The Just Word Podcast

Transcript of Episode 46: Tax-Efficient Retirement

Guest: Ian Moyer

Pat Bolland 00:00
Ian, a real pleasure to meet you.

Ian Moyer 00:02
Great to meet you, Pat and seeing you different places, but great to chat to you directly.

Pat Bolland 00:08
I get around as they say you're still in Ingersoll I see and founder of Cascade Financial services. Well, what does Cascade actually do?

Ian Moyer 00:16
Cascades is a is a retirement income planning software that helps people do what they need to do in retirement to make sure that they're paying the least amount of tax that they they can and draw down the money that they saved 50 years, 40 years to accumulate.

Pat Bolland 00:35
Yep. And that's what I want to talk to you about, because I saw your article in Findependence Hub. And there were four retirement planning mistakes that people make ... expecting the government to look after you and I'm talking about OAS and CPP, those kinds of things .... applying to for benefits too early ... spending too much too soon, which is easy to see - you retire, you want to go on a ship somewhere around the world. But here's the thing that I think is really important, paying more tax than you need to. I mean, three of those things are common sense. But nobody talks about the tax component. Why do you think that is?

Ian Moyer 01:12
Well, that's an interesting point, what you're saying about common sense, because sometimes common sense isn't that common. And the aspect about people spending money too early is when you think about it, do you spend more money on the weekend, or during the week? And when you think about it every day, in your in your retirement is is a weekend. So that's when you spend more money. And to your last point about the the aspect of when do you take the money, that's all happens within cascades to help an individual figure out when they should be taking the money? How much they should be taking and determining how much tax over their retirement years, they're going to be paying?

Pat Bolland 01:56
OK, let's just start with those government benefits, because that's where the article actually started. And they talk about CPP, and whether you take it at 60, 65, or 70, how much of a difference does it really make? Can you run me through an example for instance?

Ian Moyer 02:12
Yeah, well, it's really based on a percentage. So every year you differ, the percentage goes up, and you get a bit more so isn't just at 60, 65 and 70 and every year in between, and that percentage goes up. So the more that you defer, the more goes up, let's take the example of old age security, it actually goes up a little higher, it goes up 7.2%. And the reason why that one's important is because people, some people fall into the category of having Old Age Security clawback if they're making over $81,000 a year, which I know seems like a lot. But if an individual is making more than $82,000 a year, the government starts to claw back that Old Age Security. So maybe by deferring it, sometimes in the early years, people will have higher incomes than they will later on. And there's a number of reasons for that. One reason could be they sell a cottage at age 66, that capital gains comes into play, and therefore they lose their Old Age Security for that one year. And if it's a couple, both of those individuals, if they have joint ownership in the cottage could lose their old age security. And you may say, Well, that's only $16,000. But it's interesting that to the client. That's their $16,000.

Pat Bolland 03:41
Yeah, good point. Okay, let's other than selling your cottage, or working older, I guess there's really only a few places where you can get income, and that's from the plans that you put together are the benefits. So there's government benefits. There CPP, Old Age Security. Then there's the Registered Retirement Savings Plan. There's the Tax Free Savings Account. And then there is either a personal pension or there's savings that you put together. Is that a fair kind of a comment?

Ian Moyer 04:08
Yeah but each one of those if you think of nonregistered, you could have interest dividends or capital gains from those non registered accounts. And each of those are, are affected differently by tax. There's a different tax rate for each of those. And another thing that happens is that dividends adversely relate to old age security. So the more dividends you have, because dividends are grossed up, they affect Old Age Security more than interest or capital gains. So you have to kind of watch what type of nonregistered income you're taking in retirement as well. Back to your point about pensions. There's actually two different types of pensions defined contribution and defined benefit and they're affected. They affect the tax rates different as well.

Pat Bolland 05:01
So the sequence that you activate those things must matter a lot.

Ian Moyer 05:07
It matters. And the reason why it matters in retirement, there's a big difference while you're working, the differences don't come into play. But in retirement, there's more deductions, you have an age deduction in retirement, you have a pension income deduction for each individual who has qualified pension income. So all of those things make a difference. Some things can be deferred, and then there's no tax at death, like Tax Free Savings Account. Other things like RRSPs can be deferred, but there's a huge tax liability on

Pat Bolland 05:42

Okay, but generously you let me try your financial services software. And I plugged in various scenarios, a 35 year old, 60 year old, an 88 year old, for instance, just to see how it worked. And almost in every case, the suggestion was that you wind down your registered plans first like your RSP. Is that generally the case?

Ian Moyer 06:08
It's common, but it's not always the case. And oftentimes, when we were developing this, we would sit around the table with different scenarios and trying to calculate, what do you think it would be? Do you think it would be registered first, or non registered first or Tax Free Savings first, and we guess, and if you're guessing it this stuff, you're gonna get it wrong. So we always say, let the math do the work and determine sometimes we'll do plan for someone and it'll say registered first, however, they'll say, they'll say, Well, yeah, but we're going to sell a business at a certain point, or we're going to sell the cottage, or we're actually going to sell a home and downsize and move into an apartment and do that. And then all of a sudden, a big lump sum of money comes into play. And that changes the perspective on the whole plan.

Pat Bolland 07:00
So your software, kind of, I didn't try them some of those scenarios like selling a cottage. But your software can accommodate that.

Ian Moyer 07:08
Yes, it can buy one time deposit, one or many time withdrawals or planning certain withdrawals for a certain phase of life, let's say in the beginning, you want to have extra money for traveling the first 10 years, then that can happen as well.

Pat Bolland 07:28
You know, it's interesting, I have seen literature of late and I gotta admit, I haven't noticed it. In the insurance industry, there are all kinds of products that seem to be offered that you can contribute to and invest with. And then they give you back your money, in many cases, almost tax free. What are your thoughts on a product like that? Number one? And do you incorporate that into your software?

Ian Moyer 07:56
Yeah we're working with a major fund company to introduce lot of them are called T series. So that you take you're taking your capital out first. And then you're deferring your gains until a future date. Sometimes that future date is 15 years, sometimes it's 18 years. And we're working with them to be able to illustrate that either for or against in the person situation. So whether it's useful for that individual to do that, and then run it against maybe not doing it doing something else.

Pat Bolland 08:32
Can anyone use your software? Or is it only really for advisors.

Ian Moyer 08:36
So it's available for advisors for a monthly fee. But it's also available to the consumer for a one time fee of $85, where they have a time period to use it. And that time period is currently 30 days. And they can

run as many scenarios as they want during that 30 day period. So it gives them a real snapshot of what what retirement is going to look like

Pat Bolland 09:01
Okay, why would they just run it for thirty days? And then saying, See you later kind of thing? Do they need it on an ongoing basis?

Ian Moyer 09:09
Yeah, usually it gives them a snapshot. We're looking at, we had some feedback that people are wanting it for a whole year. They they usually what happens is they do their snapshot, as they're getting ready for retirement. And then the following year, they pay their money again, and they run out again to see how accurate there are to get closer to retirement.

Pat Bolland 09:32
Yeah, but it seems to me, You should do this at the very beginning, you should do when you're 35 years old and say, Hey, listen, I'm going to put $8,000 a year away in an RSP. And I should have this much accumulated by the time I'm 65 because that's when I want to retire. And your software kind of played into that a little bit, didn't it?

Ian Moyer 09:50
Yeah, exactly. And we're just trying to get the people that are getting that tsunami that is getting towards retirement to use it and then go from there, but Really, the business owner that is 35 years old and has a corporation and wants to know, should they be taking dividends or salary? That effect affects retirement because that way, if you're taking dividends, you don't put money into CPP or you don't put money in RRSPs. So maybe it's important to find out when you're 35 years old, how you should be doing that and what you should be contributing. Same with Tax Free Savings Account, they're new on the scene in the last seven or eight or nine years. And now people are starting to accumulate money in that should a younger person put money into a tax free savings or an RSP? Or a combination? And what should that combination be?

Pat Bolland 10:42
Okay, ballpark, what should that combination be? Or is a unique in every case,

Ian Moyer 10:47
it's unique in every case, it really is unique in every case.

Pat Bolland 10:51
Okay, walk me through a scenario then let's say I'm 50, 55, 60 years old versus 70 years old, looking at your software? What do I need to know to complete the survey appropriately and get the right answers?

Ian Moyer 11:07
So the best thing if somebody is sitting down to use the software is to have the statements of the person gets their quarterly statements in terms of what they have in those particular assets, whether it be their RRSPs, the RIF, if they've started to take the money out of their RRSPs their pensions, when

they start. If there's any wraparounds in pensions, a lot of time that there's a wraparound around CPP and that gets affected, they get a certain pension at age 60. But at age 65, that drops because they're getting cpp. So all those things should be taken into consideration. And of course, birth dates and when they want to retire, do they have any specific income requirements in the early years, or we've been told a lot of people want to plan for money late in their life for proper nursing home care? And that can be very expensive. So you know, what does that situation look like? Nobody has a crystal ball. But if we can just start to plan out and then look at different scenarios and have people's input into what they want, because really, this is their retirement plan. It shouldn't be just something off the shelf, it should be their retirement plan.

Pat Bolland 12:24
Uniquely planned? Can I make a in your software? Can I make provisions for holding $100,000 back for the nursing home? Or holding, you know, same kind of money back for estate planning and those kinds of things?

Ian Moyer 12:38
Yep, very much. So you can choose the desired income. Or you can choose the maximum income sometimes somebody says, well, the software says that it'll give us 140,000 A year of after tax money, and we don't need that much. It's all everything's paid for the house is paid for 120 would be fine. Okay, well, let's put 120 in, and then you'll determine what the estate value will be at that given point.

Pat Bolland 13:06
This may seem like a silly question, and why isn't somebody done this before? I mean, why wouldn't the banks have this on their website, for instance,

Ian Moyer 13:14
you know, there's been so much emphasis on accumulation, that, that this has just been left to the side. And when we started creating this software, I couldn't find anything in the market that that would do this. There was nothing around that could do this. And the great thing about cascades is it compares scenarios, as you saw. So it compares three different scenarios. So there, there was some software out there, where what the adviser had to do was run the scenario 10 or 15 times and some of the software's are so cumbersome, that it takes two to two and a half hours to run a scenario. And if he ran 10 Of those, just they didn't have the time to do them would just be put aside and they're saying, well, we're not getting any extra money from the client to do this, and we're not going to spend the time on it. So it was really left aside. The institutions were geared on the last 50 years of putting money in or looking after the money that has been put away. And this has just been pushed aside. Now it's coming to the forefront because the great Boomer tsunami is here. We're in the midst of it and and there's a lot going on with with money needed to be there in retirement.

Pat Bolland 14:33
You know, I did I did exactly as you just described, I ran several scenarios under the 35 year old. There were two or three. And then I ran almost a dozen in the 60 year old to see if I paid myself differently and those kinds of things how it would play out. And all of that took me 20 minutes, maybe 30 minutes. Now I have a financial background so that was a little bit easier. And I kind of knew The numbers off the top

of my head of the value of my RSP. But I had 12 different scenarios sitting in front of me, inside of 30 minutes, it was very easy to do.

Ian Moyer 15:12
And that that's the line of complexity that we tried to follow since we created this. Let's make it important enough that there's value there. But let's not try and make it too complex that it's hard to use. And I'm sure we've all received a manual. If you've bought a snowblower, some kind of equipment or a stove or appliance or something, the chances of you reading that manual are greatly diminished by the size of that manual.

Pat Bolland 15:42
Oh, you've seen me shop at IKEA, have you?

Ian Moyer 15:46
Yeah, if it's a couple of pages long chances are you glanced through it. But but but if it's 40 pages, you're gonna put it aside and you'll never look at it. So we want to make it accessible and easy to use.

Pat Bolland 16:00
Right, exactly. Well, thank you again, for the opportunity to use that software. I found it very interesting, I hope the listeners to the podcast as well, where do they go if they want to get more information?

Ian Moyer 16:13
So right to our website, CascadesFS for financial solutions.com is to ...

Pat Bolland 16:19
Hold on, there's a cascade z. So it's D and like, CA, cascade CA CA, D, E S, and then ...

Ian Moyer 16:27
Yes, and then FS for financial solutions, those letters and then.com. And go there and you can look at the different information on the website. And there's contact information on there as well.

Pat Bolland 16:44
Ian, thank you again for your time.

Ian Moyer 16:46
You're welcome.

Pat Bolland 16:47
Ian Moyer. He's the founder of Cascade Financial Solutions.