

# The Prudent Navigator

Financial Planning for  
Every Stage and Every Age

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**The  
Credit Union**  
For All Government Employees  
Ontario Civil Service Credit Union Ltd.

**We C.U.™**  
**MyCreditUnion.ca**

# Ontario Civil Service Credit Union Ltd

- A financial co-operative owned by its members
- Established in 1945
- Banking, lending, investing, financial planning
- Approximately 18,000 members across Ontario
- Government employees, current and retired, and their family members

# Key financial life stages

- Starting out – cash flow & debt management
- Buying a home
- Post-secondary education
- Retirement

# Cash Flow & Debt Management

# How do you spend your money?

## **Non-discretionary**

- Groceries
- Clothing
- Mortgage / rent
- Utilities
- Gas / commute
- Insurance
- Taxes

## **Discretionary**

- Dining out
- Vacation
- Gifts
- Entertainment
- Hobbies
- Personal spending
- Savings

# For a few dollars less...

	Accumulated savings at 5% per year		
	Per month	in 10 years	in 20 years
Coffee	\$40	\$6,211	\$16,441
Lunch	\$100	\$15,528	\$41,103
Cigarettes	\$180	\$27,951	\$73,986
Car vs public transit	\$300	\$46,585	\$123,310

# Debt consolidation

	Rate	Balance	Min. monthly payment
VISA	12%	\$3,000	\$90
MasterCard	19%	\$2,000	\$60
Personal line of credit	10%	\$5,000	\$150

**Balance owing after 3 years: \$10,000**

Consolidation loan	6.15%	\$10,000	\$300
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**Balance owing after 3 years: \$0**

# Tax Free Savings Accounts (TFSA)

- Contributions are not tax-deductible
- Income and growth not taxed until withdrawn
- Withdrawals are not taxable
- Annual contribution limit (tax year 2013)
  - \$5,500 (indexed to inflation in subsequent years, rounded to \$500)
  - Unused contribution room carries forward
- Generally, may use any RRSP-eligible savings or investment vehicle



# Buying a Home

# Debt service ratios

## Total debt service ratio (TDS)

$$\left( \begin{array}{l} \text{Debt payments: loans, lines of credit, credit cards, leases} \\ \text{PLUS} \\ \text{Housing payments: Mortgage/rent, property taxes,} \\ \text{heating costs, 50\% of condo fees} \end{array} \right) \div \text{Gross Income}$$

*TDS guideline maximum: 40%*

## Gross debt service ratio (GDS)

$$\left( \begin{array}{l} \text{Housing payments: Mortgage/rent, property taxes,} \\ \text{heating costs, 50\% of condo fees} \end{array} \right) \div \text{Gross Income}$$

*GDS guideline maximum: 32%*

# How much can you afford?

Gross monthly income	\$7,000
Maximum TDS (40%):	\$2,800
Maximum GDS (32%):	\$2,240

## Proposed monthly housing expenses

Property taxes:	\$380
Heating:	\$200
Condo fees (50%):	\$200
Total:	<u>\$780</u>

## Proposed monthly debt expenses

Loan:	
Lease:	
Line of credit:	
Credit card:	
Other:	
Total:	<u>\$0</u>

## Allowable maximum mortgage payment

Unused TDS limit:	\$2,020
Unused GDS limit:	\$1,460
Lesser of unused TDS and GDS limit:	\$1,460

**Available for down payment: \$20,000**

**Proposed mortgage payment: \$1,460**

Interest rate (posted 5-year closed):	5.00%
Amortization (years):	25

Maximum mortgage amount incl insurance: \$249,748

Purchase price w/no insurance: \$269,748

Estimated LTV for mortgage insurance: 92.59%

Mortgage insurance premium (%): 2.75%

Mortgage insurance premium: \$6,868

Maximum mortgage amount net of insurance \$242,880

**Maximum purchase price: \$262,880**

# Accelerated payments

\$250K mortgage at 5% interest per annum – Compounded semi-Annually

	<b>Monthly</b>	<b>Bi-weekly</b>	<b>Bi-weekly + 20%</b>
Payment amount	\$1,461.48	\$730.74	\$876.89
Amortization	25 years	21 years, 6 months	16 years, 11 months
Total interest expense	\$188,443	\$158,007	\$112,701
Total interest saved		\$30,436	\$75,742

# Post- Secondary Education

# The cost of education

## Average post-secondary education costs in Ontario

	2011- 2012	2029- 2030	
Tuition (1 year)	\$6,640	\$15,980	(5% inflation)
Room and board (1 year)	\$8,476	\$14,430	(3% inflation)
Total (4-year program)	\$64,080	\$129,245	

Source: Statistics Canada

# Registered Education Savings Plans (RESPs)

- A beneficiary may be named on multiple plans
- A family plan may be set up for multiple beneficiaries
- No annual contribution limit; lifetime limit = \$50,000
- Maximum contribution period
  - Individual plan: 32 years
  - Family plan: until youngest beneficiary turns 31
- Taxable portion of withdrawals attribute to qualifying beneficiaries

# RESP grants and bonds

## Canada Education Savings Grant (CESG)

- Annual maximum = \$600 (based on contributions & income)
- Lifetime maximum = \$7,200 (to 17 years old)
- Unclaimed grant room carries forward
- 16 & 17 year olds qualify for the CESG if:
  - \$2,000 in net contributions in RESP account prior to reaching age 16 or minimum annual net contributions of \$100 in four years prior to reaching age 16

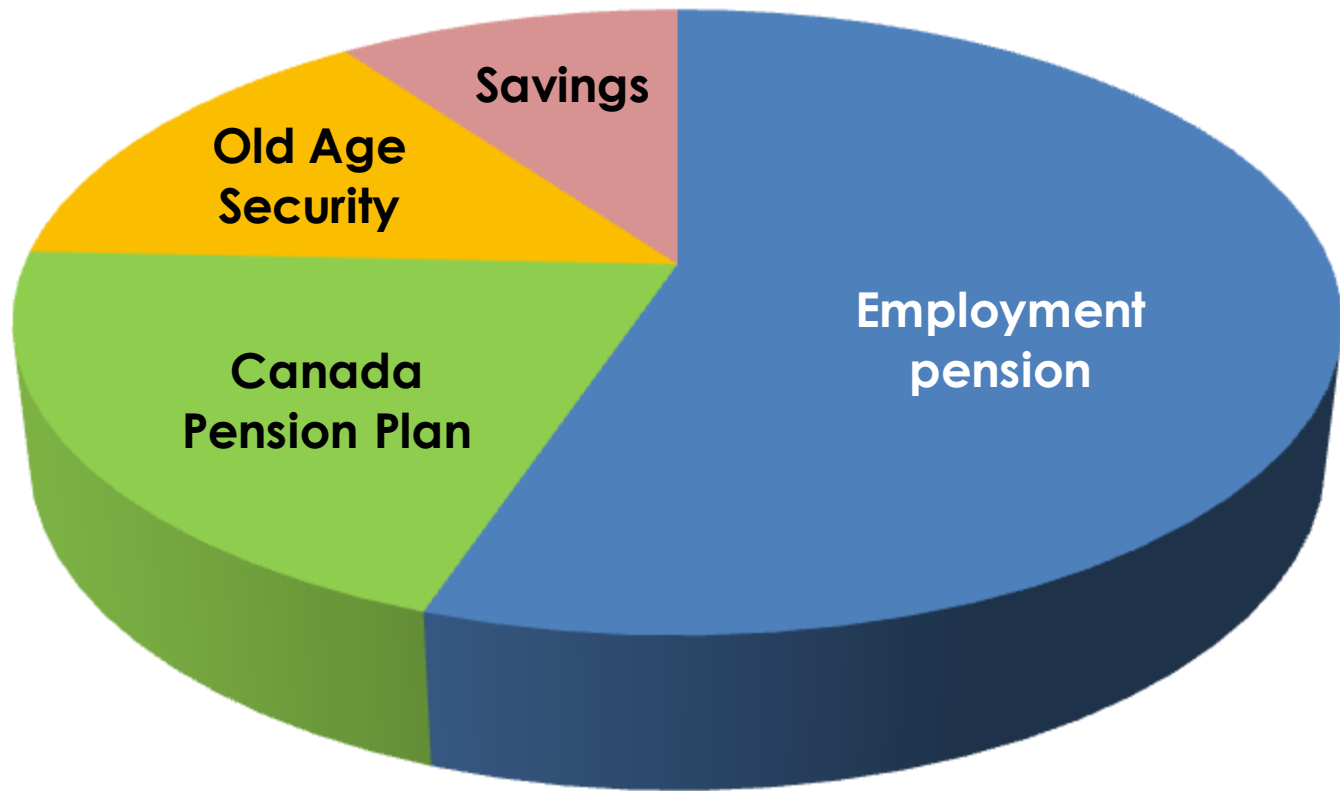
## Canada Learning Bond (CLB)

- Qualify based on family income
- \$500 in year 1
- \$100 per year thereafter; maximum 15 years



# Retirement

# Income sources



# OPS pension plans

- OPSEU Pension Plan / Public Service Pension Plan (PSPP)
- Taxable, indexed to inflation
- Insured health and dental benefits
- **Basic pension**  
2% x salary factor x years of pensionable service
- **Age 65: Reduction for CPP integration**  
0.655% (OPSEU) or 0.7% (PSPP)  
x lesser of salary factor and YMPE factor (\$51,100 in 2013)  
x pensionable service after 1965 (maximum of 35 years)

# OPS pensions – income options

- **Unreduced pension**

- Age 65
- Factor 90: age + pensionable service = 90+
- Factor 60/20: age = 60+ AND pensionable service = 20+

- **Reduced pension**

- Reduced by 5% per year between retirement date and 65th birthday

- **Deferred pension**

- May receive reduced pension starting as early as age 55
- May receive unreduced pension at age 65
- Pension based on credited service as of termination date

**Age 55+,  
No unreduced  
factor**

# OPS pensions – leaving the plan

- **Transfer to another pension**
  - Transfer agreement
  - Benefits and value of credits may vary between plans
  - Excess amounts – transfer to a Locked-In Retirement Account (LIRA)
- **Commutated value transfer**
  - Under age 55, no factor at termination
  - Transfer commuted value of pension credits to a LIRA
  - Possible taxable refund of excess contributions

# Termination payments

- **Normal retirement**

- Legislated severance
- Payable earned unused vacation credits
- CTO credits
- Time-banked credits (*SMG* only)

- **Surplus / Transition Exit Initiative (TEI)**

- Enhanced severance / continuous service payment
- Pay in-lieu

- **Credits not eligible for payout**

- Approved excess vacation carry-over
- MCO / COC

# Canada Pension Plan (CPP)

- **Retirement benefit**

- Taxable, indexed to inflation
- Can apply to receive benefit as early as age 60
- Benefit based on average annual contribution while working
- Maximum age-65 monthly benefit in 2013 = \$1,012.50
- Adjusted if starting month is before or after month of 65th birthday, from age 60 to age 70
- Low earnings & child rearing drop out provisions

# Canada Pension Plan (CPP)

- **Changing between 2011-2016**
  - Elimination of work cessation requirement
  - Post-Retirement Benefit
  - Increase in Child Rearing dropout provisions
  - Changes in early/late adjustments

Benefit start year	Early / late benefit adjustment	
	Per month relative Before	Per month relative to 65 <sup>th</sup> birthday After
2010	- 0.50%	+ 0.50%
2011	- 0.50%	+ 0.57%
2012	- 0.52%	+ 0.64%
2013	- 0.54%	+ 0.70%
2014	- 0.56%	+ 0.70%
2015	- 0.58%	+ 0.70%
2016	- 0.60%	+ 0.70%



# Old Age Security (OAS)

- **Retirement pension**

- Taxable, indexed to inflation
- Can apply to receive benefit starting at age 65
- Benefit based on residence in Canada from age 18
- Maximum benefit @ 40 years; minimum benefit @ 10 years
- Maximum monthly benefit (Jul – Sep 2013) = \$549.89

- **Repayment of benefits (2013)**

- Repayment of 15% of net income before adjustments over \$70,954
- Total repayment on \$114,945 or more

- **Low-income benefits**

- Guaranteed Income Supplement (GIS)
- Allowance & Allowance for Survivor (Age 60-64)

# Old Age Security – changes

- **Voluntary deferral of OAS pension (not GIS)**
  - Up to 60 months from eligibility age
  - Enhanced monthly benefit = 0.6% per month of deferral
- **Proactive enrolment for OAS & GIS**
  - For eligible seniors, no need to apply for benefits
  - Phased in from 2013 to 2016
- **Eligibility age for OAS & GIS changing from 65 to 67**

# OAS – eligibility age

Birth month	Birth year				
	1958	1959	1960	1961	1962
Jan	<b>Age 65</b>	65 +5 months	65 +11 months	66 +5 months	66 +11 months
Feb, Mar		65 +6 months	<b>Age 66</b>	66 +6 months	<b>Age 67</b>
Apr, May	65 +1 month	65 +7 months	66 +1 month	66 +7 months	
Jun, Jul	65 +2 months	65 +8 months	66 +2 months	66 +8 months	
Aug, Sep	65 +3 months	65 +9 months	66 +3 months	66 +9 months	
Oct, Nov	65 +4 months	65 +10 months	66 +4 months	66 +10 months	
Dec	65 +5 months	65 +11 months	66 +5 months	66 +11 months	

# Registered Retirement Savings Plans (RRSPs)

- Contributions may be deducted from earned income
- Income and growth not taxed until withdrawn
- Withdrawals are taxable
- Annual deduction limit (tax year 2013)
  - 18% of previous year's earned income minus Pension Adjustment
  - Maximum \$23,820
  - Unused deduction room carries forward
- Spousal RRSPs
- Home Buyers' Plan, Lifelong Learning Plan

# Make informed decisions

- **Professional resources**

- OPS Payroll & Benefit Advisors
- OPSEU Pension Trust / Ontario Pension Board
- Certified Financial Planner
- Accountant, lawyer

- **Online resources**

- Financial Planning Standards Council [fpsc.ca](http://fpsc.ca)
- Financial Services Commission [fSCO.gov.on.ca](http://fSCO.gov.on.ca)
- Ontario Securities Commission [osc.gov.on.ca](http://osc.gov.on.ca)
- Investor Education Fund [getsmarteraboutmoney.ca](http://getsmarteraboutmoney.ca)
- Financial Consumer Agency of Canada [fcac-acfc.gc.ca](http://fcac-acfc.gc.ca)
- Service Canada [servicecanada.gc.ca](http://servicecanada.gc.ca)

# For more information

- For any questions regarding the presentation or your specific situation, please contact us at

**[financialplanning@mycreditunion.ca](mailto:financialplanning@mycreditunion.ca)**

Thank you!