

Retiring as an incorporated physician



MD Financial
Management



Is this guide for you?

Learn more about
incorporation at
md.ca/incorporate

You should read this guide if you're an incorporated Canadian physician who:



is approaching retirement and has substantial assets in your corporate account; and



needs to transition from practice income to income generated from your investments.

Retirement planning is more complex if you're incorporated



As a physician, you've invested immeasurable time and hard work in your career. But the rewarding retirement you dream about doesn't fall into your lap—it takes planning.

During your medical career, you've had a steady stream of income from your practice. In retirement, you'll have to rely mostly on income generated from your investments—which you often have less control over. With proper planning, though, you can ensure you have enough income to last your whole retirement and to leave the legacy you want.

When you're an incorporated physician, however, this planning is more complex. For instance, the assets you've built up in your corporation have to be worked into your retirement plan.



Your MD Advisor can help you integrate your corporation into your retirement plan and create an effective stream of income.



You can rely on MD for incorporation guidance

MD specializes in working with physicians, so we understand the complexities that you face.

MD has a long history of providing physicians with guidance, advice and practical solutions regarding incorporation. As you begin thinking about your retirement years, we'll work with you to maximize your financial well-being when you're no longer practising.



So what does retirement
planning involve for you?



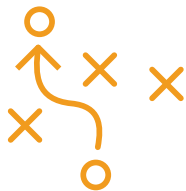
Retirement means moving from one stage of life to another, and it can be a difficult transition for anyone. For incorporated physicians, it has an extra layer of complexity.

Below are some key retirement planning topics to cover with your MD Advisor.



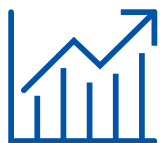
1. Your retirement goals

- Are you on track financially for retirement?
- What activities are you looking forward to in retirement?
- Will you be able to afford those activities?



2. Your compensation strategy

- Has your compensation plan evolved since you first incorporated your practice?



3. Your investments

- Have you made changes to your investment vehicles (RRSPs, tax-free savings accounts, life insurance, etc.) or your portfolio composition?
- Are your different investment vehicles all part of an overall plan?



4. Estate planning

- Do your retirement plans fit with what you hope to leave to your beneficiaries?
- Does your estate plan minimize the tax liability upon your death?



5. Major life changes

- Are you planning to move when you retire?
- Are there any major life changes, like a large inheritance or marriage breakdown, that might call for restructuring your corporation?





Create the retirement you've always hoped for



Take a moment to think about your goals for retirement. In a recent survey, physicians were asked what they were looking forward to in retirement. Three-quarters of respondents identified travel, hobbies, and pursuing new learning and interests. Almost as many chose spending more time with family and friends.¹

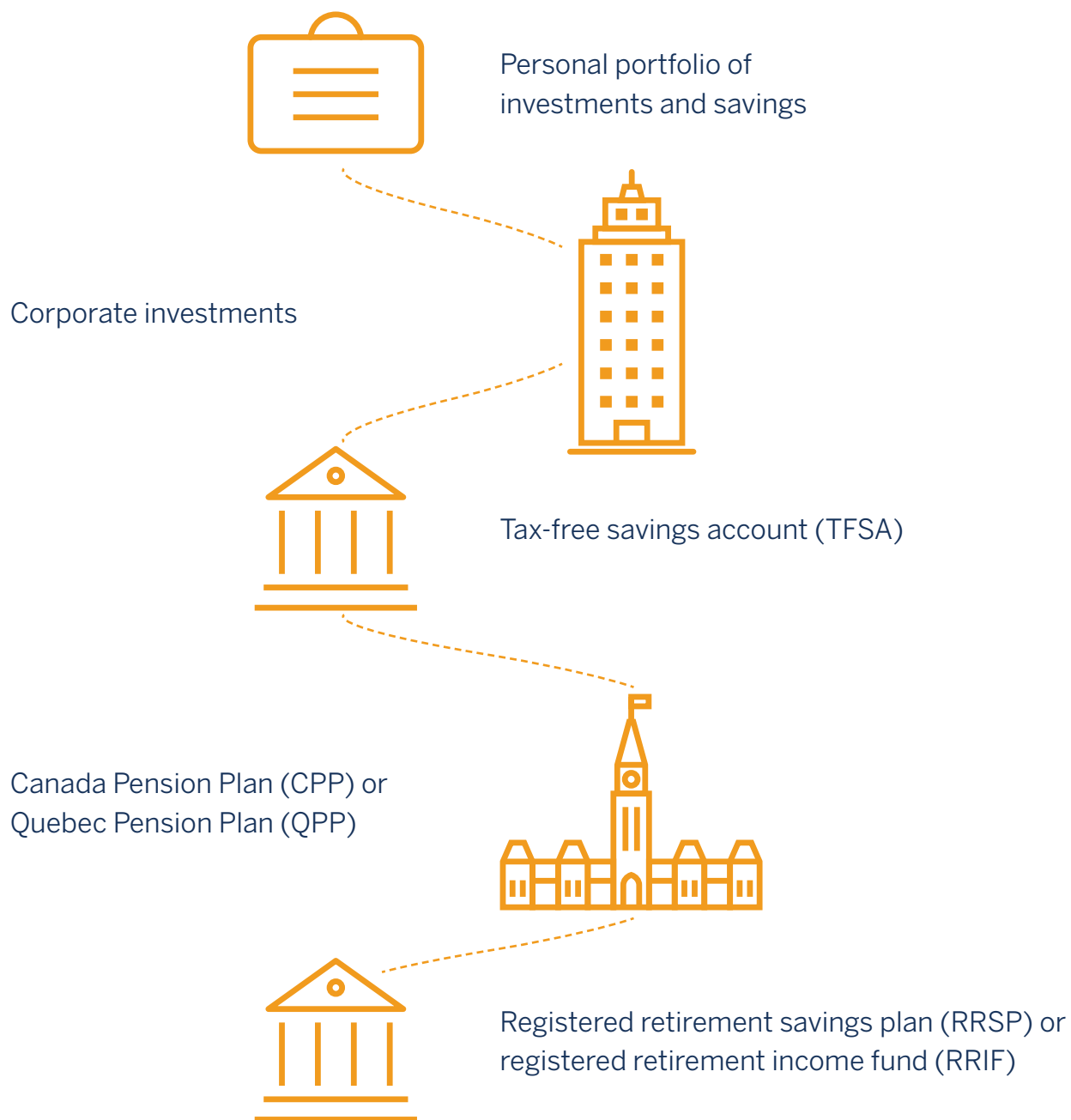
Once you've identified the retirement goals that are most meaningful to you, your MD Advisor can help you determine how to structure the income you'll need to achieve them.

¹ The 2018 MD Financial Management Physician Pre-Retirement Study.

Retirement income sources: What to draw on first?

When you begin to draw income in retirement, there are different tax consequences for each source of cash flow. The less tax you have to pay, the easier it will be to fulfill your retirement needs and goals.

Here are some common sources of cash flow for incorporated physicians:



So how do you know which to draw on first, and which to leave for last? The order depends largely on your primary objective, as you can see below.



Minimize current tax

- 1 TFSA
- 2 Personal portfolio
- 3 Corporation
- 4 CPP
- 5 RRSP/RRIF

If your main priority is to minimize the tax you're paying in early retirement, the TFSA comes first, since withdrawals are tax-free. The CPP/QPP and RRSP/RRIF are fully taxable, so they are left as long as possible. Of course, at a certain point—December 31 of the year in which you turn 71—it's mandatory to start withdrawing your RRIF.



Grow net worth

- 1 CPP
- 2 Personal portfolio
- 3 RRSP/RRIF
- 4 Corporation
- 5 TFSA

In this case, you want to touch as little of your money as possible and minimize the tax you pay. Since CPP/QPP payments come from a pool of government money combined with your own contributions, it gets used first. The TFSA is the only option that has no future tax implications, so it's drawn on last.



Manage risk

- 1 Corporation
- 2 Personal portfolio
- 3 TFSA
- 4 RRSP/RRIF
- 5 CPP

If your main concern is income security, CPP/QPP is the last to draw on since government money is guaranteed and is the most immune to poor returns and to longevity risk (i.e., the risk of outliving your money). Conversely, drawing from the corporation first makes sense since it likely holds your most aggressive (and least stable) investments.



Preserve estate

- 1 RRSP/RRIF
- 2 CPP
- 3 Corporation
- 4 Personal portfolio
- 5 TFSA

In an estate, the RRSP/RRIF is usually fully taxable. If you draw from it early in your retirement, you're reducing the tax your beneficiaries will be left to pay. The TFSA is last to be used because it's not subject to tax and will preserve all of its value when liquidated.

This outline is just a start. Your MD Advisor will work closely with you on the best strategies for your retirement income.



Shifting to dividends in retirement

While you were practising, your professional corporation probably paid you a salary, dividends or both.

In retirement, physicians typically aren't performing work that warrants a salary, so chances are you will want to change your compensation to dividends only.

Dividends are a tax-efficient way to withdraw investment income or retained earnings from previous years. Here are some of the main things to know about shifting from salary to dividends in retirement:



Dividends are taxed more favourably than salary, which is taxed personally.



Dividends do not create RRSP contribution room the way salary does.



Paying dividends allows you to recover some of the tax you'll pay on passive investment income.



Some dividends, called capital dividends, can be paid out tax-free.



You may want to shift your corporate investments toward investments that generate income from eligible dividends.



If you are 65 or older, dividends will allow you to income-split with your spouse without having to meet the "reasonableness" test that applies to salary.

Your MD Advisor can discuss your compensation strategy with you, and integrate advice from your tax advisor and accountant to your investment, retirement and estate plans.

Sometimes what's best for the current year may not be the best strategy five or 10 years later, so it's important to have a holistic view of your overall financial plan.

Income security and your investment portfolio

When you retire from practice, knowing you have a steady cash flow will become increasingly important. Sometimes this new focus on income security can require significant changes to your investment portfolio.

During your working years, you were building your assets, so you invested in equities (growth investments). Now, as you approach retirement, you need to prepare to draw on those assets. That likely means changing to more tax-efficient and conservative investments to help preserve your capital.

Here are some things you can anticipate during the various stages of retirement.

Late 50s and early 60s:

You might face a transition in your investment portfolio and methods of compensation.



Early 70s:

You'll be dealing with converting RRSPs to RRIFs if you haven't already.



Mid-60s:

You may need to assess your eligibility for certain government benefits and consider the tax-efficiency of your income.



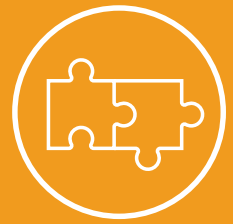
Late 70s:

You may encounter risks related to declining health and increasing care costs.



Your MD Advisor is familiar with these stages and will help you adjust the various components of your portfolio effectively.

Retirement and estate planning go hand in hand



We all grow old, and most of us will have diminished capacities at some point later in life. In anticipation of this, work with your MD Advisor ahead of time to address issues regarding your investment portfolio, your corporation and, of course, your estate.

Having a corporation in your estate can make it more complicated to create an efficient legacy. Our guide on estate planning offers more detail on estate administration, but here we'll look at some aspects that are more closely related to retirement.

It's wise to start thinking about some elements of your estate plan even before you retire. Let's take corporate-owned permanent life insurance as an example. This type of insurance—which has an insurance component and an investment component—can help you address both liquidity and tax considerations in your estate, but it's best to start a policy while you are younger and likely healthier.

Corporate-owned permanent life insurance has retirement-related benefits. It can help shield some of your investment income and be a relatively secure asset diversification tool. While corporate-owned life insurance can also act as a backup plan for retirement income, it usually functions best in your estate plan. That's because when it's part of your estate, it's possible for both the investment and insurance components to be distributed tax-free.

Putting your legacy in order

The goal is to get your retirement and estate plans working together to minimize the overall taxes paid by you and your beneficiaries. After all, minimizing your taxes in retirement isn't ideal if it leads to substantially higher taxes later on for your estate.

Also give some thought to your biggest legacy priorities, such as an inheritance to your children and grandchildren, or donating to certain charities. Your wishes will affect your retirement plan and the vehicles you invest in (permanent life insurance, trusts for your personal non-registered assets, donor-advised funds, etc.).



Rethinking your corporation in retirement

Generally, once you no longer maintain your licence to practise medicine, provincial colleges of medicine won't allow you to keep your corporation as a medical professional corporation (MPC). So you have some decisions to make.

Wind up: If you don't have a lot of assets in your corporation, you can formally wind it up. This involves selling the corporation's assets, paying off creditors, distributing any remaining assets to the shareholders and dissolving the corporation, among other steps.

Convert: If you have built up investments in your corporation and there is benefit in keeping it, you can simply convert your MPC to a holding company with a new name. The new name will let people know that your corporation is no longer an MPC. When you change to a non-practising corporation, you'll no longer report to your college of medicine regarding your corporation or be responsible for paying college MPC fees. In provinces with shareholder restrictions imposed by the college, once you've converted your MPC to a holding corporation, those restrictions no longer apply.

Note that if you move to another province in retirement, you'll have to think about any tax differences and adjust your income strategies accordingly. Leaving the country is another matter, and generally creates significant tax consequences for your corporation.

Your MD Advisor can help you with planning for your corporation in retirement. You should also talk to your legal and tax advisors to assess the legal and tax implications of any changes you want to make.

There are also people you'll need to talk to or notify regarding any changes to your corporation. These include employees, colleagues and partners, your provincial medical association, the Canadian Medical Association, hospitals and pharmacies, and so on. Your MD Advisor can provide you with a full list.

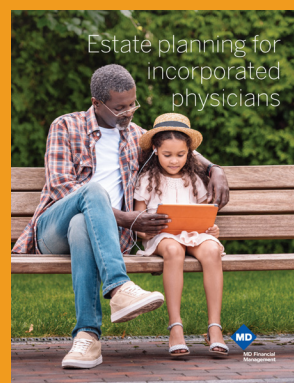
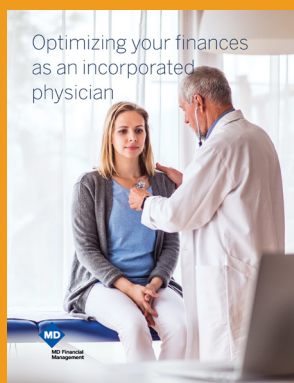
Retirement, your way



Most people look forward to retirement as an opportunity to travel, pursue their hobbies, try out new activities and devote more time to family, friends and community. Having the right retirement plan in place will go a long way in helping you enjoy the retirement you've always hoped for. Think of it as retiring with purpose.

MD has financial tools to model many different retirement scenarios for you. We can collaborate with your tax advisor to maximize your retirement income while managing the risks of inflation and longevity to strengthen your financial security. Your MD Advisor is ready to have a retirement planning discussion with you at your convenience.

See the three other guides in this series:



Contact your MD Advisor to learn more about retiring as an incorporated physician.

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