

UNDERSTANDING THE POWER OF PRODUCT ALLOCATION



Over the next 20 years, an estimated 14 million Canadians will transition into or be fully retired¹. It is projected that this demographic will convert approximately \$3 trillion in wealth by 2028².

CONFIDENCE OR UNCERTAINTY?

The question is – are your clients approaching retirement with confidence or uncertainty?

Canadians born into the “baby boom” generation, who are approaching or already in retirement, face risks and challenges that differ from previous generations. Accordingly, these present and future retirees need to plan carefully to address issues such as:

- **Longevity Risk** – With increased life expectancy comes the fear that people will outlive their retirement savings. Your clients may have to fund their retirement for 25 years or longer
- **Inflation** – Rising costs of goods and services can erode your clients’ savings
- **Sequence of Returns** – Poor market returns due to market volatility early on in retirement can deplete retirement savings faster than your clients may realize
- **Liquidity Needs** – Your clients may need to maintain access to savings to address retirement goals or unexpected health care expenses and/or other emergencies that could inflict a financial burden
- **Behavioural Risk** – A 2005 study of investor behaviour revealed that during down markets, investors make wrong decisions 75 per cent of the time³. Market volatility can cause investors to make rash decisions that can undermine their financial plan
- **Estate Aspirations** – Many of your clients may want to leave an inheritance for their children and the size of the inheritance will have a direct impact on the amount of money they can spend in retirement

* Moshe A. Milevsky and Thomas S. Salisbury, *Asset Allocation and the Transition to Income. The Importance of Product Allocation in the Retirement Risk Zone.* September 27, 2006

¹ Source: Statistics Canada, CANSIM Table 052-0001

² Source: 2009 numbers from Investor Economics Household Balance Sheet Report June 2010. The 2028 value was estimated based on CAGR of 2.5%

³ Source: DALBAR Quantitative Analysis of Investor Behaviour (QAIB) 2005

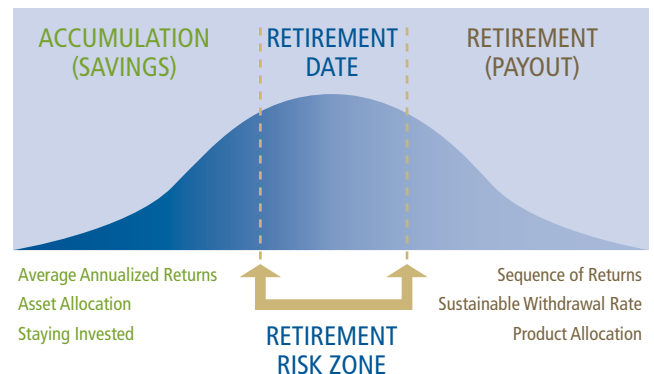
⁴ The 2005 Taddingstone Canadian Millionaire Report, Pg. 7

Research shows that **Asset Allocation strategies alone are inadequate to ensure that retirees savings will last!***

A SHIFT IN THINKING

The financial services industry has long been focused on helping clients accumulate the assets they’ll need for a comfortable retirement. However, “de-cumulation” – or the draw-down of retirement assets – can be considerably more complex than the accumulation process due to the unique risks that people face in retirement. With the possibility of people living a lot longer in retirement, the focus must shift towards developing a retirement income strategy that can help ensure your clients don’t outlive their savings.

A shift in focus



Hypothetical example. Not indicative of any portfolio.

Studies are confirming this trend. A 2005 report that surveyed Canadian high net worth investors in Canada concluded that **“The aging millionaire population is shifting financial strategies away from asset accumulation to preservation and income generation⁴.”** Advisors who are able to provide comprehensive retirement income strategies may be well positioned to profit from this growing trend.

PRODUCT ALLOCATION

Product Allocation involves placing an investor's assets in the right proportion into three distinct product categories to help ensure sustainable retirement income. By doing so, advisors can better optimize their clients' retirement income potential, at the same time as minimizing financial risks. Clients can tap into the guarantees or features that each of the products provide to address the various challenges they face in retirement.

Although there are a myriad of product choices available, they can be classified into these three product categories:

- Systematic Withdrawal Plans (SWP)⁵
- Guaranteed Minimum Withdrawal Benefits (GMWB)
- Immediate Annuities (IA)

Manulife provides advisors with access to a proprietary tool that was developed in conjunction with Dr. Moshe Milevsky and the QWeMA Group. Manulife's Product Allocation Tool provides guidance on how much of an investor's wealth should be allocated to each product category using unique mathematical algorithms. The Product Allocation process is not biased in favour

⁵ The SWP product category represents regularly scheduled withdrawals from non-guaranteed sources of income such as mutual funds, segregated fund contracts, stocks, bonds, and bank or insurance company GIC's.

of any single product category – instead, it creates a recommended mix of products based on a client's financial situation. This can in turn be adjusted to meet an individual's retirement goals, concerns and preferences, maximizing the potential sustainability of their retirement income.

RETIREMENT SUSTAINABILITY QUOTIENT (RSQ)

The Product Allocation Tool calculates a Retirement Sustainability Quotient or RSQ, which is a percentage measure of how likely a mix of investment products will provide desired lifetime retirement income.

The RSQ can range from 0 per cent – which represents no potential for sustainability, to 100 per cent where the income stream is guaranteed for a lifetime. The higher the score, the better the chance of income sustainability. Using this convenient tool, it is possible to assess a client's chances of success that their investment portfolio will provide an income stream that will last the rest of their life. The Tool will also assist in developing a plan to optimize the RSQ by using a combination of investment products.

For more information visit productallocation.ca



THE ROLE OF LIFE INSURANCE IN PRODUCT ALLOCATION

Another important aspect of retirement planning is the ability to leave a financial legacy. Recent market downturns have demonstrated how volatility can deplete a planned inheritance as individuals realize they'll need to use all their savings to fund their retirement. Life insurance can provide a degree of certainty for those who want to achieve their estate goals and legacy desires.

The Product Allocation Tool can demonstrate how life insurance can be an efficient way to help leave a legacy for the next generation, here's how:

- The Tool incorporates life insurance premiums when determining your client's Retirement Sustainability Quotient (RSQ) – the term that refers to the likelihood that a client's retirement income will be sustainable. The tool allows you to input a desired premium and it then calculates the corresponding face amount range based on age, sex, smoking status and assuming good health. Alternatively, it allows you to input both the premium and corresponding face amount if you already know those amounts
- When a client's Retirement Sustainability Quotient is at 90% or greater, the Product Allocation Tool makes it easy to determine if your client can take additional retirement income and use it to purchase life insurance. When your client dies, the insurance death benefit helps contribute to their financial legacy

OPTIMIZE YOUR CLIENT'S BANKING

To complete the Product Allocation strategy, you could consider optimizing your client's banking. If they own a home, an all-in-one account brings together their home equity, chequing account, savings account and loans, which could complement their Product Allocation strategy.

An all-in-one account could provide:

- **A contingency plan.** Depending on your client's RSQ, there still may be some risk that their income won't be sustainable. An all-in-one account provides them with convenient access to one of their largest assets – their home equity (up to their borrowing limit) in the event that they may need additional income
- **A cash flow buffer.** In some months or years, your client's expenses may exceed their income. An all-in-one account allows them to access their home equity (up to their borrowing limit) to cover the shortfall, and then repay the debt when the situation reverses itself
- **A "What if?" account.** Retirement comes with many unknowns. An all-in-one account provides your clients with convenient access to their home equity (up to their borrowing limit), to assist with any financial emergencies that may arise

To learn more about how an all-in-one account can help optimize your client's banking, visit manulifebank.ca



ADVISOR OPPORTUNITY

Why do you need to focus on Product Allocation?

- **Consolidate client assets** – When approaching retirement, clients will likely deal with one advisor if that advisor can demonstrate expertise in both the asset gathering and income generation phases of investment planning
- **Extend the length of client relationships** – for life Product Allocation strategies can allow you to retain clients throughout the retirement phase of their lives
- **Increase the value of your book of business**
– Expand your range of products to gather additional assets while being viewed as the advisor of choice for your clients

BECOMING YOUR CLIENT'S ADVISOR OF CHOICE

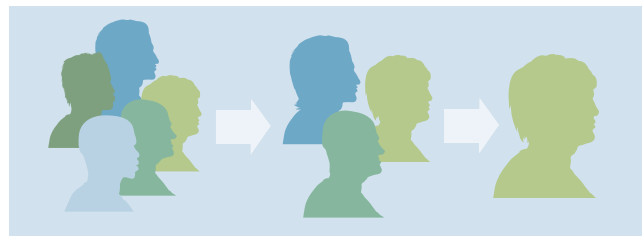
When accumulating assets, many individuals don't keep all of their retirement savings with a single advisor because they believe it is far too risky from a diversification standpoint. However, attitudes are beginning to change⁶. Perhaps many investors are beginning to realize that when it comes to creating a retirement income plan, the greater risk is not having an advisor who knows their complete financial picture.

⁶ Ipsos Reid: The Affluent Canadian Report 2008, pg 98

Your clients can get an introduction to Product Allocation by visiting helpmysavingslast.ca. This client-friendly site seeks to help investors understand how they can help mitigate retirement risks by incorporating a Product Allocation strategy into their retirement plan with the assistance of you, their advisor.

“When asked directly, more than four-in-ten (43%) of affluent households agree that they want one advisor to advise on all aspects of their financial matters (46% in 2005, 35% in 2003)⁶.”

Consolidating advisors can have its benefits



TO TAKE ADVANTAGE OF THIS GROWING TREND TOWARDS CONSOLIDATION, TODAY'S ADVISOR WILL NEED TO:

- Understand retirement income products and benefits
- Work with strong and stable financial companies who have products and resources specifically designed to meet retirement income needs
- Have the knowledge and tools to conduct a complete retirement income review to determine clients' income needs
- Recommend the appropriate Product Allocation mix to maximize clients' retirement income potential, while at the same time minimizing the financial risks

To learn more about Product Allocation visit productallocation.ca, or for questions about the Product Allocation Tool, email rsq@manulife.com.



FOR MORE INFORMATION ON HOW MANULIFE CAN HELP YOU BECOME THE ADVISOR OF CHOICE FOR YOUR CLIENTS, CALL YOUR WHOLESALER OR VISIT PRODUCTALLOCATION.CA

FOR ADVISOR USE ONLY

Manulife, Manulife Financial, the Manulife Financial For Your Future logo, Product Allocation from Manulife, and the Block Design, are trademarks of The Manufacturers Life Insurance Company and are used by it, and by its affiliates under license.

MK2225E 11/10 TMK731E

 **Manulife Financial**

strong reliable trustworthy forward-thinking

| For your future™