



**FACE  
RETIREMENT  
WITH  
CONFIDENCE**

## BUILD A RETIREMENT INCOME STREAM THAT CAN LAST A LIFETIME

How will a generation of workers turn a lifetime of savings into a reliable income stream? Gone are the days when the majority could rely on their company's defined benefit pension plan for guaranteed income to last their lifetime. In fact, only one in four working Canadians has access to a defined benefit pension plan<sup>1</sup>. Today, most Canadians save for retirement through personal savings and other types of investment plans and are left on their own to deal with the financial risks they might face throughout retirement.

**I**n the following story we learn how financial planning can help someone plan for his retirement years through a combination of current savings, future savings and investment products that are designed to provide guaranteed income for life.

David is looking forward to his retirement, but wonders if he is saving enough. He lives a

comfortable life and over the years, he has put aside some savings.

However, David recently met up with Tom, his older cousin. On the verge of retirement, Tom had mentioned how glad he was that he worked for a company that still offers a defined benefit pension plan, because it will provide him with a retirement income he can count on.

"I don't envy people without them. What's happened in the stock

market over the last couple of years, it has a lot of people stressed. After all, when it comes to retiring, you're pretty much on your own these days. I've got a lot of friends without pensions and they're all pretty concerned, and I'm glad I don't have to worry about that," Tom said.

After his conversation with Tom, David scheduled an appointment with Ron, his advisor, to see where he stands.

### Client overview:

**WHO:** David, age 50, single

**HIS FINANCIAL GOALS:** Retire at 65, without having to be too concerned about money; ensure his savings will adequately pay for his day-to-day expenses, with enough left over so he can enjoy his retirement

**THE PLAN:** Work with an advisor and discuss investment options that will help him attain his financial goals

**CURRENT MONTHLY NET INCOME:** \$5,600

**ASSETS:** House, \$400,000

**SAVINGS:** Non-registered account \$25,000; RRSP \$200,000; TFSA \$10,500

**LIABILITIES:** Mortgage \$50,000; Secured line of credit \$10,000; Credit card \$1,200

**MONTHLY EXPENSES:** Mortgage \$1,300; Household expenses \$800; Property tax \$300; Car loan \$360; Credit card \$350; Miscellaneous \$500

**TOTAL MONTHLY EXPENSES:** \$3,610

**TOTAL FREE CASH FLOW:** \$1,990

For illustrative purposes only. This is a fictional scenario.

<sup>1</sup>Source: Statistics Canada, Pension Plans in Canada and Labour Force Survey, April 2009

During their meeting, David tells Ron that he has three issues he wants to discuss. He wants to:

1. Ensure he can cover his day-to-day expenses when he retires.
2. Estimate how long of a retirement he should plan for.
3. Have enough money to pursue his hobbies and interests.

## THE ESSENTIALS COME FIRST

Firstly, David wants to ensure he can cover his essential monthly expenses in retirement. He expects to be mortgage-free in a few years and, based on his current expenses, Ron estimates that David's monthly costs will be roughly \$2,500 a month, or \$30,000 a year when he turns 65. This means he will need approximately \$33,000 of income before tax.

Ron then estimates that when David retires, if he has no gaps in his employment record and a good salary, he will receive approximately \$1,400 a month, or \$17,000 a year, from the Canada Pension Plan (CPP) and Old Age Security (OAS).

"We need to build a plan to cover the difference between your fixed monthly expenses and your government benefits – which, according to my calculations, is approximately \$16,000 a year," Ron states.

"That's what I'm most concerned about," David confirms. "Tom's pension is enough to ensure that all his fixed monthly costs are covered, so he never has to worry. Knowing what I'll get from government plans, is there a way to make sure I can cover the gap – that other \$16,000 – and have that peace of mind?"

"I am confident there is a way to do that. We also have to plan

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## FORTUNATELY, THERE ARE SOME NEW PRODUCTS AVAILABLE IN CANADA THAT CAN PROVIDE RETIREES WITH GUARANTEED INCOME FOR LIFE.

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for some discretionary money. But let's focus first on covering your monthly expenses with a dependable income that you can count on – we don't want to take any chances with this. Once we have a strategy to pay these essential costs, we can plan to grow your other savings so you can have some fun in retirement, too," Ron replies.

Ron goes on to ask, "Could you invest an extra \$1,000 per month? If so, we can take half of your current RRSP savings, or \$100,000, and \$500 per month of your new contributions to cover your fixed expenses."

Considering this, David answers, "I think I could manage that. But, we're going to put it in something secure, right – like a GIC? It's my heat and electricity we're talking about after all."

"I understand your concern. Yes, we could invest that money into Guaranteed Investment Certificates (GICs). However, with the low interest rates today, we could earn a guaranteed rate of return of approximately 2.5 per cent. With a \$100,000 deposit, plus your \$500 per month, and interest over the next 15 years, you will accumulate just over \$250,000 by the time you retire. Assuming interest rates stay the same, this solution will provide

you with approximately \$6,500 of interest income per year, which is a long way from the \$16,000 you need."

As David ponders this outcome, Ron continues. "The only way to get a GIC to cover that income gap is to take the additional amount from the principal. If you do that, you will risk depleting your savings and jeopardize the likelihood the money will last throughout your retirement."

Ron shows David that using the GIC to cover the full income gap of \$16,000 means he'll run out of money by age 84.

## HOW LONG WILL I LIVE?

David shifts in his chair, and says, "What are the chances of me living that long anyway?"

"Actually, life expectancy is getting better all the time," Ron replies. "Statistically, there is a 57 per cent chance a healthy 65 year old male will live to age 84, and a 17 per cent chance he will live to age 95."<sup>2</sup>

"That's why I want to try another approach. A better than 50 per cent chance of living beyond age 84 is significant enough. We'll want to account and plan for that. Fortunately, there are some new products available in Canada that can provide retirees with guaranteed income for life. They're



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**THE SOONER YOU MAKE THE INVESTMENT –  
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TO YOU WHEN YOU RETIRE.**

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a great supplement to existing government pensions, and I believe they're really what you're looking for. Let me run some numbers."

**THE SOLUTION: GUARANTEED INCOME FOR LIFE**

A minute later Ron turns to David and says, "I've got another solution for you. If we take that same \$100,000 and your \$500 per

month and invest it in the latest generation of retirement income products, you can generate the approximately \$16,000 you need and it will be guaranteed to last as long as you live."

"But what's the catch? You say this approach will pay me the \$16,000 a year and it's guaranteed for life – this option must entail higher risk," David responds.

"Actually, this product has been designed specifically to provide the kind of benefits that retirees are looking for to supplement other retirement income sources. There's no set interest rate, but you do get guaranteed lifetime income.<sup>3</sup> Plus, it is a conservative investment. For people in your shoes, it's a great solution to consider," replies Ron.

Ron continues, "With this type of investment, you'll get a dependable stream of income that you can rely on for as long as you live, the flexibility to choose when you begin taking income, and the ability to withdraw all of your money if an emergency comes up."<sup>4</sup>

"That sounds like it could be a great solution to cover my expenses, but should I invest now or wait until I'm closer to retirement?" David asks.

"These products have been designed to help Canadians prepare

<sup>3</sup> Certain conditions apply

<sup>4</sup> Fees may apply



for retirement well ahead of time. In fact, because of the way the product works, you'll actually have a higher income available to you the earlier you invest. In other words, the sooner you make the investment – and the longer you leave it alone and refrain from taking income – the larger the amount of retirement income that will be made available to you when you retire," Ron says.

"It can be an ideal way to make sure that you have enough money to cover your retirement expenses, and you don't need to invest in more volatile equities to meet your objectives. Best of all, it's guaranteed for life."

"This sounds great. It's nice to know I won't need all of my savings just to cover my expenses. What about the remaining savings in the RRSP and the other \$500 per month?" David asks.

"You have another 15 years to go before your retire. Let's continue investing that money in a well-diversified portfolio of mutual funds to help it grow."

"OK, that sounds good, Ron. Thanks for your help with this."

David is now looking forward to his retirement with confidence. Because he expressed his concerns to his advisor, Ron was able to develop a plan to cover David's essential expenses and leave money

for his interests and hobbies. With his concerns behind him, David can focus more on what he hopes to do with all the free time he will enjoy someday.

### **SPEAK WITH YOUR ADVISOR**

If you have questions about how you are going to pay for your retirement years, please speak with your advisor. He or she can provide you with the help you need to ensure you are financially ready for retirement when the time comes. •

# Solutions



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