

Modifying the Liquidation Order in Retirement

Functions addressed in this document:

- How can the liquidation order in retirement be modified?

Manual Liquidation Order

☐ Modify the liquidation order

Account Sorting order

▼

Apply Sort

	Description	Account Type	Owner
<input checked="" type="radio"/>	1 NR	Non-Registered	Joint
<input type="radio"/>	TFSA	TFSA	Susan
<input type="radio"/>	RRSP	RRSP	David

Liquidation Strategies (Set Goals – Retirement – Liquidation Strategies)

Scenario Manager – Liquidation Order (Results – Analyze Goals – Scenarios – Edit Recommended Plan – Retirement)

How can the liquidation order in retirement be modified?

NaviPlan uses an automatic account redemption strategy to fund the retirement goal, redeeming account and annuities in a specific order. In **Level 2 Plans**, you can override the default redemption order both at the plan level and at the retirement goal scenario level using the **Liquidation Order** feature.

You can modify the liquidation order for the current and recommended plans on **Liquidation Order** (accessible from **Results – Analyze Goals – Scenarios**). When you specify liquidation order at the scenario level, it is incorporated into the overall plan only if the scenario is marked as **Recommended**. The liquidation order used in the current retirement scenario can be modified in the **Set Goals – Retirement – Retirement – Liquidation Strategies**.

Did you know? Liquidation order for the plan, whether using the default liquidation order or by overriding the liquidation order settings, applies during the retirement period for survivor, disability, and long-term care analyses.

Liquidation order can be controlled using two different approaches. Both are available whether you are modifying liquidation order at the plan level or scenario level. Liquidation order can be controlled by:

- Account type – If a high-level approach is all that is required.
- Individual account – if more detailed control is necessary.

Liquidation order by account type

In NaviPlan, accounts and annuities are grouped by type (non-registered, Roth, and registered). When using account-type liquidation ordering, it is important to understand that NaviPlan considers non-registered accounts as separate from

non-registered annuities, and that liquidation of non-registered accounts occurs before the liquidation of non-registered annuities.

For the other account types (TFSA and registered), NaviPlan groups together the accounts and annuities into one account type. For example, NaviPlan groups TFSA accounts and TFSA annuities into a single account type.

There are three account-type ordering options, as follows:

- Non-registered – TFSA – registered (default order)
- Non-registered – registered – TFSA
- TFSA – registered – Non-registered

After selecting an account-type liquidation ordering, it is important to understand how NaviPlan redeems the accounts and annuities contained within each account type.

When using account-type liquidation ordering, the clients' dividend and interest income are used first, and then the individual accounts within an account type (including system-generated accounts) are liquidated according to the default liquidation order. NaviPlan then redeems from each account type in the following order:

Non-Registered account type

1. Non-registered accounts

- a. **Cost basis:** Accounts are ordered by their ratio of cost basis to market value (both values as of the end of the year). Accounts with the highest ratio are used first to minimize capital gains taxes. In Example #1 below, account A is used before account B.

Example #1

Non-Registered account	Cost basis:market value ratio
A	$\$7,000/\$10,000 = 0.7$
B	$\$6,000/\$10,000 = 0.6$

- a. **Return Rate:** When accounts have the same ratio of cost basis to market value, the account with the lowest rate of return is used first. In Example #2, account C has the lower return rate and will be used before account D.

Example #2

Non-Registered account	Cost basis: market value ratio	Return Rate
C	$\$7,000 / \$10,000 = 0.7$	6.0%
D	$\$12,600 / \$18,000 = 0.7$	8.0%

- a. **Market value:** If the above are identical, accounts are redeemed based on the start-of-year market value from smallest to largest.
- b. If two accounts have the same cost basis to market value ratio, the same rate of return, and the same market value, the next determining factor is asset category. Asset categories are redeemed in the following order: cash account, mutual fund, and investment portfolio.
- c. Finally, if the asset category is the same, the accounts are redeemed in alphabetical order based on the name given in the **Description** field.

2. Non-Registered annuities (not paying-out)

- a. Annuities with **Income Option** set to **Withdrawals as Needed** are used first. Then, annuities are ordered by their ratio of cost basis to market value (both values as of the end of the year). Annuities with the highest ratio are used first—again—this is to minimize capital gains taxes. When annuities have the same ratio of cost basis to market value, the annuity with the lowest pre-annuitization rate of return is used first.
- b. If necessary, deficits between the clients are shifted to avoid penalty taxes that may arise from early withdrawals from annuities. For example, when a co-client's deficit needs to be covered by an annuity that will incur penalty taxes, and the client's annuity will not incur penalty taxes, the deficit is shifted to the client.

Example #3

	Annuity current value	Current surplus/ (deficit)	Subject to penalty tax	Redeemed for deficit coverage
Client	\$25,000	\$(5,000)	Yes	0
Co-Client	\$25,000	0	No	\$(5,000)

TFSA

TFSA's are ordered by their total return rates, from lowest to highest, with accounts with the same total return rates used in alphabetical order.

Registered account type

The Registered account type includes Registered accounts and Registered annuities (not paying-out). Accounts and annuities are ordered by their ratio of Registered basis to market value (both values as of the end of the year) from highest to lowest. Account and annuities with the highest ratio are used first to minimize income taxes. Where the ratio is equal, accounts and annuities are ordered by their total return rates, from lowest to highest, with accounts with the same total return rates used in alphabetical order.

As with non-Registered annuities, deficits between the clients are shifted to avoid penalty taxes that may arise due to early distributions from Registered accounts or annuities.

Liquidation order by individual account

If you select the **Modify the liquidation order** option on the **Liquidation Order** tab (**Scenario Manager** dialogue box – **Retirement** section), you can move retirement accounts up and down in the liquidation order. Liquidation order modifications at the individual account level override any previous modifications made using the account-type approach.

When using individual account liquidation ordering, system-generated accounts do not appear in the account listing; rather, they are liquidated before any of the non-Registered accounts shown in the list.

Did you know? The **Override the default order** option must be selected as it enables the **Modify the Liquidation Order** option as well as the selections under **View/Modify Liquidation Order** (**Scenario Manager – Liquidation Order**).

The following accounts do not appear in the liquidation order list:

- System-generated accounts.
- Emergency fund accounts, if reserved until the end of the plan.
- RESPs, which cannot be used to fund retirement needs.

Special Considerations

Annuities appear in the liquidation order if they have the **Withdrawals as Needed** income option or if they are set to annuitize after retirement. Once they annuitize, they can no longer be used for deficit coverage and will be skipped-over in the liquidation ordering following the annuitization date.

Regardless of how the liquidation order is modified, accounts that are only available for deficit coverage during part of the retirement period may appear in the liquidation order list. Regardless of their position in the list, these accounts will only be liquidated during the time period when they are actually available. This applies to the following:

- Accounts where only a portion of their total value is designated as a retirement-funding account. These accounts appear in the liquidation order list, but the order applies to the portion of the account that funds the retirement goal.
- Registered accounts when an age greater than retirement is entered in the **Do not redeem Registered assets prior to age** field located on the Liquidation Order tab (**Set Goals – Retirement – Liquidation Strategies** , or from the **Scenario Manager – Retirement – Liquidation Order**).
- Residuals from non-Registered accounts that fund education and major purchase goals. These accounts appear in the liquidation ordering list, but the ordering only pertains to the residual amounts after each corresponding goal ends.