

# Retirement Planning Workshop

## Agenda

- **What is Retirement Planning?**
- **Why Plan for Retirement?**
- **5 Key Risks to secure income**
- **Goal Setting**
- **Retirement Income Considerations**
- **Asset Accumulation Considerations**



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# Retirement Planning

## *The Big Shift*

**In retirement, you need to think about financial issues differently...**

- **No more paycheque**
- **Multiple income sources**
- **Withdrawing from your savings**
- **Living within a budget**

# Retirement Planning

## *What is Retirement Planning?*

***Retirement planning is a step by step process that helps you reach your goals by gaining perspective on where you are now and defining where you may want or need to be in the future***

***Retirement planning provides direction and meaning to all your retirement decisions, defining each in the context of the other, how they are all a part of a whole. Woven together in this way, retirement planning should help you adapt more easily to life changes and keep you on track***

# Retirement Planning

## *What is Retirement Planning?*

*Retirement planning is about clarity and perspective!*



# Retirement Planning

## *A Challenge for Canadians*

*If you are approaching retirement, or already there, you face an increasingly complex challenge –*

*“Making your money last throughout your lifetime”*

*What’s your Plan!*

# The 5 key risks to a financially secure retirement



Longevity



Inflation



Health care



Withdrawal



Asset allocation

# Longevity - Plan on outliving the averages

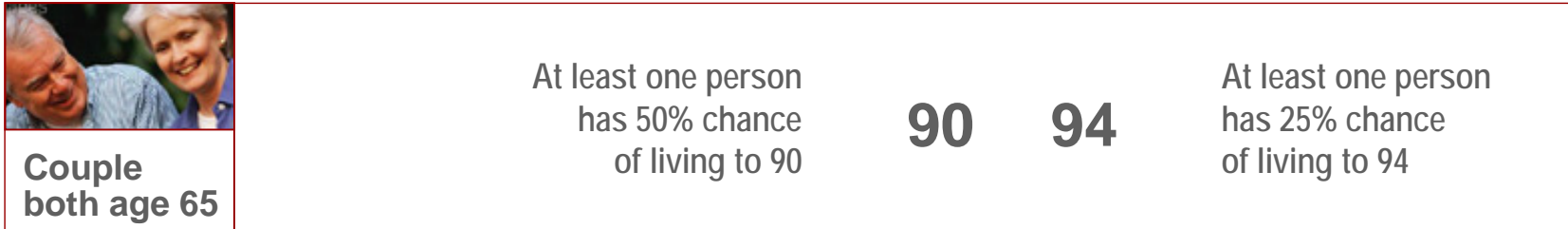
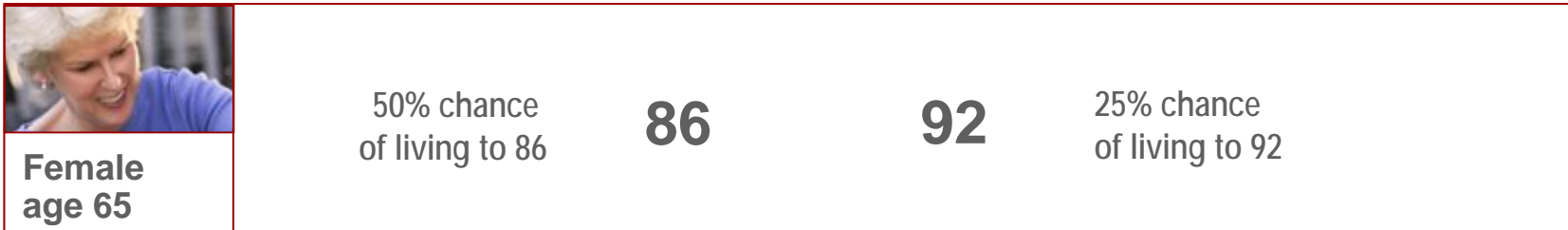
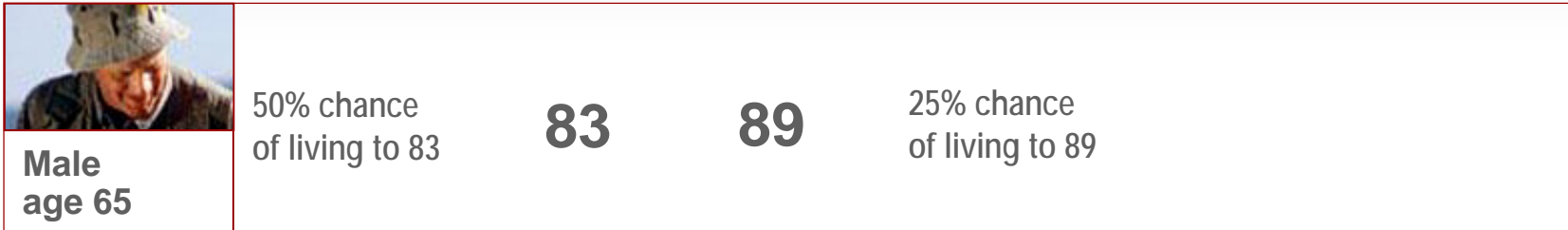
## ***The Challenge!***

***Many people under-estimate how long they could live.***

***“As a result, they risk outliving their assets”***

# Longevity - Plan on outliving the averages

## LIFE SPANS



Source: Canadian Institute of Actuaries, UP-94 Projected to 2015. (based on total Canadian population, assumes age 65 reached)



# Longevity - Plan on outliving the averages

***Consider:***

***When Setting up your retirement income plan, allow for the possibility that you'll live longer than you expect.***





# Impact of inflation over time

## ***The Challenge!***

***Inflation increases future costs of goods and services and erodes the value of assets set aside to meet those costs***

# Plan for double the income in 25 years

## IMPACT OF INFLATION ON THE COST OF GOODS OVER TIME

				
1980	\$8,488 <sup>1</sup>	\$1.81 <sup>2</sup>	\$0.78 <sup>3</sup>	\$0.45 <sup>4</sup>
1990	\$17,541 <sup>1</sup>	\$2.93 <sup>2</sup>	\$1.30 <sup>3</sup>	\$0.77 <sup>4</sup>
2000	\$24,952 <sup>1</sup>	\$3.90 <sup>2</sup>	\$1.60 <sup>3</sup>	\$0.91 <sup>4</sup>
2005	\$25,114 <sup>1</sup>	\$4.68 <sup>2</sup>	\$1.79 <sup>3</sup>	\$1.00 <sup>4</sup>
Percentage Change	196% <sup>1</sup>	159% <sup>2</sup>	129% <sup>3</sup>	122% <sup>4</sup>

<sup>1</sup> Price of a passenger car from 1980 - 2005.

Source: Statistics Canada

<sup>2</sup> Average price of 500g of bacon in December, 2005 multiplied by the price index, cured meat, bacon, smoked from 1980 – 2005.

Source: Statistics Canada

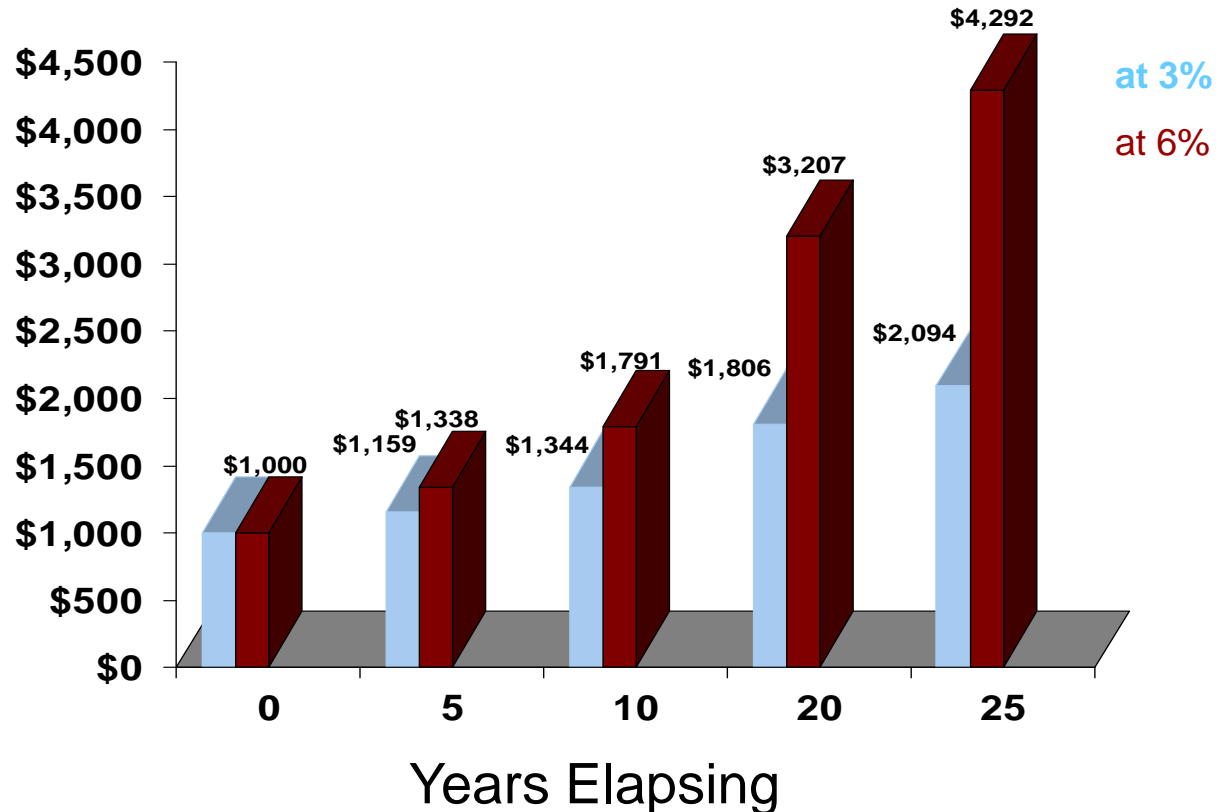
<sup>3</sup> Average price of 675g of bread in December, 2005 multiplied by the price index, bread and rolls from 1980 – 2005. Source: Statistics Canada

<sup>4</sup> \$1 in December, 2005 multiplied by the CPI, of a 2001 basket of goods from 1980 – 2005. Source: Statistics Canada

# Impact of inflation over time

## Understanding Inflation

Income required to maintain purchasing power



# Impact of inflation over time

***Consider:***

***Including investments with the potential to outpace inflation in your long term portfolio and investment strategy***

# Impact of health care expenses

## ***The Challenge:***

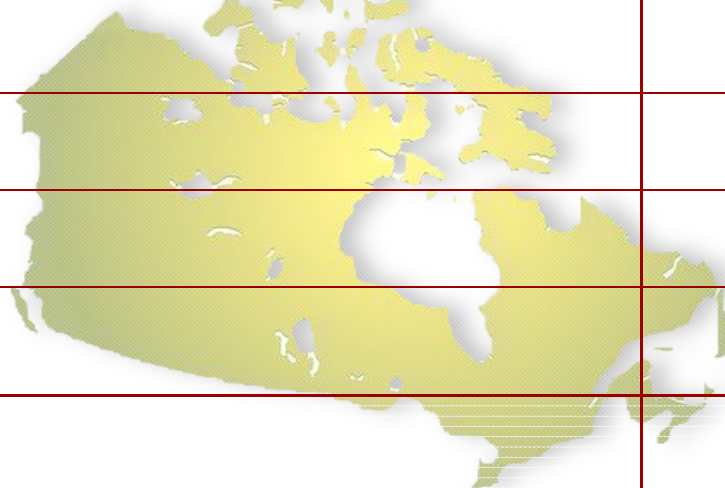
***While our national health care system provides coverage for basic medical needs, it does not cover everything***

***Individuals may have to bear more of the burden of health care expenses in the future***

# Your health care choices

- Know what is covered
- Know what your options are
- Set aside savings so that you can make the choices you want

PROVINCE / TERRITORY	MINIMUM	MAXIMUM
British Columbia	\$9,900	\$23,700
Prairies	\$9,600	\$22,400
Central	\$10,100	\$24,400
Atlantic	\$36,200	\$63,900
North	\$6,500	\$8,500



Notes: Minimums and maximums are approximations and will vary in services delivered and privacy of accommodation. Financial assistance may be available to persons in need for both subsidized and non-subsidized arrangements. Source: Federal Superannuates National Association (FSNA), Gov't of NS, 2005.

# Impact of health care expenses

## ***Consider:***

***While health care expenses in retirement are hard to determine, they should be included in retirement planning***

***Extra savings and/or insurance may give you more choice in the future as well as peace of mind***



# Excess withdrawals

## *The Challenge:*

*Withdrawal rates much over 4% begin to increase the likelihood that you will run out of savings*

# Excess withdrawals

## *Asset Utilization*

Number of Years Until All Capital is Depleted							
Expected Rate of Return							
Withdrawal Rate	4%	5%	6%	7%	8%	9%	10%
4%	*	*	*	*	*	*	*
5%	41	*	*	*	*	*	*
6%	28	37	*	*	*	*	*
7%	22	26	33	*	*	*	*
8%	18	20	24	31	*	*	*
9%	15	17	19	22	29	*	*
10%	13	14	16	18	21	27	*
12%	10	11	12	13	14	16	19

\* Capital will never be depleted at this combination of return and withdrawal.

# Excess withdrawals

***Consider:***

***Using a conservative withdrawal rate, particularly in your early years of retirement***

# Asset allocation

## ***The Challenge:***

***Retirees need investments they can rely on to produce regular income***

***But these “safe” investments may not grow enough to keep up with inflation and provide income over the long term***

# Asset allocation

## Asset Allocation:

- **Asset mix becomes the first and foremost decision in the overall composition of an investment portfolio**
- **Most important decision is not which stock, bond or cash security you select, but determining the right proportion of these assets to include in your portfolio**
- **Asset allocation decision means matching your objectives, and risk tolerance to a suitable asset mix**
- ***Asset allocation is responsible for more than 90% of your overall return!***

# Asset allocation

## *Investment Strategies & Options*

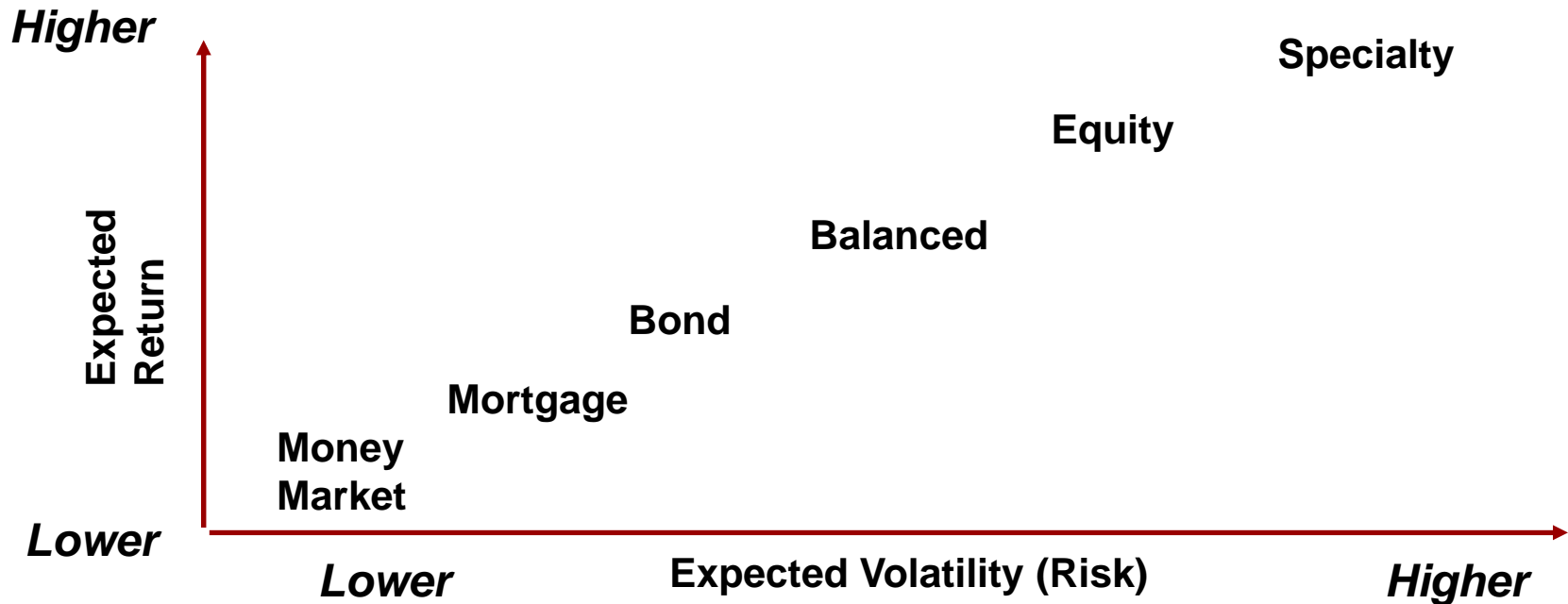
### Different Asset Classes for Different Investment Objectives:

<u>Objective</u>	<u>Security</u>	<u>Examples</u>
Liquidity	Cash	T-Bills, Money Market Funds
Income	Debt	Bonds, Mortgages, Preferred Shares, Pension, CPP/OAS
Growth	Equities	Common Stock, Real Estate

# Asset allocation

## *Investment Strategies & Options*

### Correlation Between Risk & Reward:



# Asset allocation

## *Investment Strategies & Options*

**There is a Relationship Between Risk & Return...**

**Key Questions to Consider:**

- **What asset mix will create the best potential return for an acceptable amount of risk?**
- **What amount of risk must I assume in order to potentially achieve a target rate of return?**
- **What type of assets should I have in my portfolio?**
- **How much of each should I own?**



# Asset allocation

## ***Consider:***

***Even in retirement, your best strategy may be to build a balanced portfolio that combines stock market investments with bonds and money market investments.***

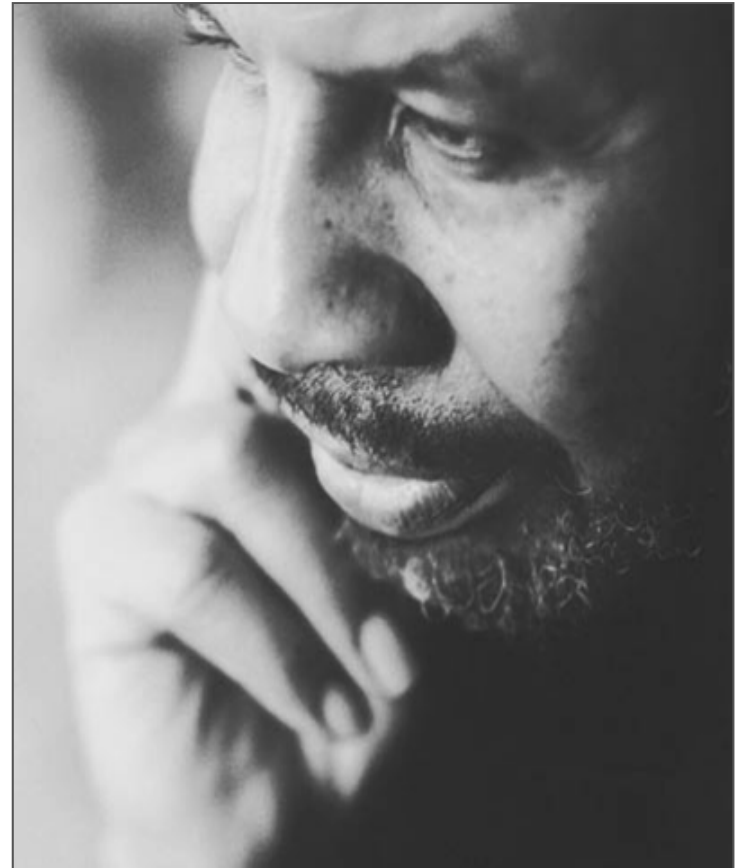
***The exact mix will depend on your individual circumstances***

# Retirement Planning

## *Goal Setting*

**Establishing goals is a fundamental step in the retirement planning process**

**If you don't know where you are going, how can you know when you get there, or which road to take**



# Retirement Planning

## *Goal Setting*

**When defining your retirement goals be as specific as possible**

***Vague:***

**“I want to retire comfortably, at an age when I can still enjoy it.”**

# Retirement Planning

## *Goal Setting*

### ***Specific:***

**“I want to retire at age 60, with an equivalent income of \$40,000 per year”**

**“If possible, I would like to retire before age 65, while being able to maintain my current lifestyle and able to take at least one major vacation per year”**

# Retirement Planning

## *Goal Setting*

**When setting your goals, ask yourself questions about your expected lifestyle:**

- “Where do I want to live when I retire?”
- “Do I want to take on a second career?”
- “Will I keep busy with volunteer work?”
- “Do I want to travel? Engage in hobbies?”

# Retirement Planning

## *Goal Setting*

**These types of questions will help you to:**

- **Begin to prepare psychologically for retirement**
- **Bring you clarity and perspective which can become a powerful motivator**
- **Give you the resolve you need to make the changes that may be required to achieve your retirement objectives**

# Retirement Planning

## *Retirement Income Considerations*

### The Variables Affecting Retirement Funding:

- Years till retirement
- Estimated living needs
- Life expectancy
- Current value of assets
- Amount currently saving
- Anticipated inflation rate
- Anticipated rate of return
- Anticipated income tax rates
- Various income sources

# Retirement Planning

## *Retirement Income Considerations*

### Potential Retirement Income Sources:

- **Canada Pension Plan (CPP)**
- **Old Age Security (OAS)**
- **Company Pension Plan**
- **Registered Retirement Income Funds (RRIFs)**
- **Life or Fixed Term Annuity**
- **Non-Registered Investments**
- **Reverse Mortgage on you home**
- **Universal life Insurance**



# Retirement Income Planning

## *Government Pensions*

### Government Pensions: CPP & OAS:

2009 Maximum, Age 65

Canada Pension Plan (CPP)	\$10,905.00
Old Age Security (OAS)	<u>\$ 6,203.52</u>
	\$17,108.52
Average monthly benefit (July 2009)	<u>\$11,893.32</u>

# Retirement Income Planning

## *Government Pensions*

### **Government Pensions: CPP & OAS:**

**What to consider:**

- **When should I take CPP?**
- **How can I split my CPP benefits with my spouse?**
- **What about the child rearing drop out provision (CDRO)?**

# Retirement Income Planning

## *Company Pensions*

### **Private Pensions:**

#### **Defined Benefit Pension Plan (DBPP)**

**A plan that defines the amount of the pension benefit you will receive at retirement**

**Usually, by way of a formula that relates the value of the pension benefits to earning levels and years of service**

***The employer takes on the risk and is ultimately responsible to provide promised benefit!***

# Retirement Income Planning

## *Company Pensions*

**Private Pensions:**

**Defined Contribution Pension Plan (DCPP)**

**Somewhat the reverse of a DBPP in that the employee / employer contribution is known up front, but the ultimate benefits are not**

**The end result is determined by the volatility of financial markets**

***The employee takes on the investment risk and is ultimately responsible !***

# Retirement Income Planning

## *Registered Retirement Income Funds (RRIFs)*

**In the year you turn 71, you have to convert your Registered Retirement Savings Plan (RRSP) to a RRIF...**

**...Deciding how you will turn your RRSP savings into retirement income is one of the most important financial decisions you will ever make**

# Retirement Income Planning

## *Registered Retirement Income Funds (RRIFs)*

### Options:

- You can take all your savings in cash
- You can roll over your RRSP into a RRIF
- You can purchase a life or fixed term annuity – guaranteeing a set monthly income
- You can also combine retirement income options- for example, purchasing an annuity with some of the RRSP money and moving the rest into a RRIF

# Retirement Income Planning

## *Annuities*

### **What is an Annuity?**

**Exchanging your capital for the promise that the capital will be repaid to you with interest, in equal installments over a defined period of time or for life**

**Said differently, you can convert your capital resources into a guaranteed, long-term or even lifetime income**

# Retirement Income Planning

## *Annuities*

### Types of Annuities:

- Registered versus unregistered
- Term versus life
- Single life versus multiple life
- Indexed versus non indexed
- Immediate versus deferred versus variable
- Normal versus prescribed
- Fixed versus variable



# Retirement Income Planning

## *Annuities*

**Amount of Annuity payments will vary with:**

- **Age and sex**
- **Interest rates**
- **Payment frequency**
- **Smoker status**

# Retirement Income Planning

## *Annuities*

### **Fine Print:**

- **Annuities are usually inflexible once purchased**
- **All control over the capital used to purchase the annuity may be lost**
- **Prevailing interest rates will affect your payment**
- **Once purchased, interest rate and payment are locked-in**

# Retirement Income Planning

## *Reverse Mortgages*

- **Estimated over 1,000,000 seniors own their home**
- **Not unusual to live to age 90**
- **Inflation can be a real enemy**
- **Over 25 years at 3% inflation, incomes must double**
- **Often retirees use up savings in first 10 years or so**
- **The result, a large number of seniors are house rich and cash poor**

*Reverse mortgages were designed to address this problem*

# Retirement Income Planning

## *Reverse Mortgages*

**Reverse mortgages are also known as Home Equity Plans or Reverse Annuity Mortgages (RAM's)**

**A reverse mortgage is a combination of two financial products**

- 1. A loan secured by a mortgage and a term**
- 2. A life annuity purchased with the proceeds of the loan**

# Retirement Income Planning

## *Reverse Mortgages*

### **The Financial Consideration:**

**The interest rate on the mortgage would generally be higher than the interest rate on the annuity**

**The difference is often 1% or more. So, the borrower is effectively borrowing at an interest rate to earn income at a lower rate**

***This is one of the costs of a reverse mortgage!***

# Retirement Income Planning

## *Reverse Mortgages*

### **The Fine Print:**

- **Approach with caution! Extremely complex seek expert legal and financial advice**
- **Selling home before end of the term can result in high penalty cost if interest rates have declined**
- **Financial stability of the insurance company selling the annuity and life insurance should be thoroughly checked out**

# Retirement Income Planning

## *Personal Assets*

- **Non registered investment portfolios**
- **Shares of a Corporation**
- **Equity in other capital properties**
- **Other annuity incomes**
- **Equity in Principal Residence**

# Retirement Planning

## *Coming Full Circle - Will I Be OK?*

### **The Most Pressing Concerns:**

- *How much will I need to retire when I want and how I want*
- *How much will I have based on how much I've saved, how much I'm, saving and the likely return based on my current portfolio*
- *If there's a gap, how do I close it?*



# The story so far...

## 5 KEY RISKS YOU NEED TO MANAGE



Longevity



Inflation



Health care



Withdrawal



Asset allocation

# Here's what you can do...

WORK WITH YOUR ADVISOR TO CREATE YOUR RETIREMENT INCOME PLAN:

## WHAT IT IS...

A detailed written plan showing how you can generate enough income from your savings to last the rest of your life

## WHAT IT CAN DO FOR YOU...

- **Minimize** the risk of outliving your savings
- **Maximize** the potential for living the life you want
- **Simplify** your financial life throughout retirement

# 4 Steps to building a retirement income plan You and your advisor working together

## STEP 1

Take an inventory of your expenses vs. your retirement income

## STEP 2

Your advisor can plan how to cover essential expenses

## STEP 3

Your advisor can also develop strategies on how to fund discretionary expenses

## STEP 4

Review your plan annually with your advisor

# Take an inventory of expenses vs. income

## STEP 1

### Essential Expenses

- Housing
- Insurance
- Food

### Discretionary Expenses

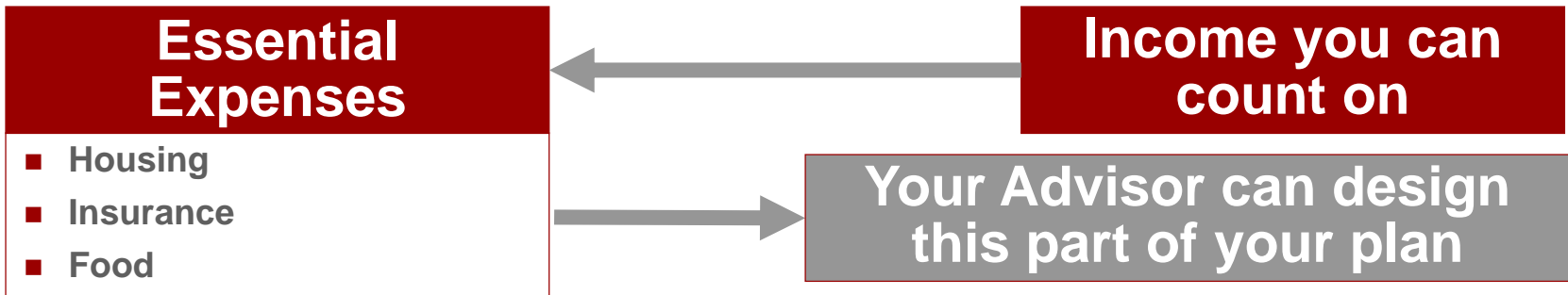
- Travel
- Entertainment
- Hobbies

### Income

- CPP/OAS
- Employer Pensions
- Annuities
- Investment Accounts

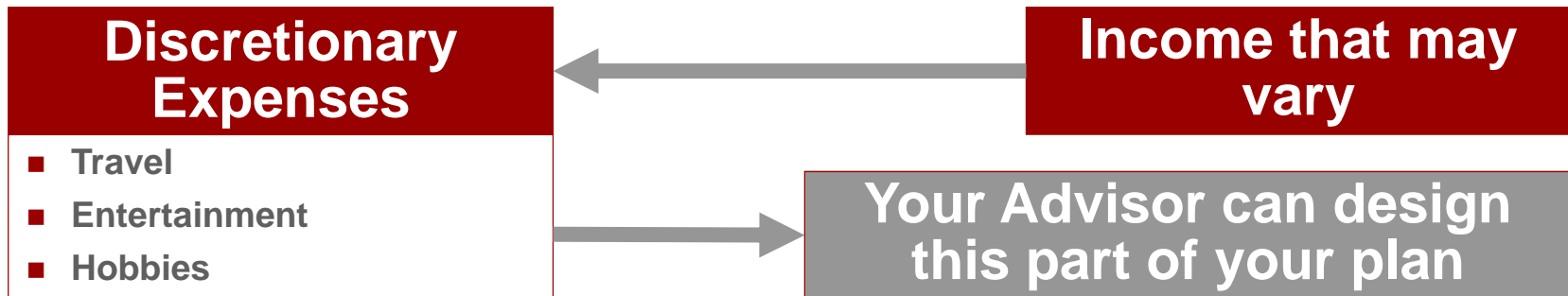
# What's the best way to cover your essential expenses?

**STEP 2** With income you know you can count on



# How will you cover your discretionary expenses?

## STEP 3 With income that may vary



# Review your plan each year

## STEP 4

Meet with your advisor at least once a year to review how your plan is working and whether your priorities or circumstances have changed.



## Exhibit 1

### Retirement income splitting can result in thousands of dollars in annual tax savings for your retired clients

Scenarios (both spouses are 65)	No splitting		Splitting		Increase (Decrease)
	Spouse 1	Spouse 2	Spouse 1	Spouse 2	
<b>Scenario 1</b>					
Company pension (DB)/RRIF	\$50,000	\$5,000	\$27,500	\$27,500	–
C/QPP & OAS	\$16,268	\$8,275	\$12,271	\$12,271	–
Less clawback	(\$413)	–	–	–	\$413
Net taxes owing	(\$15,035)	\$0	(\$6,425)	(\$6,425)	(\$2,185)
<b>After-tax income</b>	<b>\$50,820</b>	<b>\$13,275</b>	<b>\$33,346</b>	<b>\$33,346</b>	<b>\$2,597</b>
<b>Scenario 2</b>					
Company pension (DB)/RRIF	\$100,000	\$10,000	\$55,000	\$55,000	–
C/QPP & OAS	\$16,268	\$8,275	\$12,271	\$12,271	–
Less clawback	(\$5,903)	–	(\$564)	(\$564)	\$4,776
Net taxes owing	(\$34,028)	(\$600)	(\$15,794)	(\$15,794)	(\$3,040)
<b>After-tax income</b>	<b>\$76,337</b>	<b>\$17,674</b>	<b>\$50,913</b>	<b>\$50,913</b>	<b>\$7,815</b>
<b>Scenario 3</b>					
Company pension (DB)/RRIF	\$140,000	\$15,000	\$77,500	\$77,500	–
C/QPP & OAS	\$16,268	\$8,275	\$12,271	\$12,271	–
Less clawback	(\$5,903)	–	(\$3,939)	(\$3,939)	(\$1,975)
Net taxes owing	(\$52,275)	(\$1,978)	(\$23,378)	(\$23,378)	(\$7,497)
<b>After-tax income</b>	<b>\$98,090</b>	<b>\$21,297</b>	<b>\$62,454</b>	<b>\$62,454</b>	<b>\$5,521</b>

Source: Fidelity Investments

All scenarios assume no other sources of income (e.g., non-registered investment income). The table uses both provincial and federal tax rates (2007). The scenarios assume that the provinces will follow the federal government's example and allow retirement income splitting. The tax credits used include the basic personal exemption, age credit and pension credit. Both spouses are assumed to be Ontario residents. The Ontario health premium and surtaxes have also been included. In Scenario 1, unused tax credits have been transferred to the higher-earning spouse, where applicable. Figures have been rounded. Exact results will vary by province and individual circumstances.



# In Summary

**Consider the Choice:**

**Plan for the retirement your want or....**

**.....Take the one you get**

**QUESTIONS!**

# Retirement Planning Workshop

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