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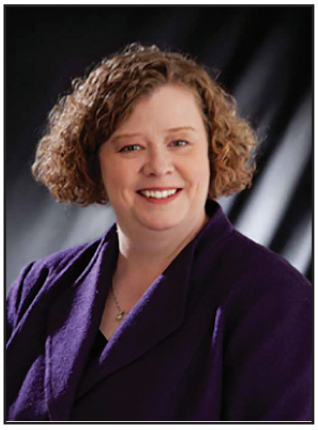

Wealth Viewpoint

Maximize Your Financial Possibilities

PERSONAL FINANCE VERSION 1097

Many worry about impending retirement

Anxiety over inadequate retirement funds is a stress needling many who are approaching the period of *not working* — meaning *retiring and reliant upon saved monies* to supply a monthly cash flow.

It's not checking off the bucket list that stresses the majority of Canadians! Worrying about emptying the RRSP and TFSA is. Meditating or working out more will not fix the primary source of agitation.

Many may regret that they won't have enough capital accrued to go into a respectable retirement with normative goals like: travel, pay for the grandkids' education, stay out of debt and be able to fund Long-Term Care (LTC).

The following table gives you an idea of what you will need to retire on. Don't let the million dollars shock you. By looking at the numbers you can see that the income provided is realistic.

$1,000,000 Generating Income If You Retired Today

Years of Retirement	Retirement Income		
	@4%	@6%	@8%
15	$53,333	$60,735	$68,545
20	$40,000	$47,647	$55,916
25	$32,000	$39,841	$48,514
30	$27,667	$34,676	$43,722

Assumptions: Annual Income is valued in today's money with 4% inflation per year considered. RRIF is valued at $1,000,000 as if you retired today. Tax rate of 20% after money is sourced from RRIF. After the projected retirement period, the capital is reduced to zero.

Longevity Risk

Based on actuarial mortality studies, we can get an idea of an individual's life expectancy which gives us a conservative projection of how long retirement income will be needed.[1]

A detailed Financial Planning Standards Council (FPSC) study on retirement in 2018 forecasted Canadian's average life expectancy, called "Longevity Risk" regarding how it will affect the retirement funds needed. It accounts for the greatest financial risk to an individual.

Exhausting retirement funds ahead of life expectancy, coupled with the worry of the inability of paying for Long-Term Care are the primary financial anxieties of seniors. A report by the FPSC and Credit Canada called the "Seniors and Money Report" surveyed 1,000 Canadian seniors, in

their 60s and over, concerning: debt, income, financial planning and work.

• 25% of seniors are worried that they may run out of money in retirement; or not be able to pay for their own Long-term Care.
• Approximately 75% will probably rely on government income: CPP, OAS, GIS in tandem with any other income.

Prolonged working

20% still work over the age of 60; 6% over the age of 80. Of these:

• 30% cannot afford to retire
• 33% simply enjoy their work
• 12% are heavily in debt
• 28% are short of savings
• 12% are still financially aiding their children

Wake up call to all Canadians

• 56% carry heavy debt, primarily in credit card debt, secondly mortgage and auto-loan debt
• 35% over the age of 80 carries at least one form of debt

Fewer have incomes sustained by company pension plans

The downtrend of having a secure pension income is affecting seniors' incomes, noting:

• 50% over aged 80 are company pensioners
• 41% in their 60s have a pension plan

There is an expected growth in the number of centenarians in Canada as noted by Statistics Canada.[2]

Based on actuarial studies

A 70-year old would have:

• a 25% chance of living to at least age 94 for a man and at least age 96 for a woman
• a 10% chance of living to at least to age 97 for a man and age 99 for a woman
• a 70-year old couple would have a 25% chance that one of the members of the couple will live to at least age 97 and a 10% chance that one of the members of the couple will live to at least age 100

[1] 2014 Canadian Institute of Actuaries Canadian Pensioners' Mortality Report cited in the FPSC study on retirement 2018.

[2] Centenarians in Canada, Age and Sex, 2011 Consensus — Statistics Canada. Centenarians in Canada, Age and sex, 2011 Census. Catalogue no. 98-311-X2011003. http://www12.statcan.gc.ca/census-recensement/2011/as-sa/98-311-x/98-311-x2011003_1-eng.pdf

Why investors benefit from long-term investing

We need to sincerely acknowledge the fantastic opportunity that investment time provides the investor. Most people have had lots of time within which to invest. At age 35 we cross over the halfway mark of the time remaining to invest; at age 45 approximately only one-third of our time is left! Many face a shrinking opportunity of time to have compound gains working for them, yet we must act while time remains.

The key to making money in the stock market or via the use of funds *is the time in, not the timing* — it's the

patient, long-term period of wealth creation.

> *"Inactivity strikes us as intelligent behavior"* — Warren Buffett

Continually trying to time the market by buying and selling a stock or a fund usually backfires. The tax implications of capital gains can wreak havoc on a portfolio. Purchasing a stock or fund at a low price or using dollar cost averaging of a stock or fund purchase can work in the investor's favour.

Greed and fear can work against investing

Without the assistance of an advisor or asset manager, the following can occur:

• People can get caught up timing the market when influenced by either one of these two emotions: greed or fear.

- Greed compels people to buy when the stock market (or a fund unit value comprised of stocks) is higher.
- Conversely fear causes many to sell when the stock market's value (and potentially a fund's unit value) is lower.

• Don't just look at an investment fund's most recent performance.

- Make investment decisions with the help of a professional advisor who has access to investment managers.
- Look for long-term investment performance over one, three, five and ten-year periods.

Implementing an investment plan

An investment plan will include tactical implementation and ongoing monitoring.

It is possible that an individual may not be aware of the importance of, or realize that they need an investment plan as an adjunct to a financial plan — most people only have questions about their money in the context of what they are currently facing in life.

An investment plan provides insight to help make decisions preparing for the larger context of life heading towards retirement. A conversation about your goals, obstacles and opportunities, sets the framework of incorporating our clients' values, which helps you understand the purpose behind your planning.

Trained asset managers work for fund companies, and design funds to excel over the long term. They also know if they should sell any lemon by continually monitoring the portfolio.

There is a lot of activity on any given day on the stock exchange based on both buying and selling securities. When we invest during a volatile period it is wise to rely on the expertise of professionals who have a deep understanding of capital markets.

> *One novice investor can sell an investment security at precisely the same time when another professional investor who understands market behaviour, acts with a clear purpose to buy the same investment.*

An advisor can help you out of a potential guessing game that may lead to erroneous investing tactics with overall poor performance compared to the long-term investor.

A study reveals the importance of income security

During the 70s in Canada, the Canadian government chose a town at random — Dauphin, Manitoba, a small

town on the prairies — to conduct an unprecedented experiment.[3]

A large number of the people in the town were paid $16,000 per annum for three years (in today's Canadian currency) without strings attached.

During this time, the researcher, Dr Evelyn Forget, of the University of Manitoba, found that this universal basic income test yielded the following results: a correlated decrease in depression, anxiety, and other forms of mental illness. Over three years, hospitalizations due to mental illness fell as much as 8.5%. Compare that to the past decade, where global depression rates have risen by 18%.

This makes it clear that a good financial plan that incorporates a disability replacement income can relieve anxiety that may help the healing process.

As well, a Disability Insurance policy can provide you with an income replacement while you continue to remain in the work force; and having a Critical Illness benefit plan if needed, assures that capital would be available to provide income.[4]

[3] A study by Dr Evelyn Forget, of the University of Manitoba.

[4] Depending on the policy, life insurance and disability policies as well as Critical Illness policies can carry on, some providing lifetime income.

Family Capital Legacy: strategies to consider

You may want to include multi-generational strategies to include estate plans and long-term provisional care with your senior family members who may depend on tax planning ahead of time.

• **Family Capital-Transfer Strategy** Seniors may be able to transfer capital to the next generation using advanced life insurance planning.

• **Family Equity-Transfer Strategy** A parent can sell a property to a child while offering some of the equity — gifting only a portion or all of the equity value. Consider this strategy: let's say a home was first bought for $100,000 and is now worth $750,000 ($650,000 equity value). Selling it to the child for $500,000 equates to a $150,000 equity transfer to the next generation.