

## Product Allocation and Mutual Funds



At 60 years of age, Jerome has enjoyed teaching for over 30 years. But he's looking forward to dedicating more time to golf and his hobbies when he retires in five years. For Jerome, meeting his goals means he doesn't plan on reducing his lifestyle or expenses and he anticipates he'll be comfortable with an annual income of \$70,000 per year.

Financially, Jerome is fairly secure. He has a modest portfolio valued at \$250,000 and he's entitled to receive Canada Pension Plan (CPP) and Old Age Security (OAS) benefits at retirement. But more importantly, as a teacher, Jerome has a Defined Benefit Pension Plan that will pay him \$40,000 per year when he gives up teaching at age 65.

Due to the volatility of the markets over the past few years, Jerome transferred his investments into low-volatility products with 70% of his portfolio in GICs and Bonds and the balance in cash.

### **APPLYING A PRODUCT ALLOCATION APPROACH**

Jerome visits his advisor Bob to find out if he's on track and if any changes need to be made to his investment portfolio. Bob explains the concept of Product Allocation to Jerome and how having a blend of products offering

various guarantees can help ensure a sustainable retirement income that will last the rest of his life. Sources offering guaranteed lifetime income include his Pension, Government Benefits, Annuities and GMWB (Guaranteed Minimum Withdrawal Benefit) products.

Bob explains to Jerome that he's very lucky to have a Defined Benefit Pension plan and to be eligible to receive both CPP and OAS. These guaranteed sources of lifetime income account for 82% of the income he'll need in retirement. Based on Jerome's current situation, Bob uses the Product Allocation Tool to determine Jerome's Retirement Sustainability Quotient (RSQ) and arrives at a score of 90%. This means there's a very high likelihood that Jerome's desired retirement income will be sustainable for life.

Even though Jerome is on track, Bob uses the Product Allocation tool to see if any improvements can be made to Jerome's RSQ. Bob determines that if Jerome were

to re-allocate his \$250,000 portfolio by putting 40% into an annuity, 55% into a GMWB and 5% into equity-based mutual funds, he would obtain an RSQ of 100%. While this result is better than the current 90%, Jerome's money would be tied up in guaranteed products leaving him very little flexibility. Both Bob and Jerome agree that this is a bit too extreme and conservative.

## THE ROLE OF MUTUAL FUNDS

Bob explains that if you already have an RSQ over 90%, or at least 80% of your retirement income covered off by guaranteed income sources, you are relatively secure going into retirement. Maximizing growth potential with equity based mutual funds can improve liquidity and potentially help outpace inflation. Jerome agrees that this will best suit his retirement plan.

Bob suggests that Jerome take a more balanced portfolio approach and reallocate his portfolio into equity based mutual funds. The allocation they agree upon is 5% Cash, 35% Bond and 60% Equity, which gives Jerome a 92% RSQ. This score fully satisfies his basic needs while giving him the freedom to pursue the lifestyle he's worked hard to have.

Bob suggests that mutual funds could work well with Jerome's high current RSQ and growth oriented target asset allocation because they provide Jerome with exposure to a range of core global equities, growth equities, corporate bonds and government bonds.

Product Allocation and a diversified mutual fund portfolio can help Jerome achieve a sustainable income flow and make his ideal retirement more achievable.



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After going through the Product Allocation Tool with Jerome, Bob can generate a custom report for Jerome to review.

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TMK804E 03/11