How to combine retirement plans for **sustained, predictable income**

Workplace retirement-plan members often face what seems like a daunting task when they retire: They have to build a sustainable income that spans decades, decide how to spend their time in retirement and what that will cost, and think about leaving a legacy.

It's complicated. Plan sponsors can help make plan members aware of resources available to help them figure out how their pensions fit with other retirement income sources. And encourage them to seek financial advice with the support of plan providers.

"They're approaching a milestone transitional point with their lives," says Christine Potvin, vice-president of the Client Solutions Centre at Sun Life. "There are a lot of decisions to make when a member is contemplating retirement, in addition to how they are going to withdraw and set up income for themselves."

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First, it's a good idea for plan members to understand the main details of their workplace plans. Some may have a defined-benefit (DB) pension plan, with a guaranteed lifetime payment based on years of service and earnings. For them, choices often revolve around additional assurances of income after death to their surviving spouse.

These days, workplace plans are increasingly defined contribution (DC), group Registered Retirement Savings Plans (RRSPs), Tax-Free Savings Accounts (TFSAs), or a combination of the three.

"It used to be about equal in terms of DC pension plans and group RRSPs offered by sponsors," says Eric Monteiro, senior vice-president of Group Retirement Services at Sun Life. "According to data from our **Designed for Savings** report, more employers today are offering a group RRSP—sometimes in addition to a DC pension or alongside a deferred profit sharing plan—for the employer contribution."

Life's brighter under the sun

Group Retirement Services are provided by Sun Life Assurance Company of Canada, a member of the Sun Life group of companies.

Sun Life

It's not uncommon for retiring members to have a DC pension, group RRSP and even plans from previous employers such as Locked-in Retirement Accounts (LIRAs).

Layer on other assets and income sources—such as Canada Pension Plan (CPP), Old Age Security (OAS), TFSAs and even a spouse's assets—and it's understandable why many plan members feel overwhelmed.

They're not alone. Mark Yamada, one of Canada's top experts on pensions and decumulation, says the subject can be vexing even for professionals.

"Decumulation is one of the most difficult personal financial issue out there," says Yamada, president of PUR Investing in Toronto. "The algorithm required has to take in so many factors, number one being actuarial: you don't know how long you or your spouse will live, or how healthy you will be."

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Even the guaranteed CPP and OAS raise thorny questions, such as when to start their benefits, says Yamada, whose firm develops customized investment platforms for pension-plan sponsors and asset managers.

Where to start?

Sponsors can lean on their providers to provide members with clarity by explaining the rules surrounding their plan.

Plan members likely need to familiarize themselves with various new terms, such as the Life Income Fund, or LIF.

"A LIF is like a registered retirement income fund or RRIF (Registered Retirement Income Fund), but it's locked in and has an annual maximum withdrawal in addition to the required minimum withdrawal depending on the member's age," Potvin says.

Some members may not fully understand a RRIF. So sponsors, with the help of their providers, may have to enlighten them. Both individual and employer-sponsored group RRSPs can convert to a RRIF at any point in retirement (before the end of the year in which they turn age 71). A RRIF requires a minimum annual withdrawal to produce taxable retirement income.

All RRSPs must convert to a RRIF or annuity when individuals turn 71. For a RRIF, they must start withdrawing the mandatory annual minimum amounts in the following year. These amounts increase each year after that.

The rules are similar with LIFs, where pension-plan assets can remain in accumulation until the end of the year in which individuals turn age 71, at which point they must convert to a LIF or annuity.

Sustainability of income from plans such as RRIFs and LIFs are top of mind for many plan members, both retired and nearing retirement. Many things can affect their ability to generate sustained, predictable income. That includes the investment selection inside the RRIF or LIF, these investments' level of risk, and the ability to provide consistent returns.

Don't forget about fees, Yamada adds: "It's one factor in the formula that individuals can control."

Paying higher fees than needed (for retirement income and tax planning, or investment management) can be a headwind for accumulating assets. In retirement, the impact is often more profound because assets are decumulated.

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"Members need to be clear on the value-add for that extra cost," Yamada says.

Opportunities to consolidate

One value-add for plan members is advising on opportunities to consolidate outside assets, such as from an RRSP, into the workplace plan.

"We produce a Retirement Income Roadmap that incorporates members' assets within and outside Sun Life," says Frank Pao, CFP, a retirement consultant for Sun Life in Toronto.

Why do so? Inside the group plan, members gain access to investments with typically better net returns and lower fees compared to similarly managed funds available on a retail basis, which can help retirement income last longer. Consolidation can also offer simplicity, Pao says. Members get one combined, consistent payment, rather than multiple income streams from different financial institutions.

Retirement consultants like Frank Pao are an important element of in-plan advice offered by plan sponsors and providers. This tailored service, along with the Retirement Income Planner through mysunlife.ca, are available to plan members.

For retirement income planning, no single solution applies to everyone with so many variables at play. That's where plan sponsors leveraging Sun Life's support system plays a critical role, Potvin says. This can come in the form of educational materials, nudges to review plan options, contributions and investment choices, or support from Sun Life's retirement consultants and online planning tools. Together, it all helps plan members create a retirement income that meets their unique retirement needs.

How else should you look at retirement income options? We'll probe further in the next edition of this decumulation series.

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