

Product Allocation and Life Insurance



Nora and Steve are both 60 years old with Nora being the first by 3 months to hit this milestone. They have spent their careers on the road and are now looking forward to retiring in 5 years and spending more time at home with their family. When they meet with their advisor, Anne, they let her know that they want to help ensure their retirement savings will last for both their lives and that they have the ability to leave a financial legacy for their children.

When Nora and Steve retire they would like an annual income of \$58,000 before taxes. Neither of them have a defined pension plan but they have a total investment portfolio worth \$500,000. With the fluctuations in the markets over the past few years, Nora and Steve have a conservative asset allocation with 20% of their investments in cash and 80% in fixed income. They will both receive \$22,420 from the Canada Pension Plan (CPP), \$12,644 from Old Age Security (OAS) and are estimating a 3% inflation rate at retirement. Also, for the next 5 years Nora and Steve will be able to save an additional \$5,000 per year.

To help Nora and Steve evaluate their retirement income plan and help ensure their desired yearly income is sustainable through their retirement and that they will

be able to leave a legacy to their family, Anne suggests she take them through Manulife's Product Allocation strategy. She explains that this comprehensive and straightforward strategy involves placing their assets into three distinct product categories to help provide sustainable retirement income. By doing this, Anne can better optimize their retirement income potential, while at the same time minimizing exposure to financial risks.

By using the Product Allocation Tool, Anne can calculate Nora and Steve's Retirement Sustainability Quotient (RSQ), which is the percentage measure of how likely a mix of investment products will provide lifetime retirement income. The Tool can also determine if they have the potential to leave a financial legacy through a life insurance policy.

Anne runs through Nora and Steve's current situation and determines that they have a RSQ of 81%. A RSQ in this range indicates that it is likely that a desired retirement income of \$58,000 may be sustainable for life, however, it is not quite in the recommended target range of 90% or higher.

Now that Nora and Steve understand their current situation, Anne informs them that the next step in the Tool is to identify their Optimal Product Allocation. The results indicate they would have a RSQ of 100% if they invest 45% of their portfolio in an Annuity, 50% in a Guaranteed Minimum Withdrawal Benefit (GMWB) product and 5% in a Systematic Withdrawal Plan (SWP) option. This optimal product mix now provides a very high likelihood that Nora and Steve's desired retirement income will be sustainable for life and that they will have the potential to leave a financial legacy by using additional retirement income to purchase life insurance.

Even though this Optimal Product Allocation can provide Nora and Steve with the outcome they are hoping for, it does not give them enough flexibility to access to their money. Knowing that her clients want some flexibility with their investments, Anne makes adjustments to the Optimal Product Allocation to allow for additional liquidity. She recommends that Nora and Steve put 60% of their portfolio in products offering guaranteed income with 20% in Annuities and 40% in a GMWB. To accommodate Nora and Steve's preference for increased flexibility, the remaining 40% of their portfolio should be invested in a SWP investment.

Nora and Steve's RSQ is now 94% and since it is 90% or greater, the Product Allocation Tool can make it easy to determine if they can take additional retirement income and use it to purchase life insurance. Life insurance can provide Nora and Steve with a degree of certainty to achieve their legacy desires. The Tool allows Anne to input a desired premium of \$1,885 for Nora and \$2,300 for Steve that will be funded from their portfolio. The Tool then calculates the corresponding coverage range amount based on age, sex, smoking status, and assumes very good health. Through the purchase of life insurance their estate remains financially secure and capital gains are protected.

Nora and Steve select to add life insurance and by doing so, their new RSQ is 91%. With a RSQ in this range, they have a very high likelihood that their retirement income will be sustainable for life and they can provide a financial legacy for their children.

By using a Product Allocation strategy, Anne was able to better optimize Nora and Steve's retirement income potential and demonstrate that placing their assets in specific proportions into distinct product categories will help ensure sustainable retirement income. Their RSQ increased 10% from where they were before implementing a Product Allocation strategy and they were able to add a life insurance policy. Knowing that their retirement goals can likely be achieved, Nora and Steve can continue to look forward to the next stage of their lives.

FOR MORE INFORMATION, VISIT PRODUCTALLOCATION.CA OR CONTACT THE PRODUCT ALLOCATION TEAM AT RSQ@MANULIFE.COM

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