00)
Net Disposable Income	\$54 358.62	\$42 031.33	\$42 031.33	\$45 161.36	\$52 002.51
Replacement Rate		77%	77%	83%	96%



CPP & OAS at Age 70



Net Disposable Income – CPP & OAS at 70 TC6/ATC1 With 30 Years of Service

	Pre-Retirement	Retirement – Age 60	Age 60 - 65	Age 65	Age 70
Salary	\$90 934.00				
TPP - Lifetime		\$39 863.52	\$39 863.52	\$39 863.52	\$39 863.52
TPP – Bridge		\$12 799.08	\$12 799.08	\$0.00	\$0.00
CPP (Maximum)					\$22 263.95
OAS (Maximum)					\$11 401.15
Tax	(\$19 327.93)	(\$10 346.65)	(\$10 346.65)	(\$4 938.00)	(\$17 588.00)
Post-Tax Income	\$71 606.07	\$42 031.33	\$42 031.33	\$34 925.52	\$55 949.62
Payroll Deductions	(\$17 067.46)	(\$0.00)	(\$0.00)	(\$0.00)	(\$0.00)
Net Disposable Income	\$54 358.62	\$42 031.33	\$42 031.33	\$34 925.52	\$55 949.62
Replacement Rate		77%	77%	64%	103%



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FINANCIAL SERVICES



"You told me I invested enough money to enjoy a comfortable retirement. But my back aches, my knees hurt, I have leg cramps...YOU CALL THAT COMFORTABLE???"

