

THE TRANSITION INTO RETIREMENT



With Canadians facing many challenges as they transition into retirement, the traditional financial planning and investment strategies such as asset allocation may no longer be enough to protect assets and ensure a sustainable retirement income stream, especially during volatile market conditions.

RETIREMENT RISKS

INFLATION RISK

Inflation over the long-term can significantly erode buying power. For example, what \$1,000 could buy today is not what it will buy 20 years from now.

Effects of Inflation on \$1,000

Number of Years	Rate of Inflation				
	0%	1%	2%	3%	4%
1	\$1,000	\$990	\$980	\$970	\$962
10	\$1,000	\$905	\$820	\$739	\$676
20	\$1,000	\$820	\$673	\$545	\$456
30	\$1,000	\$742	\$552	\$402	\$308

For illustration purposes only.

MARKET VOLATILITY

During retirement, an investor's rate of withdrawal and the order or sequence that they earn their market returns

can have a dramatic impact on their portfolio's ability to last. For example, if an investor experiences poor market returns early in retirement this may have a dramatic impact on how much income they can continue to take or how long it will last.

LONGEVITY RISK

Compared to previous generations, both male and female Canadians can expect to live longer lives and could spend as much time in retirement as they did working.

The Probability of a Healthy 65-year old living until...

Age	Single Female	Single Male	At Least One Member of a Couple
70	96%	93%	99%
80	81%	71%	94%
90	44%	33%	63%
95	23%	16%	36%

Source: Annuity 2000 Mortality Table, Society of Actuaries. For illustration purposes only.

RETIREMENT PREFERENCES

LIQUIDITY

An investor may want to have access to cash from their investments to cover off unforeseen expenses, make a large purchase or enjoy an exotic vacation. Every investor will place a different level of importance on the flexibility and ease of access they have to their money.

BEHAVIOUR

Sometimes investors are prone to knee-jerk reactions to changing market conditions, which may not be in their best interest. These reactions have a dramatic impact on their long-term investment performance and retirement income plans.

ESTATE GOALS

Every investor will differ in terms of the importance they place upon leaving a legacy to their loved ones or charitable causes.

SOLUTION...PRODUCT ALLOCATION

While asset allocation plays an important role in the wealth accumulation phase of investing, it may not be enough for those who require income. Investors face risks that can be mitigated by the features and guarantees offered by a variety of income generating investment products. Combining these products in the right mix can create a sound retirement income plan. This mix of investment products is known as Product Allocation.

Product Allocation involves placing investor's assets in the right proportion into three distinct categories of products to ensure a sustainable retirement income and meet retirement goals.

The three product categories are:

Product Category	Strength/ Weakness
Annuities and Pensions	<ul style="list-style-type: none"> ■ Guaranteed income, typically for life ■ Pre-determined regular income ■ Market and interest rate fluctuation protection ■ No control over how assets are invested ■ Not able to cash out
Guaranteed Minimum Withdrawal Benefits (GMWBs)	<ul style="list-style-type: none"> ■ Guaranteed income possibly for life ■ Predictable, sustainable and potentially increasing income ■ Control over how assets are invested ■ Growth potential to help income keep up with inflation ■ Guarantees come at an additional fee
Systematic Withdrawal Plans (SWPs)	<ul style="list-style-type: none"> ■ Flexibility and ease of access to cash ■ Control over how assets are invested ■ Growth potential to help keep up with inflation ■ Income not guaranteed

This is a brief summary of various products and their strengths and weaknesses. Please refer to product specific materials for more details.

How do these three product categories rate with each of the retirement challenges?

Product Category	Inflation	Market Volatility	Longevity	Liquidity	Behaviour	Estate
Annuities	LOW	MED	HIGH	LOW	HIGH	LOW
GMWBs	MED	HIGH	MED	MED	MED	MED
SWPs	HIGH	LOW	LOW	HIGH	LOW	HIGH

Note: The low, medium and high score is a qualitative ranking of the ability of each category of investment or product to meet a specific need, compared to the other two categories. Source: QWeMA Group Inc., August 2007.

A solid Product Allocation strategy can help ensure investors have sustainable retirement income that will last for the rest of their life. For more information please contact your advisor.

