Making the most of your retirement

Make your money go further –
and make the most of your retirement

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Make smart decisions today. And make the most of your income tomorrow

Retirement represents an exciting opportunity to set new goals and embark on new journeys. It's also a time to shift financial gears from saving and investing to drawing a steady income that will support your new lifestyle. This guidebook is intended to give you a comprehensive overview of how to successfully make this shift.

Cash flow is the key. You need to have enough money coming in to cover your expenses and support your current lifestyle. At the same time, you need to take steps to ensure you'll continue to have enough money to support your lifestyle in the future. Lack of cash flow planning can lead to poor financial decisions. For instance, some people may have to resort to selling assets at an unfavourable time in order to meet unexpected retirement expenses. Others may short-change themselves by not paying enough attention to the risks or tax consequences of certain financial decisions.

Whether you're already retired or soon to be, an RBC advisor can help you develop a solid plan to help you meet your retirement goals. Together, you can make smart financial decisions today that will help you get the most out of your retirement income in the future.

WHEN YOU'RE IN PRE-RETIREMENT PLANNING ASKING YOURSELF THE FOLLOWING QUESTIONS IS A GOOD PLACE TO START:

- What do I want to do once I'm retired?
- Where will I live?
- Will I have enough income to maintain my current lifestyle?
- Will I be supporting a dependent child or parent?
- Are my investments properly diversified?
- Have I maximized my Registered Retirement Savings Plan (RRSP) and other wealth-building options?
- Do I want to leave an estate for my family or charity?
- Will I have enough money saved to support my desired retirement lifestyle?

Steps to take when you're approaching retirement

If you're planning to retire within the next five years or so, some important decisions lie ahead of you. The strategies you use in your pre-retirement years are pivotal in enabling you to lead the lifestyle you want in retirement. You're close enough to retirement now that you can define specific goals and plan a realistic budget.

The next steps are meant to help you analyze where you stand today, determine the best way to maximize your retirement savings, and establish a retirement income strategy that's tailored to meet your goals and provide the lifestyle you desire.

What will your retirement look like?

Retirement itself is the goal for most of our working lives. The question now becomes, what will your goals be after you retire? Doing what you enjoy is a great goal for anyone. However, if you plan to make significant lifestyle changes once you retire, you may need to make significant financial changes as well.

A widely shared view is your retirement income should equal 70% to 80% of your pre-retirement income in order to maintain your current standard of living. But your actual income needs will depend on the new goals you set, as well as your age, health, family and financial obligations, and the resources at your disposal. For example, will you continue to work on a part-time or seasonal basis? Are you planning to start a new business?

Will you be funding a child's or grandchild's education, or caring for an elderly relative? The more clearly you define your objectives, the more clearly you can budget for them and plan your investments in a way that meets both your obligations to others and your wishes for yourself.

Living the life you want

Once you figure out what your expenses will be, you can determine the income you'll need to support them. An RBC advisor can help you assess your most ambitious retirement goals such as travel or a cottage by the lake, as well as day-to-day practicalities like groceries and household utilities. And since life is not always arranged into neat, monthly expenses, they can also help you assess the timing of your cash flow.

For example, you may need to pay lump-sum costs related to moving to a new house or cottage, traveling, or medical care.

WHAT DO YOU SEE YOURSELF DOING IN RETIREMENT?

Retirement can involve a wide variety of activities and pursuits. The following are just some of the things you may decide to do with the freedom retirement brings.

Start a business
Do you have a hobby or interest that could be turned into a source of retirement income?

Relocate
Do you intend to move to a new home, or even a new city?

Travel
Do you have any specific travel plans for retirement?

Enjoy a hobby
Do you have a hobby or pastime that you'd like to become more involved in?

Help a charity
Do you want to devote more resources to a charitable cause that you believe in?

To avoid disrupting your budget, it's important to plan for these expenses in advance, and to have a back-up plan in place to meet unexpected expenses if they arise. Taxes are another key consideration. The way you structure your investment portfolio and allocate your income can have a significant impact on the amount of money you are left with after taxes.

Similarly, there are several effective ways to pay down your mortgage faster, if you don't already fully own your home. Ask an RBC advisor about accelerating your repayment schedule and how you might be able to save thousands of dollars in interest.

RETIRE YOUR DEBTS TOO

With a regular salary no longer coming in, it's a good idea to enter retirement debt-free.
By consolidating high-interest credit card balances and consumer loans into a low-interest personal loan or line of credit, you may be able to pay off your debt faster.

Where do you stand today?

Once you have a good idea what you want your retirement to be like and how much it will cost, it's time to map out a specific plan to get the necessary resources in place. In order to find the best path to your goals, you need to identify your starting point – that is, where you stand today.

KNOW YOUR NET WORTH

Your net worth is the assets that you currently own, minus the liabilities that you currently owe. It provides a snapshot of your financial position today. With this as your starting point, you can plot a path to your financial destination – the total you need to support the lifestyle you want at your projected retirement age.

Along the way, your savings and investments will increase in value, and your outstanding debts can be decreased or even eliminated. You may be able to accelerate your journey by eliminating debt, increasing the growth potential of your investment portfolio, or taking advantage of tax-minimization strategies.

Your pre-retirement strategy may also include downsizing your residence, or selling assets such as a vacation property. This can increase the cash you have available and also reduce expenses for insurance, maintenance, and repairs.

HOW MUCH WILL YOU NEED IN THE FUTURE?

Our Annual Retirement Expense Worksheet will help you analyze your living expenses today, and see how they will change in retirement. You'll find a sample worksheet at the back of this book, or you can access the online version at: www.rbcroyalbank.com/cgi-bin/retirement/ws_are.pl

WHAT'S YOUR NET WORTH?

To develop a handy financial "snapshot" of your current assets and liabilities, please access our Net Worth Calculator tool online at: www.rbcroyalbank.com/cgi-bin/retirement/ws_networth.pl

Before you retire: Getting the most from your investment portfolio

In the homestretch to retirement, there are a number of strategies you can use to help you meet your retirement goals. A number-one priority will probably be to maximize your RRSP. In addition to contributing the maximum allowable every year, you should try to use up any contribution room you have carried forward from previous years. A monthly Pre-Authorized Contribution plan is an effective way to ensure your contributions maintain their top priority.

This is also when you should take full advantage of spousal RRSPs. They allow you and your spouse to equalize your retirement incomes, which may result in a lower overall tax bill for your family. In addition, if your spouse is younger than you, you can continue to make deductible contributions to his or her spousal RRSP past the end of the year in which you turn 69 (assuming you have qualifying earned income or available contribution room).

Your RRSP should include a diversified mix of investments that provide security, produce income, and will allow for growth. The precise proportion, or asset allocation, that's right for you will depend on your objectives, time horizon, and comfort level with risk.

YOUR NON-REGISTERED INVESTMENTS

Diversification is also important outside your RRSP. Your non-registered portfolio should include some liquid investments in savings accounts and money market funds, in order to have cash at hand in the event of emergencies or unexpected expenses. Fixed-income investments and equities, and/or mutual funds that invest in these assets, should make up the balance of your non-registered portfolio.

It's important for your registered and non-registered assets to be structured as tax effectively as possible. Inside your RRSP, all returns are sheltered from tax until they're withdrawn. Outside your RRSP, capital gains and Canadian dividends are taxed more favourably than interest income.

When making asset allocation decisions, remember to look at your entire portfolio. Consider both your registered and non-registered investments and how they can work most effectively together to maximize return, reduce risk, and keep taxation to a minimum.

When you're ready to retire

Once you retire, your cash flow does a 180-degree turn. After years of making deposits to public and private pensions and accumulating savings, it's now time to start making withdrawals. This typically means adjusting your investment portfolio to focus on producing reliable cash flow, and managing multiple sources of income.

Whether you've had the luxury of pre-planning your retirement income or not, an RBC advisor can help you take a number of steps to make sure you have the income you need, when you need it.

WHAT YOU CAN DO TODAY

- Pay down your home mortgage faster
- Consolidate debt and reduce interest costs
- Set up an automatic savings plan
- Manage your non-registered portfolio
- Maximize your RRSP before you retire
- Consolidate and simplify your investments
- Invest tax-effectively

WHAT'S THE FUTURE VALUE OF YOUR RRSP?

Estimate how much your RRSP will be worth at retirement by accessing our online RRSP Future Value Calculator at: www.rbcroyalbank.com/cgi-bin/retirement/c_fv.pl

What to expect from public pensions

It's all a matter of fine-tuning your budget and structuring your various sources of income to suit your lifestyle, rather than changing your lifestyle to meet your budget.

When you leave the workforce or reach retirement age, it's most likely that you'll be entitled to public pension income. While the payments are generally not enough to maintain a comfortable lifestyle, they are a valuable supplement to your other sources of income.

CANADA/QUEBEC PENSION PLAN (CPP/QPP)

The Canada/Quebec Pension Plan is a government pension plan that's designed to replace about 25% of your pensionable earnings during your working years. The benefit you receive depends on how much you have contributed to the plan. The maximum monthly payment is now in excess of $800.

You must apply in order for payments to start. The usual age is 65, but you can apply as early as age 60 or as late as 70 (payments will be adjusted accordingly). CPP/QPP payments are taxable. You can choose to have the taxes automatically deducted, or to remit the tax in quarterly installments.

OLD AGE SECURITY (OAS)

Old Age Security is a federal retirement benefit payable to people age 65 and older who meet certain residency requirements. Payments are not automatic; you must apply. The maximum monthly payment is approximately $500.

OAS is subject to an income test, which means there may be a "clawback" of some or all of your benefits if your total income exceeds a certain threshold (approximately $62,000). The entire OAS is clawed back at a certain income level (approximately $101,000). This benefit is also treated as taxable income.

What to expect from private pensions

A private pension is usually established by an employer on behalf of its employees, and is most often funded by both parties. Much like an RRSP, contributions to a Registered Pension Plan (RPP) are tax-deductible, and withdrawals are taxable. The amount of control you have over your pension plan depends on the terms of the plan. An RBC advisor can help you understand your present pension options and make decisions today that follow your personal income strategy.

There are several different kinds of plans:

- **Defined Contribution (DC) Plan.** With a defined contribution plan, the level of benefit you receive at retirement is not specifically known in advance, but instead reflects the total of all contributions along with investment earnings over the years (similar to an RRSP). At retirement, accumulated savings are used to purchase a life annuity or transferred to a locked-in retirement account (LIRA). Your employer or pension plan administrator will be able to provide you with the details of your plan.
- **Defined Benefit (DB) Plan.** A defined benefit plan provides a known level of benefits at retirement based on a formula that takes into account your years of service and salary at retirement. At retirement, you are likely to receive a pension annuity for life, usually with survivor benefits. In most cases, your employer or your pension plan administrator can provide you with an estimate of the retirement benefit you will receive.
- **Deferred Profit Sharing Plan (DPSP).** DPSPs allow employers to share profits with their employees on a tax-sheltered basis. Like an RRSP, a DPSP has annual contribution limits, and withdrawals are taxable. Like a DC plan, your ultimate benefit is not known in advance – it will depend on the contributions made to the plan and the investment earnings accumulated within it.

LEAVING AN EMPLOYER WITH A PENSION PLAN?

If you participate in a pension plan and change employers, you may have the option to transfer your pension amount into a Locked-in Retirement Account (LIRA). This type of account is also referred to as a "locked-in RRSP," in British Columbia and Nova Scotia.

The locked-in RRSP and the LIRA have virtually identical attributes. No contributions can be made to these accounts. The funds remain locked within the plan. However, you do have control over how they are invested. The timing and options to receive income out of a locked-in RRSP or LIRA vary according to provincial pension legislation. Ask your advisor for more information on these types of plans in your province.

ANNUAL RETIREMENT INCOME WORKSHEET

Estimate the combined after-tax retirement income for you and your spouse with our online Annual Retirement Income Worksheet at: www.rbcroyalbank.com/cgi-bin/retirement/ws_ari.pl

In retirement: Drawing income from your investments

Once you retire, your goal is to generate a stream of income that will cover your expenses and support a comfortable lifestyle.

At the same time, you need to manage your assets so they will continue to provide the income you need for the rest of your life. In order to accomplish both, you need to decide how much money to draw from your various investments, and when.

Tax issues will influence your decision to some degree. You can minimize the income tax you pay by being selective about your sources of investment income. You may also need to adjust your diversification strategy in order to place more emphasis on investments that will provide steady retirement income. Still, you need some growth in your portfolio to protect you from the effects of inflation over the long term. Remember, your retirement could easily last 25 or 30 years.

REGISTERED INVESTMENTS

By the end of the year in which you turn 69, you must collapse your RRSP. At this point, your have 3 options:

1. Take the full value of your RRSP as a taxable, lump-sum payment
2. Purchase an annuity that guarantees a fixed income
3. Transfer your investments into a Registered Retirement Income Fund (RRIF)

You can also choose a combination of these three options.

RRIFs are the most popular choice, because they allow your money to remain invested according to your personal strategy, and to continue growing on a tax-deferred basis. RRIFs must pay you a minimum annual income based on a pre-set formula. You can choose to receive payments monthly, quarterly, semi-annually, or annually.

This is an important consideration in terms of both timing your overall cash flow and selecting RRIF investments that will coincide with your chosen payment schedule.

A locked-in RRSP/LIRA must also be collapsed by the end of the year in which you turn 69. Your advisor can help you explore all your options and their potential implications if you have a locked-in RRSP.

In general, it's a good idea to draw first on your non-registered assets to provide the income stream you need and take only what you must from your registered accounts. This allows you to preserve assets in your registered accounts, where they will continue to benefit from tax-deferred compound growth.

MINIMUM ANNUAL INCOME CALCULATOR

Determine your minimum annual RRIF, locked-in RRSP or LIRA LIF or LRIF payments at various ages throughout retirement by using our online Minimum Annual Income Calculator at: www.rbcroyalbank.com/cgi-bin/retirement/c_incpay.pl

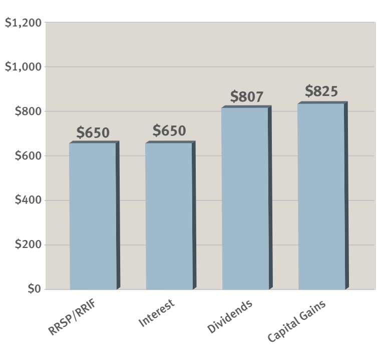
NON-REGISTERED INVESTMENTS

While the precise makeup and size of non-registered portfolios vary from one individual to the next, most portfolios will include a mixture of assets that generate interest income, dividends, and capital gains. This is significant, as each type of income is taxed differently. And since there are no regulations about how or when to draw an income, your non-registered investments provide you with maximum flexibility.

IT'S WHAT'S LEFT THAT COUNTS

Different types of cash flow are taxed differently. This chart shows what's left after tax on $1,000 withdrawn from a RRIF or RRSP or earned outside a registered plan, as in the form of interest, Canadian dividends, capital gains, or return of capital, for an Alberta taxpayer earning $75,000.

As you can see, withdrawals from an RRSP or RRIF and interest income are taxed most heavily, whereas Canadian dividends and capital gains income receive preferential tax treatment.



Based on a 35% tax rate. Taxes on dividend income based on provincial/territorial tax rates. Source: Ernst & Young Personal Tax Calculator; reflects known rates as of July 30, 2006. Based on an Alberta taxpayer earning $75,000. For illustration only; actual tax rates will vary.

Different types of investments

- **Savings accounts, guaranteed investment certificates, money market funds.** Money that you hold in savings vehicles such as bank accounts, cashable GICs, and money market funds is flexible and easy to access when you need to. However, the interest income from these vehicles is often lower than other alternatives, and is taxed at your full marginal tax rate.

- **Bonds and fixed-income mutual funds.** Federal, provincial, municipal and corporate bonds typically pay regular interest at predetermined times, which is taxable at your marginal income tax rate in the year it's received – or accrued in the case of a strip bond (which pays interest only at maturity). However, bonds can also be sold prior to maturity, in which case they may generate a capital gain or loss.

  Fixed-income mutual funds may also generate regular distributions. Depending on the underlying investments within the fund, the distributions may be in the form of interest, dividends, or capital gains.

Stocks (equities) and equity mutual funds. Equities can offer two sources of value – the capital gains you realize when selling them at a profit, and the income you can receive in dividends. Only 50% of capital gains are taxable, and dividends from Canadian corporations are taxed at a preferred rate.

In addition, capital gains are taxable only when realized. By adopting a long-term buy-and-hold strategy, you can let your gains accrue without having to pay tax until the investments are sold.

BEYOND YOUR INVESTMENT PORTFOLIO

In addition to your investment portfolio, other assets can also be sources of income. For instance, if you own an interest in a business or rental real estate, you may receive regular business or rental income.

Not only do these assets provide income, they may be available to use as security if you want to borrow money, or you may be able to sell them at a gain.

CAPITAL GAINS AND YOUR HOME

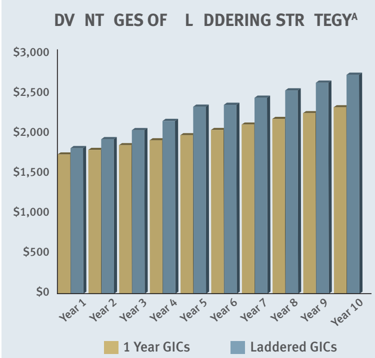
Ordinarily, when you sell a capital asset – such as land or investment vehicles like stocks and bonds – any increase over its purchase price is taxable as a capital gain. Any increase in the value of your home, however, is generally free of tax because of the principal residence exemption.

As a result, if your investment plan includes downsizing or selling your home and moving to an apartment, your principal residence can be a valuable source of investment capital.

BUILDING AN INCOME LADDER

Laddering bonds and GICs means staggering their maturity dates so not all of your money is locked in for the same length of time. This can help you maintain liquidity and also take advantage of rising interest rates.

There is another benefit to laddering: you'll own a variety of bonds and GICs, some with longer terms and higher interest rates, and others with shorter terms and lower interest rates. Since only a portion of your savings will mature and need to be reinvested each year, you'll never have to lock in the bulk of your savings when rates are low.



After 10 Years, in this example you would have earned $2,587.31 more by laddering your GICs, with an average rate of return of 4.35%.

*Based on RBC Royal Bank posted rates for 21 July 2006

Making the most of your credit

If you need money at a time that doesn't happen to coincide with your usual retirement income, or in an amount that exceeds your readily available liquid assets, borrowing may be a valid solution.

- **Line of credit.** A line of credit can offer quick access to tax-free cash flow without having to collapse an investment before maturity, or dip into the tax-deferred savings in your RRSP or RRIF. Perhaps best of all, a line of credit can be used for any purpose you choose, whether it's meeting unexpected expenses or treating yourself to a dream vacation. Your repayment schedule can be tailored to fit your overall plan.

- **Secured loans.** If you prefer a fixed interest rate and predetermined repayment schedule, a loan might be more appropriate than a line of credit. By securing the loan with real estate, investments, or the accumulated cash value of an insurance policy, you may be able to negotiate an interest rate as low as prime.

SYSTEMATIC WITHDRAWAL PLANS: A GOOD PLACE FOR MUTUAL FUNDS

Systematic withdrawal plans (SWPs) provide a convenient way to generate cash flow from a mutual fund portfolio. Every month or quarter, sufficient mutual fund units are redeemed to meet your cash flow needs. Depending on the holdings within your mutual fund portfolio, each payment may be a mixture of interest, dividends, capital gains and return of capital, so some or all of your cash flow may receive preferential tax treatment.

How to manage your budget

Sometimes an unexpected need for cash in the short term can cause a wrinkle in your financial budget. Other times, a change of lifestyle might render your current retirement budget insufficient. How do you meet this challenge? The good news is you have a number of options.

- **Increase your withdrawals from a Systematic Withdrawal Plan.** You can increase the regular withdrawals from your non-registered investments in order to raise your cash flow. This can be an economical choice, especially if your portfolio is structured to provide enough growth to help offset higher withdrawals.

- **Increase your RRIF withdrawal.** While you are required to withdraw a certain minimum amount from your RRIF every year, there is no maximum. If you need to draw on these funds, however, remember that all withdrawals are fully taxable at your marginal income tax rate. A large withdrawal may even place you in a higher marginal tax bracket or affect your potential eligibility for income-linked government benefits like OAS.

- **Consider a reverse mortgage.** A reverse mortgage allows you to tap into the equity in your home without selling. You may be able to borrow $20,000 to $500,000. The amount you qualify for will depend on the value of your home, the amount of any mortgages or liens against it, and your age. The proceeds are not taxable, and you can stay in your home. In most cases, no repayment is due until you pass away or sell your home.

LOOK AT YOUR INVESTMENTS AS A WHOLE

In managing your retirement income, it's vital to take a portfolio approach.

By looking at the "big picture" – all your investments, both registered and non-registered, rather than each individual holding – you can tailor the mix to meet both your present and future needs.

A portfolio approach helps ensure you have the regular cash flow to support the lifestyle you want, have sufficient growth to stay ahead of inflation, and that you are taking advantage of all available tax-planning opportunities.

We're here to help

Maximizing your retirement income may seem daunting, but you don't have to do it alone. An RBC advisor is here to help. Your advisor will take the time to understand your unique situation. Step by step, they'll work with you to identify your retirement goals, establish a retirement budget for you, determine your current resources, and create a plan to achieve the type of life you want to live in retirement.

WHAT YOU SHOULD BRING

Gathering detailed information is the first step in creating a solid plan to make your savings last your whole life. The more information you provide in the beginning, the more we'll be able to do for you over the months and years to come.

A valuable starting point would be to complete the "Income expense" worksheet on the following page. Bring it with you when you meet with your RBC advisor, so you can start planning a retirement income strategy that's right for you.

WHAT YOU CAN DO TODAY

- Plan the amount and timing of your cash flow
- Maximize your after-tax income
- Manage an income-oriented investment portfolio
- Make the most of your RRIF
- Set up a Systematic Withdrawal Plan
- Plan for contingencies
- Use debt strategically

Your income and expenses – now and in retirement

MONTHLY INCOME	PRE-RETIREMENT	RETIREMENT
Employment (salary; part-time work; consulting)		
Rental		
Business		
Investment		
Employer pension		
CPP/QPP		
OAS		
Other		
MONTHLY EXPENSES		
Rent/mortgage		
Property taxes		
Utilities		
Insurance (home, auto, life)		
Car payments		
Gas/oil		
Public transportation		
Travel		
Food		
Clothing		
Child/elder care		
Entertainment		
Regular savings/RRSP contributions		
Personal loans/credit card payments		
Other		

For more information on how we can help you make the most of your retirement, please visit your RBC branch, call us at 1-866-245-9464 to speak to a advisor or visit our website at www.rbcinvestments.com/my-retirement

To speak with an RBC advisor and start your plan today, please visit your RBC branch, call us at 1-866-245-9464 or visit our website at www.rbcinvestments.com/my-retirement

[1]Calculation is based on RBC Royal Bank posted rates for July 21, 2006. Current rates: 1 Year: 3.300% 2 Year: 3.350% 3 Year: 3.400% 4 Year: 3.450% 5 Year: 3.750%. Future Rates** used in this example: 1 Year Rate in Year 2: 3.300% Year 3: 3.300% Year 4: 3.300% Year 5: 3.300%. 5 Year Rate in Year 2: 3.750% Year 3: 3.750% Year 4: 3.750% Year 5: 3.750%.

**It is assumed that interest rates remain constant after the 5th year.

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