
RETIRE YOUR WORRIES

IS GUARANTEED INCOME PART OF YOUR PLAN?

Nearly 14 million Canadians will be retiring over the next 20 years.[1] If you are one of them, having a financial plan that includes guaranteed income can help you live your dreams in retirement.

No matter how much you've saved, and despite the excitement that comes from knowing your working days may be behind you, it's important to ensure that you are financially prepared for a long retirement. Yet a recent study revealed that almost 40 per cent of retirees are concerned they do not have enough money to do what they want in their retirement,[2] and a further 51 per cent of households are at risk of being unable to maintain their standard of living in retirement.[3]

Your retirement income strategy should ensure that you do not outlive your retirement income and that you are able to adapt to unexpected expenses along the way – without the constant worry of running out of money.

RETIREMENT RISKS

As you approach your retirement, it's important to understand the risks that may affect you so you can take appropriate steps to help protect your retirement savings. With the decline in defined benefit pension plans (DB pension plans), the responsibility for managing these risks continues to shift to individual Canadians and their advisors. Today, the risks of outliving your savings, dealing with market volatility and coping with inflation are often yours to manage – and each of these risks can affect your success at achieving your retirement dreams.

LONGEVITY

A healthy couple now 65 years old has a 94 per cent chance of one partner living to age 80 and a 63 per cent chance of one partner living to age 90.[4] It's great news that Canadians are living longer than ever before. However, the challenge we now face is that we may need to fund our retirement plans for much longer.

This means Canadians have a greater need to ensure that their retirement income can last many more years than they may have anticipated. And, uncertain about how much they need to save and how long they need their money to last, many worry about outliving their retirement income. Will you have enough money to see you through? Are you spending too much too soon? Maybe you shouldn't take that vacation? Maybe you should wait one more year – just in case you need the money down the road? These are the types of concerns that can stand in the way of enjoying your retirement to the fullest.

MARKET VOLATILITY

Who can forget the global financial crisis in 2008 and 2009 and the recent market turmoil? Markets are unpredictable and, at times, extremely volatile. Unpredictable market conditions are a significant concern to people at or nearing retirement. Adverse markets can have a very negative impact on your retirement lifestyle

and, because of this, market volatility is a risk that needs to be prudently managed.

A decline in the stock market or a fall in interest rates can dramatically affect the amount of income available to you in retirement, as well as your ability to make savings last as long as you need them to. Poor market returns early in your retirement can mean fewer years of retirement income, while good market returns early on can give you more years of income. The trouble is, it's impossible to know whether the markets will be up or down at the time you retire. A downturn in the markets early in your retirement could reduce your savings to a level that will not provide you with sufficient retirement income, and there may not be enough time for you to recover your losses.

Your retirement income plan should include a solution that can help protect you from the risk of market volatility, ensuring that you have a predictable and stable source of income.

INFLATION

Inflation can also have a major impact on your retirement savings – and nearly two-thirds of Canadians are concerned that their retirement income may not keep up with inflation.[5]

Ignoring the effects of inflation can dramatically affect your ability to fund your retirement plans, since inflation can erode the value of your savings. For example, if the inflation rate is approximately three per cent, what you can buy for $1,000 today will only buy you about $400 worth of goods in 30 years. To look at it another way, a $100 bag of groceries today will cost you about $180 in 20 years and just over $240 in 30 years.

It's important to help ensure that your savings can grow and stay ahead of inflation.

THE SHIFT FROM DEFINED BENEFIT TO DEFINED CONTRIBUTION PLANS

Previous generations didn't have to worry so much about their retirement income. In general, people worked for the same employer throughout their career, and many companies offered DB pension plans that provided retirees with a guaranteed stream of income throughout retirement amounting to perhaps 70 per cent of their pre-retirement salary. Unfortunately, these guaranteed company pension plans are now much less common. In fact, fewer than one in four working Canadians have them.[6] That's down from nearly half the population just a couple of decades ago.

The reason for the DB pension plan's decline is that many companies can no longer afford to fund an employee's retirement this way. With people living longer, due largely to medical advances, the high costs associated with DB pension plans have forced many companies to shift the financial risk from their balance sheet to their employees. Companies have achieved this by gradually replacing DB pension plans with less costly defined contribution plans (DC pension plans).

In a DC pension plan, employees invest their pensions in market-based investments. The employer often provides matching contributions. That said, in this type of plan the value of the employee's retirement nest egg depends almost exclusively on the performance of the markets leading up to and during retirement. Despite the risk of market volatility, DC pension plans can be great retirement savings vehicles, and can be offered at a much lower cost because they do not promise a guaranteed income in retirement.

THE RETIREMENT INCOME CRISIS

If you are one of the many Canadians approaching retirement, now is the time to make sure your retirement income plan is on track.

If you don't have a DB pension plan, it is important to make sure you have another source of guaranteed income. What's alarming is that nearly half of Canadians have indicated they don't have a plan to turn their retirement savings into an income stream.[5] A dependable stream of income can help you adapt to unforeseen expenses and worry less about running out of money. And, after all, when another recent survey asked Canadians what factors were extremely important to achieve a happy retirement, the number one response for 74 per cent of them was not having to worry about money.[2]

THE VALUE OF A GUARANTEED INCOME SOLUTION

To illustrate the importance of guaranteed income in retirement, let's look at two people in different situations.

Jane is a 56-year-old teacher in good health. She leads an active lifestyle, spending much of her free time golfing and travelling. In retirement, Jane plans to stay active and travel even more. She is one of the lucky few with a DB pension plan, so she knows with certainty what her income will be throughout her retirement. With the advantage of that dependable income, Jane doesn't worry about the markets or the possibility of a future financial crisis, because neither will affect the money she will have available to her after she retires.

Jane's friend Betty's circumstances are quite different. Betty is 55 and owns a small flower shop. Her retirement dreams are similar to Jane's, but Betty does not have a guaranteed pension plan. Until a few years ago, Betty was feeling good about her retirement savings – she has been investing on a regular basis and has seen her nest egg grow. With the recent market turmoil, however, her confidence is shaken and she now worries constantly about the daily ups and downs that affect her portfolio. Overall, she is concerned about her savings and whether she will have enough to fund a long and active retirement. Betty wishes she had the security and peace of mind that come with guaranteed retirement income.

CONVERT A PORTION OF YOUR SAVINGS INTO A GUARANTEED INCOME STREAM

One solution for people in Betty's situation is to convert a portion of their retirement savings into a source of guaranteed income. This helps to ensure that you'll have a predictable, steady retirement income stream. It's an important part of a balanced retirement income strategy that can cover your basic living expenses or supplement an existing pension and retirement savings.

A number of products currently offer guaranteed income to Canadians. These include annuities and guaranteed minimum withdrawal benefit (GMWB) solutions. Recently, new products have become available that combine and can improve certain features and benefits of these traditional investment options, offering Canadians even greater flexibility when planning their retirement income strategy. As a result, your advisor has access to a wide variety of products that can help improve income certainty in your retirement and minimize the risk that you will outlive your retirement income.

TALK TO YOUR ADVISOR

Talk to your advisor to learn more about innovative guaranteed income solutions that can enable you to better protect yourself from the risks that may be standing in the way of your retirement dreams. •

DID YOU KNOW?

- Almost 40 per cent of retirees are concerned they do not have enough money to do what they want in retirement[2]
- 51 per cent of households are at risk of being unable to maintain their standard of living in retirement[3]
- A healthy couple now 65 years old has a 94 per cent chance of one partner living to age 80 and a 63 per cent chance of one partner living to age 90[4]
- Fewer than one in four working Canadians have a guaranteed pension plan[6]
- Nearly two-thirds of Canadians are concerned that their retirement income may not keep up with inflation[5]
- Statistics Canada estimates that nearly half of Canada's current population will retire over the next 20 years[1]
- Nearly half of Canadians have indicated they don't have a plan for turning their retirement savings into an income stream[5]
- When asked what factors were extremely important to achieve a happy retirement, the number one response for 74 per cent of Canadians was not having to worry about money[2]

[1] Statistics Canada, CANSIM Table 052-0001.
[2] *Investment Executive* staff, "Top tips Canadian retirees wish they knew before they retired." Tuesday, May 31, 2011. www.investmentexecutive.com/client/en/News/DetailNews.asp?id=58330&IdSection=3&cat=3&BImageCI=1.
[3] Sullivan, John, "Top 4 risks for baby boomer retirement." May 25, 2011. www.advisorone.com/article/top-4-risks-baby-boomer-retirement?t=etfs&utm_source=dailywire52511&utm_medium=enewsletter&utm_campaign=dailywire.
[4] Society of Actuaries, Annuity 2000 Mortality Table.
[5] This Manulife Financial survey was conducted with 1,001 Canadians between the ages 50 and 65 with household income of $50,000+. It was conducted online by Research House from July 14 to 23, 2011.
[6] Statistics Canada, Pension Plans in Canada and Labour Force Survey, April 2009.

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Garry Forde
Indepth Planning Corp.
202 2286 Mccallum Rd.
Abbotsford, BC, V2S 3P4
604-859-1658
advisor@indepthplan.com

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TMK1176E 10/11