

OTAR & ASSOCIATES

User Guide

ALDA Worksheet

READ THIS USER GUIDE
BEFORE RUNNING THE PROGRAM.

The Purpose of this Spreadsheet:

The purpose of this Excel spreadsheet is to estimate the advantages and disadvantages of the Advanced Life Deferred Annuity (ALDA) for individuals.

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Installing the ALDA Worksheet:

ALDA spreadsheets work with Excel 2007 or newer with a PC-type computer.

1. Save the spreadsheet and the user guide provided in the email to a folder of your choice.
2. Double-click on the downloaded program file name (ALDAComp.xlsx) to open the spreadsheet.

How are Sheets Organized?

The spreadsheet consists of 2 Tabs (pages). You can switch between the pages in any order by clicking on its tab:



Enter the Input data in the **green cells** only. If you attempt to enter data in other cells you will get an error message.

Charts - This is the main page. This is where you enter essential information. Also, the graphic results are depicted in four charts.

Tables – Here, the results are presented in a table format.

The Charts Page

The basic information is entered into the "Charts" page. Enter data in **green cells** only. If you attempt to enter data in other cells, you will get an error message.

The data input area on the Charts page looks like this:

ALDA or NO ALDA?

Current Age:	70	ALDA Information:		When to convert RSP to a RRIF?
Current RRIF Assets:	\$500,000	buy ALDA age:	70	
Assumed Portfolio Growth Rate:	3.1%	Alda pays:	30.0%	<input checked="" type="radio"/> Partial at retirement, fully at the end of age 71
Assumed Future Inflation Rate:	2.1%	starting age:	85	<input type="radio"/> At Retirement Age
Annual Savings until retirement:	\$0	Maximum premium:	\$180,000 **	
Retirement Age:	70	Cash refund:	Y	
Annual withdrawals you need:	\$25,000 **	** in current dollars		
Marginal Tax Bracket:	30 %	Initial Withdrawal Rate at retirement: 5.0%		
Age of Death:	105			

Input:

Current Age: enter current age. The minimum age you can enter is 60. In the trial version, this is fixed and you cannot change it.

Current Assets: enter total RRSP and/or RRIF asset value here. In the trial version, this is fixed and you cannot change it.

Assumed Portfolio Growth Rate: Enter here the assumed average future portfolio growth rate. A good starting place is the recommended assumption guidelines published each year by the FP Canada Standards Council assumption guidelines (FPCSC).

Assumed Inflation Rate: Enter here the assumed average future inflation rate. Again, a good starting place is the recommended assumption guidelines by FPCSC.

Annual Savings until retirement: Enter here the dollar amount of annual savings until retirement. This dollar amount is constant; not indexed to inflation.

Retirement Age: Enter here the retirement age. The minimum is 60. If already retired, enter the same as the current age.

Required Withdrawals: Enter here in current dollars, what you need as annual income from the RRIF portfolio only. Just to clarify, this is not the minimum mandatory withdrawal amount from the RRIF, it is what you actually need from these savings. If the number you enter is lower than the minimum mandatory withdrawal levels, the program will calculate and use the minimum mandatory withdrawal amount in the analysis.

Marginal Tax Bracket: Enter here the estimated marginal tax bracket in percentage. It is used for calculating the tax deferral advantage (or tax burden, as the case may be) of purchasing an ALDA.

Age of Death: Enter here the age of death.

Buy ALDA at age: Enter here the age you want to buy the ALDA. It is usually the same age as converting an RRSP to a RRIF.

ALDA pays: Enter here the payout, the annual income from ALDA expressed as a percentage of the premium that you pay to purchase this ALDA.

Always obtain a quote from the insurance company. From this quote, find the annual annuity payment, and divide this by the premium you are paying. This is the annuity payout as a percentage of the premium.

Starting age: This is the age when ALDA payments start. The maximum age is 85.

Maximum premium: The maximum premium for an ALDA is currently the lesser of \$180,000 (2026), or 25% of the asset value of the eligible asset at the end of the preceding calendar year. This \$180,000 limit is indexed to CPI each year and it is increased in \$10,000 increments in future years. The calculations take that into account. So, don't be surprised if you see a purchase amount of \$210,000 at a future age in the tables for the ALDA premium. If you want to allocate to an ALDA a lower maximum dollar amount, then enter that into this input box.

Cash Refund: Enter here "Y" or "N". Cash refund means if the annuitant dies before receiving the full premium amount, the insurance company pays the beneficiary any remaining, unpaid balance.

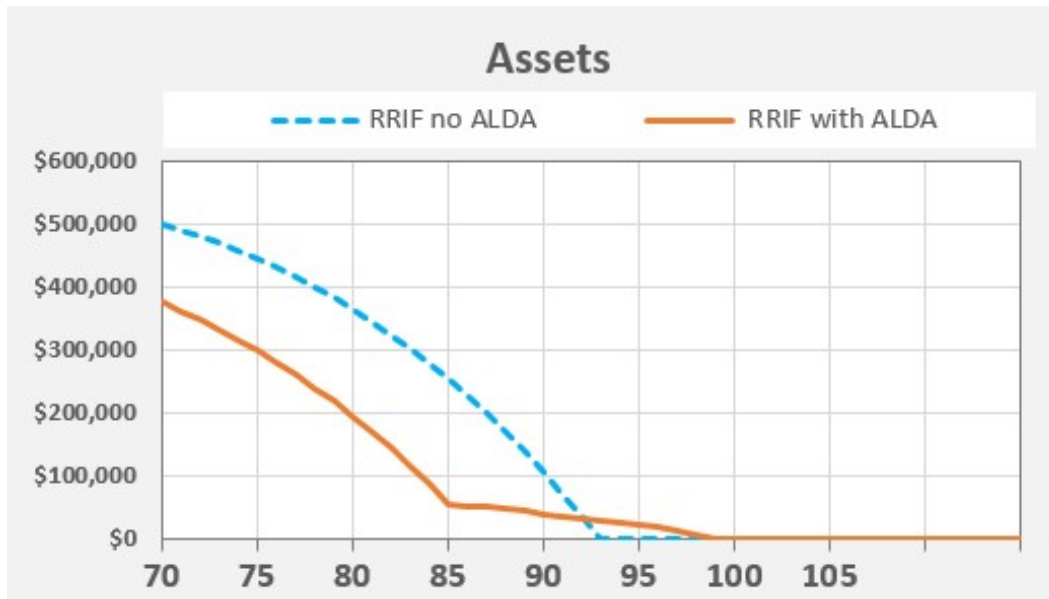
When to convert RSP to a RRIF: This is the age when the RRSP is converted to a RRIF. There are two options here.

The first option is used only when part of the RRSP is converted to a RRIF, just enough to pay the income needs until the mandatory conversion age of 71. At 71, the remaining RRSP must be converted to a RRIF. This option is preferable if the income required is smaller than the minimum mandatory withdrawals for the entire RRSP; deferring excess income taxes on RRIF income until after age 71.

The second option is to convert the entire RRSP account(s) into a RRIF even if you are younger than the mandatory conversation age. This is preferable when the required income exceeds the minimum mandatory withdrawals or when you want to draw down the RRIF assets faster.

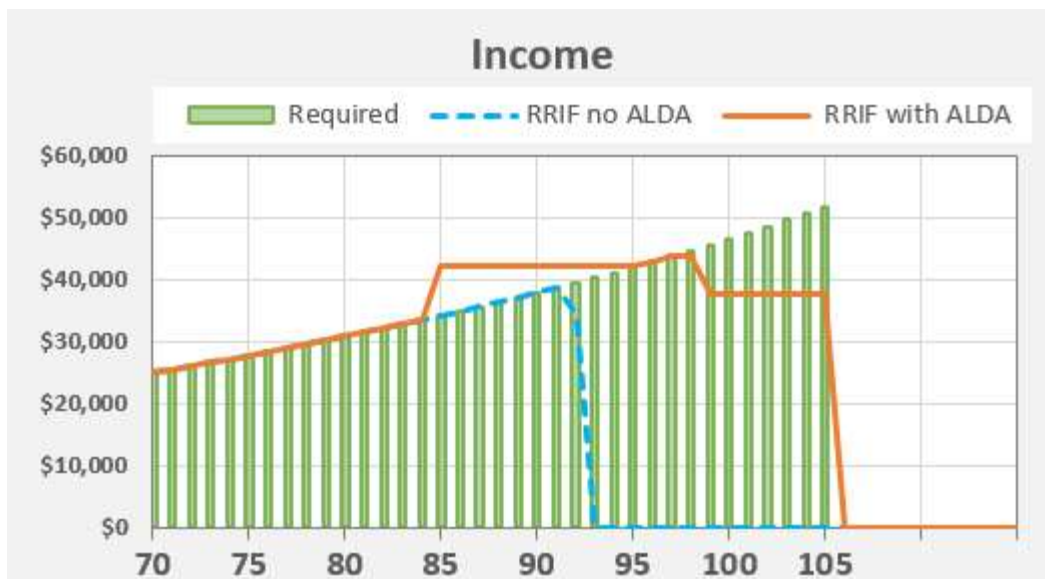
For all charts, the horizontal scale is fixed, starting at the current age and ending at the age of death, up to a maximum of 45 years of time horizon.

Asset Chart:



The dashed, blue line shows the asset value of the RRIF if no ALDA was purchased. The solid, brown line shows the asset value of the RRIF if an ALDA is purchased. Keep in mind, that the premium paid for ALDA is no longer an asset of the retiree.

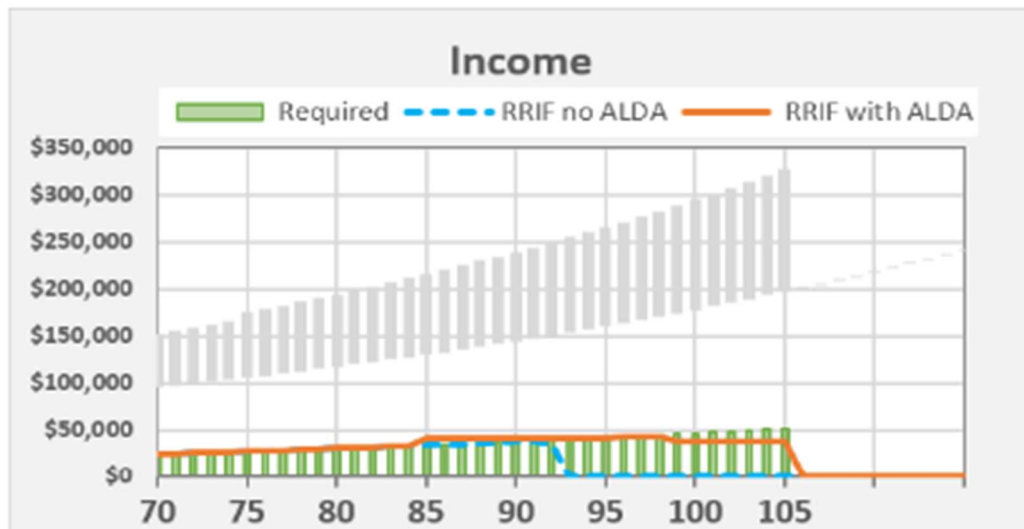
Income Chart:



The income chart shows the required income (green columns), the income taken from a RRIF with no ALDA (the dashed, blue line), and the income taken from a RRIF plus ALDA (the orange line).

Just below this chart, there is a box "Show OAS Clawback region". If you check it, it displays the OAS claw-back region on the Income Chart. The bottom of the gray bars is where the OAS claw-back starts and the top is where OAS is entirely clawed back.

The clawback threshold changes each year. Enter the current amount each year and save the spreadsheet with the updated amount.



Show OAS Clawback region

Your OAS benefit (before clawback): \$713 per month
 Clawback threshold: \$95,323

Notes for Cumulative Advantage Chart:

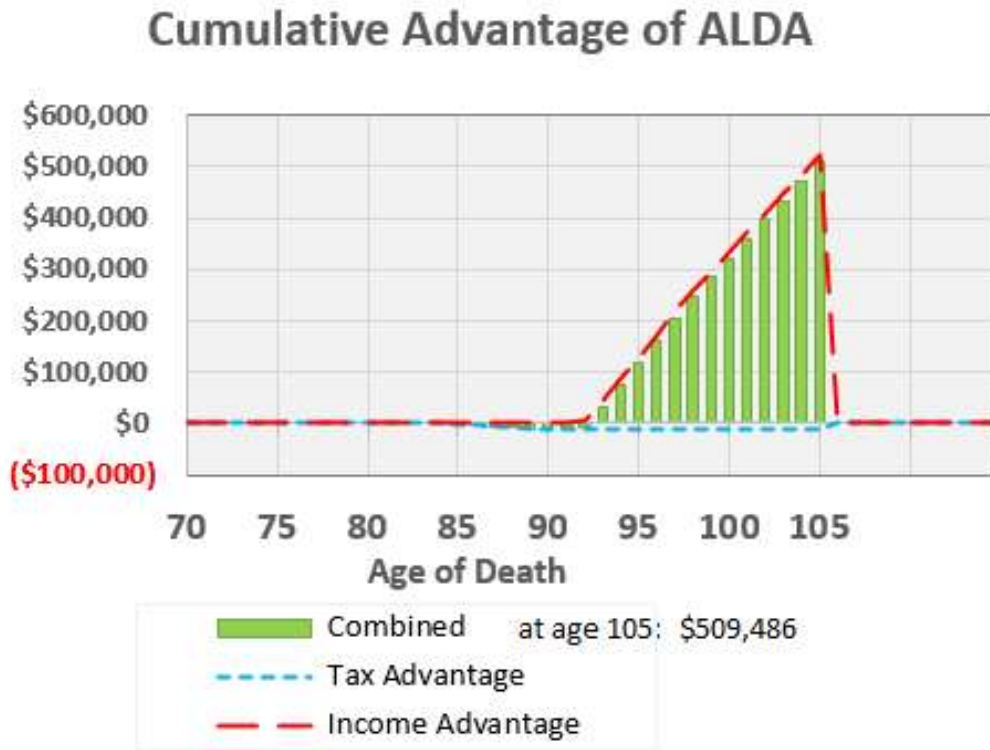
Taxes payable by the estate upon death on the remaining RRIF assets and or potential cash-back of ALDA premiums are not included in these calculations.

The tax component is the cumulative advantage of the tax deferral.

The tax component does not include OAS clawback amounts.

The income component is the cumulative income difference when ALDA is purchased.

Cumulative Advantage of ALDA Chart:



ALDA can give you two benefits:

Tax advantage:

By purchasing an ALDA using part of the RRIF assets, the minimum mandatory withdrawal amount from the RRIF portfolio is reduced. This reduces the taxable income until the ALDA payments start.

After ALDA payments start, the total taxable income increases. Depending on the total income (from ALDA and the RRIF), you may have a smaller tax advantage or even, an increased tax burden.

Generally, if you are in the green zone, this tax advantage turns into a tax burden if you happen to live beyond age 87. And if you are in the red zone, the required income is usually more than the mandatory minimum withdrawals anyway, and therefore, there is no significant tax advantage or tax burden.

Income advantage:

ALDA provides a lifelong income when the RRIF portfolio is depleted. This shows the cumulative advantage provided by this income when there is no RRIF income.

Generally, in the green zone, no ALDA is required. In the red zone, ALDA's help is significant.

Combined advantage: The combined advantage of the tax and income advantage is indicated as green columns on this chart.

Tables:

Tables provide a detailed breakdown of all the numbers that make up the charts.

Exiting:

Use the “File/Close” command of Excel or click on the “X” to quit Excel.

