



The Product Allocation Tool is the first tool of its kind in Canada!

QUESTIONS ABOUT USING THE TOOL

The following are some questions you may have around using the Tool.

Q: Why do you require the client information in Step 1?

The information collected in Step 1 is a crucial key used to help develop the best Product Allocation for your clients. Information about age, gender and required income helps the system develop a profile of your client's retirement income risks. Details about savings and pensions are mandatory in understanding where your client's retirement income will come from which, in turn, contributes to determining a model Product Allocation for your client. Also in Step 1, you will have the option to identify any deposits and/or withdrawals your client may make pre and post retirement. The information required is the amount and age the funds are to be deposited and/or withdrawn and over what duration.

Q: Who has access to the client information I provide and how secure is this information?

At Manulife Financial, the privacy and protection of personal information is important to us. As a provider of financial products and services, the collection and use of customers' personal information is fundamental to our day-to-day business operations. To fully review Manulife's Privacy Policy which can be found on the Repsource home page: https://repsourcepublic.manulife.com/wps/portal/Repsource/Repsource/PrivacyPolicy?urile=wcm:path:/repsourceCommon/Other+Content/Privacy+policy/Overview/admin_privacy_home

Q: If this is Product Allocation, why are you asking for my client's current risk profile or Asset Allocation?

Product Allocation must be considered in conjunction with Asset Allocation. Your client's current Asset Allocation helps to determine their current RSQ – the likelihood that their current portfolio will be able to sustain their desired income levels throughout retirement. The Tool combines Product

Allocation and Asset Allocation to arrive at a model Product Allocation, the best possible RSQ. Step 3 allows you to adjust the Asset Allocation in the Product Allocation solution to suit your client's personal risk/return profile.

Q: Did Manulife build the Product Allocation Tool?

The Product Allocation algorithms were created by Dr. Moshe Milevsky and The QWeMA Group. Manulife Financial created a user friendly interface and added some other functionalities to the QWeMA's engine.

Q: What is in the model Product Allocation solution?

The model Product Allocation is the optimal Product Allocation solution based on the inputs you provided. In determining the highest level of sustainability for your client's retirement income, Product Allocation involves placing an investor's assets in the right proportion into three distinct product categories. With a firm understanding of client needs, the advisor is best suited to adjust the Product Allocation in consideration of a client's non-tangible retirement needs such as liquidity and legacy needs. Step 3 allows you to customize the final results for your client.

Q: Why would I want to change the Product Allocation results?

Product Allocation results reflect the mix of products as well as the related asset distribution within those products, which produce the highest possible RSQ and

the best chance that your client's desired retirement income can be sustained. However, this Product Allocation only considers the financial aspects of your client's retirement; your client may have preferences or desires, risk tolerances, or other retirement related plans that can't be reflected in the financial results. Step 3 allows you to adjust for these preferences and see the impact on your client's RSQ.

Here's one example: if you have a client who has an above average concern for longevity – possibly as a result of parents having lived longer than average lives – and Product Allocation results consisting of 15% annuity, 35% GMWB and 50% SWP, you may wish to adjust these results to increase guaranteed income sources. This type of client may have a strong concern for ensuring money will last for a long and healthy retirement, even into their 90's.

Q: Why does it matter if income is from guaranteed sources or not?

Many retirees have a strong preference for having guaranteed income sources for a large part of their retirement income plan. At a minimum, they want to cover essential living expenses in retirement to ensure their retirement years can be fulfilled without worrying about the essentials. For discretionary expenses such as travel or lifestyle expenses, retirees may have more tolerance for market volatility and risk.



QUESTIONS ABOUT YOUR CLIENT SPECIFIC RESULTS (RISK PREFERENCES, GOALS, ETC.)

When working with your clients, you may often need to look beyond the 'numbers', especially if your clients have strong preferences or concerns about liquidity and retirement lifestyle or certain preferences regarding inflation, longevity risk and the ability to leave a financial legacy. Here are some questions you may wish to consider.

Q: My client is really worried that they will outlive their savings? What should I do?

If **longevity risk** is a key concern for your client, then you may wish to consider allocating assets towards guaranteed income products (like annuities) in combination with other guaranteed income sources they may already have (such as CPP income, etc.)

Q: My client really believes inflation is going to erode their retirement dreams. What should I do?

If **inflation risk** is a key concern for your client, then you will want to consider allocating a higher percentage of retirement savings to products that help keep up with inflation such as GMWBs (some inflation protection through resets) or SWPs (inflation protection through market investment).

Q: My client is concerned that they will not want to make investment choices during retirement for fear they make rash or quick decisions that might not be best for their long term goals.

This is a common concern for retirees; it's called **behaviour risk**. As they age, clients may make sub-optimal decisions that affect their portfolio and this is especially true as they grow older. Many clients have a preference towards a more conservative, worry-free retirement. If this sounds familiar in regards to your client, you may wish to consider a stronger weighting towards products that have guarantees (GMWB) or products that aren't affected by market movements (annuities).

Q: My client wants constant access to their investments in case the unexpected happens. What should I consider?

If your client has a strong preference for **liquidity**, then you may want to consider:

- Increasing the weighting in SWP. Of the three product categories, SWP has the highest degree of liquidity
- Whether a GMWB makes sense. GMWBs provide liquidity because the investor can always withdraw funds but this may not make sense in some situations: withdrawals that exceed predetermined limits can impact future income payments
- Decreasing the weighting in annuities. An annuity involves depositing a lump sum with an insurance company and, in return, receiving set, scheduled income payments. Annuities are very structured, with no opportunity to change the investment, and they don't allow access to cash

Also, there may be other options for addressing your client's preference for liquidity that don't involve adjusting their product allocation results.

See our case study on using Manulife One in retirement for additional details.

QUESTIONS ABOUT THE PRODUCT ALLOCATION TOOL RESULTS

The Product Allocation Tool generates an RSQ and an optimal Product Allocation – the product mix that will produce the highest possible likelihood of sustaining your client’s retirement income. However, there are other factors that influence the purchase of retirement income products which you, as the advisor, know best and can input to adjust the Tool results.

Q: Can I change the Product Allocation results?

Yes! In Step 3, you can adjust the Product Allocation by either moving the slider and entering a new % or using the ‘Adjust Asset Allocation’ button, which allows you to adjust both the Product Allocation and the Asset Allocation by re-allocating percentages across the three product categories.

Q: Why are you recommending annuities or a GMWB when my client has saved sufficiently and has a very high RSQ?

Even though your client has sufficiently saved for retirement, there may still be a role for guaranteed products as extreme market volatility can affect even the best laid plans. Product Allocation considers using a mix of all product types in retirement to continue to allow for growth (SWP) while limiting the damage that can occur when there are significant downturns in the markets.

Because the Product Allocation Tool determines the product mix that provides the greatest possible likelihood of income sustainability, in many cases, this involves some level of guaranteed products, regardless

of whether your client has saved more than they need. This doesn’t mean, however, that there aren’t other product mixes that will produce similar results, albeit not the absolute maximum sustainability. Step 3 in the Product Allocation Tool makes it possible for you to adjust for these scenarios and others.

Q: How do I know if the RSQ is high enough? Why is 90% a target?

The closer the RSQ is to 100%, the higher the likelihood that the income your client desires in retirement will be sustainable for their retirement years. More details on RSQ can be found in the separate **RSQ Ranges PDF**.

Q: Do the Product Allocation results only work for Manulife products?

While the results for the three income categories and life insurance could be fulfilled with any number of products, Manulife has leading products in each of these categories including our Immediate Annuity, IncomePlus (GMWB), and mutual fund products (SWP) that can make their Product Allocation results attainable for your client. For more information on how to sell Manulife products as a part of the Product Allocation solution, please see Step 5.

Q: Do the Product Allocation results consider my client’s preferences and risk tolerances?

No, the Product Allocation results are strictly based on financial and mathematical results. As your client’s advisor, you may tailor the optimal results presented to you in Step 3 for your client’s risk preferences and goals.



Q: Is the Product Allocation a static solution, or do I need to update it?

Product Allocation is not a guarantee, and it is not a static illustration. Following are some examples of what could change your client's Product Allocation:

- **Assumptions change** – Assumptions used in and by the Product Allocation Tool are updated on a regular basis to ensure the Tool remains current and relevant. These updates will impact the Product Allocation results. For example, a change in annuity pricing assumptions will impact the level of income possible from a premium. This will, in turn, impact the optimal weighting of annuities in a Product Allocation strategy
- **Product Allocation Tool enhancements** – Like Assumptions, enhancements will be made to the Tool periodically. These enhancements may or may not impact the Product Allocation results. For example, introducing flexibility in an assumption that was previously static could impact the Product Allocation solution. Adding functionality such as the ability to solve for an income level that will give a 90% RSQ will not impact results
- **Market fluctuations** – If a portion of your client's portfolio is in SWP or, depending on the circumstances, in GMWB, the portfolio is still subject to market fluctuations. The Tool accounts for this through the probabilities of events occurring, but at any given point in time, as a portfolio's value fluctuates, it will impact the Product Allocation because it impacts the total value of the portfolio

Implementing the Product Allocation solution can help protect your client's portfolio from market risk; but because a portion is likely still exposed to markets, it is not completely insulated. We recommend re-visiting your client's Product Allocation on an annual basis, or whenever you are reviewing their portfolio.

Q: How is the RSQ calculated?

The RSQ calculation uses algorithms that are proprietary to QWeMA Group, but the underlying concept is easy to understand. The RSQ can be thought of as a weighted average of the sustainability of the three product categories. The general assumptions are as follows:

- Income received through a life annuity has a 100% RSQ – in other words, the income is guaranteed and your client can be certain that they will receive a known amount until they die
- Income from a GMWB, which can be guaranteed for life once it starts (subject to withdrawal maximums), is not necessarily known at the time of the Product Allocation calculation because the triennial resets are not certain and levels are not known. The probability of resets occurring at varying levels are factored into the RSQ
- Finally, the sustainability of income from a SWP is also uncertain. Market and longevity risk are factored into the sustainability of this product category. In addition, there is always a chance of 'ruin' with the SWP category – meaning, there will always be some chance of losing your investment due to a market catastrophe

Q: How is the model Product Allocation determined?

Unlike calculators that use a Monte Carlo simulation, the Manulife Product Allocation Tool uses advanced numerical methods to determine an optimal Product Allocation. It is able to do this because it is actually running all possible product mix scenarios (within limits). It is therefore able to present the product mix that produces the best possible RSQ – in other words, the best possible chances of achieving a sustainable retirement income.

QUESTIONS ABOUT THE ROLE OF LIFE INSURANCE IN PRODUCT ALLOCATION

With the Product Allocation approach you can help determine if life insurance may be a more efficient way to help your clients pass on a financial legacy rather than leaving assets exposed to tax.

Q: Why should you consider life insurance as part of your product allocation mix?

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

Q: Will the Tool identify whether my client can afford to purchase Life Insurance directly from their portfolio?

Yes, the tool will present a life insurance option if your client's RSQ is greater than or equal to 90%. If the RSQ score is less than 90% and your client wants the option to add life insurance as part of their product allocation mix, further options will need to be discussed including the following:

- Go back and consider whether your client can work longer and retire later
- Increase their nest egg by saving more money
- Reduce their desired annual retirement income, in order to help increase their RSQ score

Q: Why is the life insurance option only shown to clients with a RSQ of 90% or greater?

An RSQ score of 90% or greater indicates that your client has a very high likelihood that their desired retirement income will be sustainable for life. An RSQ

below 90%, indicates that your client has less likelihood of achieving their desired retirement income for their entire retirement and hence may be best served by focusing their portfolio on increasing their retirement income sustainability than leaving a legacy.

Q: What does Potential Financial Legacy (PFL) mean?

It is the sum of the remaining value of the investment portfolio each year, multiplied by the probability of death that year, on a present value basis. It is a probability based number and does not represent the remaining investment portfolio in any given year and should be used more as indicative of the size of a possible financial legacy. In layman's terms, it's a present value probability based number of what will likely be left in your client's portfolio the day they die (which the tool calculates to life expectancy). PFL is present value based so it can be used as a comparative number – what is likely to be left (in the portfolio) compared to what the starting portfolio amount is.

Q: Is the Potential Financial Legacy shown to everyone?

Yes. When the Tool identifies that a Potential Financial Legacy (PFL) exists, you can choose to increase the desired annual retirement income, incorporate life insurance or make no changes to your client's portfolio, while still maintaining an RSQ score within the acceptable range. If a PFL does not exist it means that your client's portfolio has been optimized to find the most optimal product mix in order to generate their overall desired retirement income but that the product mix does not generate a PFL. PFL can be shown as zero.

Q: Why does the RSQ decrease with adding life insurance?

As premiums are funded directly from your client's investment portfolio, the RSQ decreases with the premium as the premium is an additional expense that needs to be added to their existing expense amount.

Q: What type of Life Insurance product has been used within the calculator?

Term Life is a competitive, non-participating T-100 insurance plan.

Term Life Features:

- Coverage option within Manulife’s Family Term product
- Issue ages between 40-85 years of age and premiums payable to age 100
- No paid-up values or cash values
- Available on single life, joint first-to-die and second-to-die basis
- Various riders and additional benefits available including accidental death benefit, guaranteed insurability option, disability waiver, child rider and parent protection
- Coverage can be converted up to age 75, to any permanent insurance plan offered by Manulife Financial

Q: Can I type in my own premium and death benefit amount?

There are two options for calculating the life insurance premium and death benefit. The first option is the ability to use the built-in life insurance calculator that automatically pre-populates the life insurance amount. The second option is to key the premium and life insurance amount directly. Then by selecting the “recalculate RSQ tab”, you will view the trade off and potential benefit of adding life insurance into your clients product allocation mix.

Q: Is there a minimum and maximum death benefit built into the calculator?

The minimum coverage is between \$100,000 and \$125,000 and the maximum is between \$1,000,000 and \$1,025,000.

Q: My client is currently working and will be retiring in 10 years, can I use the Tool or is it just for those in retirement?

The Product Allocation Tool can calculate up to 15 years before a client expects to retire.

Q: My client is in retirement and needs to withdraw a lump sum from their portfolio, however is concerned on what impact this will have on their ability to sustain income throughout their retirement years.

With the new additional cash flow feature, you will be able to demonstrate to your client what potential impact a withdrawal may or may not have on their RSQ and ability to sustain their level of desired retirement income.

You can also use this feature to simulate a ‘health shock’ to your clients’ portfolio. For example, if your clients were diagnosed with a critical illness, what would their portfolio look like if they had to take out money to cover expenses and what would it look like if they purchased critical illness insurance to cover the expenses?

Do you have any other questions? We would be happy to hear from you. Email us at RSQ@manulife.com

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