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TAX MATTERS

What to consider when looking at your options for retirement income

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I was talking to my father about life recently. He's been retired for several years now, but he's always busy. "Tim, retirement kills more people than work ever did – so you've got to keep busy. Retire from your work, but not from life. And you know, life is short. So, smile while you still have teeth," he said. My dad actually has great teeth – still. I'm hoping that's a genetic thing.

We also talked about retirement income, which has been my topic for the past two weeks. I've been responding to some great comments from readers and I wanted to finish the discussion today, so let's jump right in.

The RRSP "tax trap"

It's hard to write about retirement income without some folks warning that registered retirement savings plans (RRSPs) are a "tax trap." The concern is that withdrawals later in life – or taxation at death – will push people into higher tax brackets and could lead to clawbacks of Old Age Security benefits during retirement. My response? You're missing something.

An RRSP gives you a deduction when you contribute and allows your investments to grow tax-deferred for decades. You're effectively investing pretax dollars. That's not a trap. It's a powerful investment tool. Yes, tax is eventually paid, but that was always the deal. The question was never if tax would be paid, but when.

It makes sense that tax should be owing either when you make withdrawals or when you pass the registered plan assets to the next generation. The good news? You can pay tax gradually as you withdraw funds – which you control (except for the minimum withdrawal requirement for registered retirement income funds).

Some who are single view the taxation of registered plans as unfair because they don't have a spouse to allow a tax-free transfer on death. The reality? Whether you're single or have a spouse, we're subject to the same rules: We face tax on withdrawals or when assets go to the next generation. A single individual might live longer than both spouses from another couple and could enjoy

more years of tax deferral than the couple did.

So, RRSPs are not a “tax trap.” But let’s not ignore sensible planning. Smoothing withdrawals, managing tax brackets and thinking about estate consequences all matter – which I discussed two weeks ago.

The real goal in retirement

People seem to fall into two camps when it comes to retirement income planning: One camp believes in “avoiding tax at all costs.” The other says, “just live your life.” I understand both views and think a prudent approach lies somewhere between.

The primary goal in retirement is to avoid running out of money. Yes, taxes are part of the equation, but sustainability of income and peace of mind matter more. It’s important to realize retirement can bring unpredictable shocks: long-term care costs, major home repairs, helping adult children, dental bills and market downturns.

If you focus so much on saving taxes that you ignore the objective of saving and investing enough in the first place, your tax strategies won’t matter much. Being tax-aware is wise. Being tax-obsessed can be exhausting.

There are excellent tools to help with the math. Online software such as www.milestones-retirement.com or www.mayretire.ca can test scenarios around Canada Pension Plan timing, RRSP drawdowns and longevity. Financial planners also have access to sophisticated modelling software. Use the tools. Do the projections, then make informed decisions.

When you understand the numbers, you can be confident you’re on track to have enough for your lifetime.

The psychology of retirement

Many readers say they want to enjoy their early retirement years – the “go-go” years when health and energy are strongest. That makes sense. Spending is rarely flat in retirement. It often starts higher with travel and experiences, then tapers off later.

The hard part can be psychological. For decades, you’re a saver. Suddenly, retirement requires you to become a spender. That shift can feel unnatural, with the fear of depleting assets too quickly because markets fluctuate and life expectancy is uncertain. This brings me back to having a stress-tested plan. Financial planning software can help, and a financial adviser, if you can’t do the math yourself, will be invaluable.

But retirement is about more than spreadsheets. Work can provide identity, structure and purpose. When that disappears, some feel they’re drifting. It’s important to consider not just how you’ll fund retirement, but how you’ll live it.

Determine your purpose. Your future can be bigger than your past – regardless of your age. You have time, experience and perspective. The impact you can have on family, your community and the next generation may be greater in retirement than at any other stage.

Retirement income planning is about freedom – the freedom to live well and with purpose. Taxes matter. But living fully matters most.

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