RBC Global Asset Management

Insights

RBC Retirement Portfolios

Winter 2020 edition

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Understanding your retirement paycheque -

In this issue of Insights, we look at how income generation changes as you transition into retirement and how to help stabilize monthly cash flow. And for those transitioning into retirement in 2020, we look at how RBC Retirement 2020 Portfolio continues to work for you after you retire.

Did you know?

$42 billion

Registered retirement savings plan (RRSP) contributions made by Canadians in 2017.[1]

5.9 million

Number of Canadians aged 65 and older.[2]

65.2%

Percentage of the 14 million Canadian households that contributed to a registered pension plan, an RRSP or a TFSA in 2016.[3]

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[1] 150.statcan.gc.ca, 2017
[2] Statistics Canada – 2016 Census
[3] 150.statcan.gc.ca, 2016

Building a retirement paycheque

When saving for retirement, most of us rely on a few common sources of income. Cash flow in retirement is a bit more complex with varying payment frequencies, multiple income sources and tax considerations impacting your available income. Understanding these factors can help you build the retirement pay cheque that is right for you.

Income during working years

Employment income tends to make up the majority of our pre-retirement cash flow

Employment
- Full-time/part-time
- Self-employment

Investment income

Rental income

Government benefits

Canada/Quebec Pension Plan (CPP/QPP)
Average CPP - $8,204[1] Maximum CPP - $13,855[1]

Guaranteed Income Supplement

Old Age Security

All employed Canadians contribute to the CPP/QPP through payroll deductions. Benefits begin between ages 60 and 70 with 65 being the default age.[2]

Workplace pension plans

53% **of Canadians have workplace savings plans. This is down 6% since 1997.**[3]

There are two kinds of workplace pension plans:

Defined contribution plans - the employee makes the investment decisions.

Defined benefit plans - the plan sponsor assumes responsibility for the investments and pension payments to the members.[4]

Registered plans

Registered Retirement Savings Plan (RRSP)

Tax-free Savings Account (TFSA)

In the year you turn 71, you must close your RRSP. Rather than take a lump sum, you can convert it to a Registered Retirement Income Fund from which taxable payments are made to you based on a schedule set by the Canada Revenue Agency. Withdrawals from TFSAs are not mandatory and are not taxed.

To learn more about these registered plans visit Learn & plan on rbcgam.com for our article on RRSPs vs TFSAs.

Non-registered investments

Non-registered investments can be used to provide cash flow either through withdrawals or by paying distributions. However, different types of investments distribute at different times, which can make creating a regular paycheque difficult.

Annuities

Annuities are insurance products that exchange a stream of regular contributions, or a lump sum, for cash flows starting on a specific date.

What happens to RBC Retirement 2020 Portfolio this year?

Stays invested as you transition to retirement

RBC Retirement 2020 Portfolio is invested in approximately 40% equities and 60% fixed income and it will continue to become more conservative over the next 10 years. In 2030, the fund is expected to hold approximately 25% equities and merge with RBC Retirement Income Solution. There is no action required on your part as an investor either now, or then.

RBC Retirement Income Solution maintains an allocation of approximately 75% to fixed income to help stabilize returns and provide a relatively steady stream of cash flow in retirement.

What if i need income from my non-registered investments now?

RBC Retirement 2020 Portfolio is available in Series T5, which provides monthly distributions equivalent to 5% annually. It accomplishes this by distributing a mixture of interest income, dividends, capital gains and return of capital. Return of capital is a tax term meaning that a portion of your own capital is being distributed to you as part of the fund's distribution. Return of capital reduces your adjusted cost base but, since it isn't taxed in the year it is paid, it helps make distributions from non-registered accounts more tax efficient.[5]

Series T5 is available on RBC Retirement 2020 Portfolio, RBC Retirement 2025 Portfolio, RBC Retirement Income Solution and a host of other RBC Funds.

With cash flow flexibility and an investment timeline that keeps your retirement plan in mind, RBC Retirement Portfolios are designed to work with you whether you are saving for retirement, moving into it, or enjoying it today.

1 – canada.ca/en/services/benefits/publicpensions 11-2019
2 – For a statement of your expected CPP, visit: www.canada.ca/en/services/benefits/publicpensions/cpp/
3 – Statistics Canada – 2016 Census
4 – Please consult your workplace human resources department if you are unsure whether you have a defined contribution or defined benefit plan.
5 – When you eventually sell your fund in a non-registered account, the difference between the adjusted cost base and the market value will be taxed as a capital gain.

Portfolio manager viewpoint

Sarah Riopelle, CFA , Vice President & Senior Portfolio Manager, Investment Solutions

Financial markets staged a solid recovery in 2019 as a number of key macro challenges from last year faded and new tailwinds emerged. Although risks remain, several positive signals have led us to a more constructive outlook with lesser odds of a negative scenario unfolding. We expect global growth in 2020 to match that of 2019 and have lowered our assessment of the risk of recession. Stocks offer the potential for bigger gains compared to bonds and, balancing the risks and rewards, we think that the risk premium between stocks and bonds is worth capturing at this time. Stabilization in economic leading indicators, the rotation into value, and improving global market breadth have heightened our conviction in a positive outcome for risk assets.

Markets this quarter[2]

-0.9%

Canadian bonds

FTSE Canada Universal Bond Index

-1.5%

Global bonds

FTSE World Government Bond Index (CAD hedged)

+3.2%

Canadian equities

S&P/TSX Composite Index

+6.9%

U.S. equities

S&P 500 Index

+6.0%

International equities

MSCI EAFE Index

+9.6%

Emerging market equities

MSCI Emerging Markets Index

For the New Year 2020 Global Investment Outlook, please visit rbcgam.com/gio

[2]All returns are in C$ except where indicated. Canadian, U.S., MSCI EAFE and MSCI Emerging Markets index returns are total returns. Cash represented by FTSE Canada 30 Day T-Bill Index; U.S. high yield bonds represented by ICE BofAML US High-Yield BB-B Total Return Index (CAD hedged). An investment cannot be made directly into an index. The above does not reflect transaction costs, investment management fees or taxes. If such costs and fees were reflected, returns would be lower. Past performance is not a guarantee of future results.

We thank you for your ongoing trust in continuing to hold RBC Retirement Portfolios as part of your investment plan. If you have any questions or comments, please contact us or your advisor.

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