

What's the most tax-efficient way for retirees Tyson and Daniella to draw down their savings?

DIANNE MALEY

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Tyson, 65, recently retired from a career in financial services. His wife Daniella, 57, took early retirement last year.

They have a mortgage-free house in the Greater Toronto Area and a vacation condo overseas. They have no children, so their estate will go to three charities outlined in their wills, Tyson writes in an e-mail.

Both Daniella and Tyson have defined benefit pension plans, not indexed to inflation. His plan will pay \$5,120 a month and hers \$2,200 a month. Both pensions have a 60-per-cent survivor benefit.

They have substantial savings and investments, both registered and non-registered. Their assets, including real estate, total \$5,372,000.

[Are retirees Amit and Keira, both in their 70s, too exposed to the stock market?](#)

Their retirement spending goal is \$150,000 a year after tax. Their questions:

- "Can we spend as per our plan without running out of money in our later years if we survive?" Tyson asks.



- "When should we convert our RRSPs to RRRIFs in each of our cases?"
- "How should we plan to withdraw from registered and non-registered accounts so as to minimize tax and avoid clawback of Old Age Security?"
- "When should we apply for Canada Pension Plan and OAS benefits?"

We asked Ian Calvert, a principal and head of wealth planning at HighView Financial Group in Oakville, Ont., to look at Tyson and Daniella's situation.

WHAT THE EXPERT SAYS

Tyson and Daniella have a strong balance sheet, no liabilities and a base level of pension income that will support a portion of their retirement cash-flow needs, Mr. Calvert says.

"What they are missing is a tax-efficient cash-flow plan that integrates their pensions, their RRSPs and their government benefits," he says.

The couple's net worth is about \$5,372,000, consisting of \$1,755,000 in combined RRSPs, \$352,000 in combined tax-free savings accounts, \$845,000 in a joint non-registered portfolio, \$620,000 in GICs and high-interest savings, and \$1,800,000 in real estate, of which \$1,100,000 is their primary residence and \$700,000 an overseas summer house.

Before any withdrawals from their portfolio, they have a cash-flow short fall, Mr. Calvert notes. They have combined gross pension income of \$87,840 a year. With an after-tax spending target of \$150,000, they are short by about \$80,000 a year.

"To fund this shortfall, they should delay their CPP and OAS benefits to age 70 and focus on their RRSPs," Mr. Calvert says. Withdrawing from their RRSPs early makes sense because they have enough financial assets to bridge the gap between now and age 70. "Deferring government benefits will enhance the income from these reliable, indexed sources."

Their combined total of \$1,755,000 in RRSPs is an impressive accomplishment, the planner says, "but there is a lot of deferred tax within that amount."

"An optimal withdrawal strategy would be starting now by withdrawing \$30,000 a year from each RRSP and about \$38,500 from their non-registered assets," he says.

This would give them total cash flow of about \$186,000 a year, broken down as follows: \$87,840 in pension income, \$60,000 in RRSP/RRIF income, and \$38,500 from their non-registered portfolio. "Subtracting \$36,500 a year in combined taxes would provide their \$150,000 a year of after-tax income."

[Are Einar and Jamila saving enough to retire and ensure their disabled child's financial security?](#)

By implementing this strategy, their taxable income, which also considers the investment income they must report from their non-registered portfolio, would be about \$95,000 each, or at the top of the 29.65-per-cent marginal tax rate, Mr. Calvert says.

"This strategy works well for a few different reasons," he says. First, it keeps them both in a favourable tax rate. Also, starting their RRIF withdrawals early rather than drawing larger mandatory amounts at age 72 will evenly spread their income over a longer period of time, he says.

Given the size of their RRSP accounts, when they start to withdraw this year, they should move only a portion of their RRSPs to RRIFs, then withdraw \$30,000 each from the RRIF account.

"If they moved the entire amount, the minimum withdrawal from the RRIF could be

higher than \$30,000 a year," Mr. Calvert says. The minimum withdrawal for the year is determined by the market value on Jan. 1 each year and a factor based on their age, he notes.

"To add some additional flexibility and control, they could safely transfer half of the RRSPs to their RRIFs until the full required minimums commence in their 72nd year," the planner says. Transferring half would not create a minimum withdrawal of more than \$30,000.

"After age 72, when CPP, OAS and the full RRIF minimum withdrawals are included in income, it's most likely a portion of their OAS will be clawed back due to their projected income levels."

Their portfolio withdrawal would start at about \$98,500 a year, or about 2.8 per cent of the current portfolio value. "With this rate of withdrawal, they should expect to see their capital increase over time as long as they average a long-term rate of return of 5 per cent a year," the planner says.

If they choose, they could aim for a higher spending target each year. "They're in a favourable financial position and should spend confidently from their asset base." However, it's important for their outflows and investable assets to be monitored and tracked each year within a comprehensive financial plan, he says.

Currently, their plan is to have all remaining assets donated to a few charities defined in their wills. "This is not only a generous and effective way to support causes they care about, but when set up correctly, it can create some meaningful tax benefits for their estate," he says.

CLIENT SITUATION

(Income, expenses, assets and liabilities provided by applicants.)

The person: Tyson, 65, and Daniella, 57.

The problem: How to draw down their savings in the most tax-efficient manner.

The plan: Tap RRSPs/RRIFs to make up for the pension shortfall, deferring government benefits to age 70.

The payoff: A clear picture of their financial future.

Assets: Joint bank accounts and GICs \$240,000; his cash equivalents \$70,000; her cash equivalents \$310,000; joint non-registered investment portfolio \$845,000; his TFSA \$192,000; her TFSA \$160,000; his RRSP \$915,000; her RRSP \$840,000; residence \$1,100,000; vacation property \$700,000. Total: \$5,372,000.

Estimated present value of his pension: \$825,000.

Estimated present value of her pension: \$356,000. This is what someone with no pension would have to save to generate the same retirement income.

Monthly outlays: Property tax \$500; condo fees \$1,500; home insurance \$70; electricity \$200; transportation \$550; groceries \$400; clothing \$300; charity \$200; vacation, travel \$3,100; personal care \$300; dining out \$1,700; entertainment \$400; subscriptions \$500; communications \$170; TFSAs \$1,100. Total: \$10,990.

Liabilities: None.

Ian Calvert is a Principal, Head of Wealth Planning at [HighView](#).