

Using a Manulife One Account to Improve a Low RSQ Score



Ava, who is 55 years old with a plan to retire in 5 years, currently has \$375,000 invested in a balanced portfolio of which she contributes \$8,000 a year to. Her only other asset is her \$400,000 home which has a small mortgage of \$50,000 that will be paid off within the next five years. Ava doesn't have a pension plan but she will qualify to receive full Canada Pension Plan (CPP) at age 60 and Old Age Security (OAS) benefits at age 65. In order to travel and enjoy her retirement, Ava expects that she will require at least \$40,000 every year. To find out if she is on track and able to retire at age 60, Ava meets with her advisor, Janet.

Based on her current situation, Janet uses the Product Allocation Tool and determines Ava's Retirement Sustainability Quotient (RSQ) is 54%. An RSQ in this range indicates there's a low likelihood Ava will attain her retirement income objective. But after reviewing Ava's goals, they conclude she will likely only require \$40,000 annually for the first 10 years when she plans to travel. Afterwards, \$30,000 per year should be sufficient. Based on her current allocation of assets and a revised income requirement of \$30,000, Ava's RSQ increases to 75%.

While this is an improvement, there is still a 25% chance that Ava will need to adjust her standard of living at some point during her retirement. To bridge the gap, Janet proposes using the equity in her home to supplement her retirement income needs. Since Ava only has a small mortgage and significant equity in her home,

Janet recommends that Ava consider using Manulife One as a means of supplementing her income during the first 10 years of retirement.

Janet refers Ava to a Manulife Banking Consultant who helps her apply for a Manulife One account. Ava, who's still working, qualifies for an 80% loan to value ratio. Because Ava's home is valued at \$400,000 she has an initial borrowing limit of \$320,000 and she retains her current mortgage debt of \$50,000, which she plans to have fully repaid by the time she turns 60.

Because Manulife One can act as her every-day account, Ava starts using it as her primary bank account and has her income automatically deposited into the account each month. This alone helps her to retire her current debt more quickly.

WHEN AVA RETIRES

At age 60, when she retires, Ava's annual expenses will exceed the annual income she deposits into her Manulife One account by \$10,000. In other words, her debt, which is \$0 at age 60, will start to increase by \$10,000 per year until age 70, after which her expenses will decrease to match her income.

To be conservative, her advisor uses an annual interest rate of 6%¹ to show Ava how her debt would grow over time. She intentionally uses a higher rate to allow for the risk that variable interest rates will increase in the future. To account for inflation, Janet also assumes that the \$10,000 in additional expenses increases by 3% per year.

Using this assumption, Ava sees that her debt would grow over the next 15 years, at which time she is planning to sell her home and move into a less expensive residence.

Age	Debt (\$)	Remaining borrowing room (\$) ²
60	0	320,000
65	61,826	258,174
70	155,068	164,932
75	209,163	110,837

For illustrative purposes only.

If Ava chooses to sell her home at age 75, her debt will be repaid with the proceeds from her home. But as the value of her home is expected to continue to increase, she will keep the remainder³.

Using these calculations, Janet advises Ava that she will be able to supplement her annual income by the desired amount: \$10,000.

Based on the \$30,000 annual income Ava can draw from her nest egg, Janet uses the Product Allocation Tool to arrive at a diversified portfolio of 0% Annuities, 95% Guaranteed Minimum Withdrawal Benefit product (GMWB), and 5% Systematic Withdrawal Plan (SWP)*. This portfolio would give Ava an RSQ of 95%.

However, Janet also knows that Ava needs greater liquidity, so she adjusts Ava's Product Allocation to 25% Annuities, 45% GMWB and 30% SWP (50% Fixed Income, 50% Equities).

By making this adjustment, Janet is able to meet Ava's retirement preferences and still achieve a 90% RSQ – a drastic improvement over her initial 54% RSQ.

Product Allocation along with Manulife One has helped Janet ensure a more sustainable income for Ava's retirement years.

*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.

¹As at February 17, 2011, the Manulife One Base Rate is 3.50% and the annual interest rate is 3.50%. Both are variable rates, calculated on the daily closing balance and charged monthly. The monthly administration fee is \$14.00 (\$7.00 for seniors). Rates and fees are subject to change without notice.

²With Manulife One, client withdrawals cannot exceed the maximum approved borrowing limit and they must pay any accrued interest and fees which would increase the total debt beyond the borrowing limit. This differs from a reverse mortgage, where a client may not be required to make deposits into the account.

³This scenario assumes that Ava sells her home at age 75 for an amount that is greater than the debt owing at the time.

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