



## Life begins at 65! Are you doing what you love to do?

### **WHO SAYS YOU NEED TO STOP WORKING AT 65?**

With today's longer life expectancies, the traditional take on retirement doesn't really apply anymore. Many retirees just can't see themselves sitting back with their feet up for the next 20 years. Even if you have enough savings, do you want to completely leave the working world? Employment has rewards beyond just the financial benefits.

Consider John Lee who spent 34 years of his life selling insurance, and then retired at the age of 59.

While John was working, his days on the road started at 6 a.m. and rarely ended before 11 p.m., six days a week. On Sundays, he usually spent a few hours catching up on paperwork. Considered a workaholic by some, John loved his job and the interaction with people it provided. He made a six-figure income, and was highly recognized and respected as a district and regional manager in his company.

But working so much left John little time to enjoy the other things life had to offer. He did manage to get out and play golf every now and then, and he developed a love of gardening. So naturally, he was looking forward to devoting more time to his other interests during retirement.

When he did retire, John spent nine months doing all of the things he thought he had missed out on: honing his golf technique, cultivating his garden into the neighbourhood showcase, and embarking on a couple of trips with his wife. He slept in a little later in the mornings and generally took things easy.

But John was finding his days hard to fill. And he realized he just wasn't getting the same satisfaction from gardening and golfing as he did from relating to his clients and training his sales team members.

Deciding he missed work too much, but not wanting to return to the gruelling schedule, John called his former boss. They worked out an arrangement for him to work as a part-time trainer/consultant, allowing him to help train new salespeople whenever the company was in a heavy recruitment phase.



The agreement was flexible enough so that John could still enjoy golfing, gardening and vacationing. More importantly, though, it provided him with the satisfaction of contributing. John even learned new techniques in teaching and mentoring by attending occasional company-sponsored seminars.

Having earned enough while he worked to ensure a comfortable retirement, John didn't go back for the money – he went back for himself.

### **EASING FINANCIAL WORRIES**

Of course, not every retiree goes back to work for only emotional fulfillment. Many stay on the job to take pressure off retirement savings. Working longer can make a huge difference in retirement living standards. Even a small income can allow your retirement portfolio to compound over a longer period of time.

Let's say you have a \$250,000 nest egg at retirement. You invest it aggressively and it earns an 8 per cent return for five years. But instead of living on those earnings, you bring in another \$25,000 per year through employment income.<sup>1</sup>

After five years, your untouched nest egg will be worth \$367,000. If you then decide to never work another day, your retirement will be more financially solid.

### **MORE THAN MONEY**

Then there's the compensation question. Retired workers re-entering the workforce generally have more considerations than just a salary amount.

And many people find it makes more sense to take larger payments from their investments during their older years when they are physically less able to work. Here are some ways to save what you already have:

**1 Ask for benefits** – Be up front with your employer about your compensation needs. If you need health benefits more than you need money, negotiate that. If you need a flexible schedule, make that clear.

**2 Reduce clawbacks** – We all know that the less income you earn, the less tax you pay. If the income you report on line 234 of your federal tax return is too high, your Old Age Security and Age Credit may be clawed back or even forfeited. Here are two ways to reduce the clawback:

**a]** Carefully structure your non-registered income – dividend income is the least "income friendly" to retirees because the grossed-up amount is reported on their tax returns. Although the dividend tax credit provides preferential tax treatment, the grossed-up amount exaggerates the total income on line 234.





**b]** Create dollar-for-dollar deductions – those with unused RRSP room at age 69 can make a lump-sum contribution and then spread the resulting deduction over the next several years. Also, for those with discretionary RRIF income not needed for living expenses, by borrowing to invest they can use their discretionary RRIF payments to pay the interest on the loan and create a tax deduction.<sup>2</sup>

All of these strategies can reduce your income on line 234. The result is that you can keep earning income, but reduce your clawbacks.

### **3 Take a reduced CPP/QPP pension at age 60.**

Although it may seem logical to put off collecting your CPP/QPP until 65 to get the full payment, it generally makes more sense to take a reduced pension at 60 years of age. To apply for CPP/QPP at age 60, you must have stopped working or have low earnings.

To qualify for low earnings, you must have made less than the current CPP payment (\$863.75 per month in 2007) in the month prior to the pension starting and in the month it starts. The QPP considers an annual income of \$10,925 to be low earnings.

Stopping work isn't as daunting as it sounds. You can actually stop working for a day plus the next month<sup>3</sup>, collect your CPP pension and then go back to work without affecting your pension payments. The beauty

of it is, because you're already receiving your CPP pension, you are not required, or even allowed, to make CPP contributions, regardless of the type or amount of income you earn.

Should you go back to work after you start receiving your QPP pension, the payments will not stop but you will have to resume making QPP contributions.

**4 Avoid using your RRIF** as your primary source of income and paying out tax dollars from your nest egg. If you have other income, you can select a payment schedule that provides the minimum income payment from your RRIF. This will allow for maximum tax deferral.

## **THE VALUE OF WORK**

Since you've done it most of your life, work has probably become an integral part of who you are – a source of pride, self-esteem and accomplishment. And with today's longer life spans and healthier lifestyles, retirement offers more choices than ever to continue that self-fulfillment.

More than making money, work can be physically and mentally energizing. And for many retirees, it's a time to pursue the dream job – a transition to another work life, their preferred work life.

Retirement can be an opportunity to re-evaluate your lives and careers. It's a time that is free of the obligations of childcare and mortgages, and a chance to take risks.

For some, they truly unleash their personalities and take advantage of the talents they may have felt they needed to overlook in the past in return for a pay cheque.

Most of those who return to the work world pursue activities that they enjoy and feel challenged by. It's not the money that motivates them, but the opportunity to remain active and involved, and possibly start second careers.

## **EMBARKING ON YOUR SECOND CAREER**

Whether you work for pay or pleasure, you need to plan for it. Switching from full-time to part-time work requires a year or more of planning. Once you have an idea, utilize the skills and contacts you already have to bring that dream to life. Here are a few ways you can get started.

- Volunteer or take a job at a local non-profit organization. But know what you're getting into and make sure that you'll enjoy your new responsibilities. Invest your time wisely and network at the nonprofit long before you retire. Otherwise, you might get stuck with boring tasks that don't take advantage of your talents

- Build on all of your contacts. The company you already work for could prove to be a gold mine of contacts and opportunities. They may be able to take you on part-time themselves, or can refer you to other companies or individuals who are suppliers of your company

- Get to know people in the marketing and accounting departments, as jobs are frequently outsourced there

- Upgrade your professional and computer skills. Courses are available through training programs or continuing education courses at universities and community colleges

## **POST-RETIREMENT WORKERS WILL BE IN DEMAND**

As baby boomers, you represent approximately one third of the Canadian population<sup>1</sup>. When you retire over the next 10 years, there won't be nearly enough GenXers to replace you in the work force. Companies will probably be desperate for skilled workers. That will put you in a position to set some of the rules. You may be able to negotiate telecommuting arrangements and your working schedule.

For more information on these financial strategies and emotional rewards of working in retirement, consult your financial advisor.



<sup>1</sup>Statistics Canada, 2005.



The concept of retirement is being redefined considering that the average age for retirement in Canada today is about 61 and dropping. Only 6 per cent of the country's seniors continue to "work" after 65, but many of those who "retire" return to the work world.

Nearly 69 per cent of people who retired between the ages of 50 and 54 went back to work within two years of quitting. Of those who retired between the ages of 55 and 59, 39 per cent returned to work.\*

According to experts, these numbers should increase due to healthier and more active lifestyles.

\*Statistics Canada

A 2002 Statistics Canada study suggests that for many older workers in Canada, quitting their job and plunging headlong into retirement is definitely not for them.

Based on data from the Survey of Labour and Income Dynamics, almost two in five older workers who ended a full-time career job from 1993 to 1997 began a new job within two years.

The majority of these workers found a new full-time job, and a smaller but significant portion switched to part-time employment. This suggests that easing into retirement is a real phenomenon.

Investment returns are for illustration purposes only and are not indicative of future performance. Borrowing to invest is not for everyone. Borrowing for investment purposes can magnify the risk as well as the reward of investing. The last day of the month prior to the pension starting plus the month in which it starts.

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