
What Baby Boomers Need to Know about Entering Retirement

York University Faculty & Staff

Who would have predicted?

- Oil from \$40 to \$140 back to \$40 in 12 months
- Investors would pay the US treasury to hold onto their money

What we'd like to cover

- Address a question from the audience:
 - How much is enough?
- Consider some roadblocks to generating consistent and sufficient income in retirement
- Alternative planning strategies to avoid these roadblocks

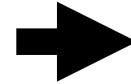
“Outliving their savings is one of the Baby Boomers single biggest concern” *

- Very real concern
 - Savings levels are not high enough to support consumption in retirement
 - Low interest rate environment
 - Recent markets returns
 - Longevity risk

*2006 Maritz Survey

How much money do I need?

- Expenses won't change too much in retirement for many people
 - Mortgage payments
 - Children expenses
 - Work related expenses
- New pursuits may increase expenses
 - Travel, Hobbies
- First step is to complete a lifestyle expenditure statement



Don't expect expenses to drop much more than 30% in retirement

Example of a Lifestyle Expenditure Summary

HOUSING	\$34,974	35.67%
FOOD, HOUSEHOLD	\$14,612	14.90%
TRANSPORTATION	\$7,778	7.93%
DISCRETIONARY	\$20,144	20.55%
MISCELLANEOUS	\$20,535	20.94%
TOTAL EXPENSES	\$98,043	

Lifestyle Expenses May Drop in Retirement

HOUSING	\$16,900	25.42%
FOOD, HOUSEHOLD	\$12,500	18.80%
TRANSPORTATION	\$6,578	9.90%
DISCRETIONARY	\$26,000	39.11%
MISCELLANEOUS	\$4,500	6.77%
TOTAL EXPENSES	\$66,478	

How Much Do I Need?

- A Lifestyle Expenditure will help you identify how much income you need in retirement
- We've run across couples with no children and mortgage free where their retirement income requirements are the same or higher than prior to retirement

What will \$400,000 buy?

- A 2 bedroom condo in central Toronto
- A 4 bedroom, two car garage house in Richmond Hill
- \$1,940/mo of income for 25 Years¹
- \$1,910/mo of income for life²
- \$2,490/mo level income for life³

¹ Invested at 5%, indexed at 2%

² 65 Year old Female, 5 year guarantee indexed at 2%

³ 65 Year Old Female ,5 Year Guarantee

How Much Would You Need to Save a Month...

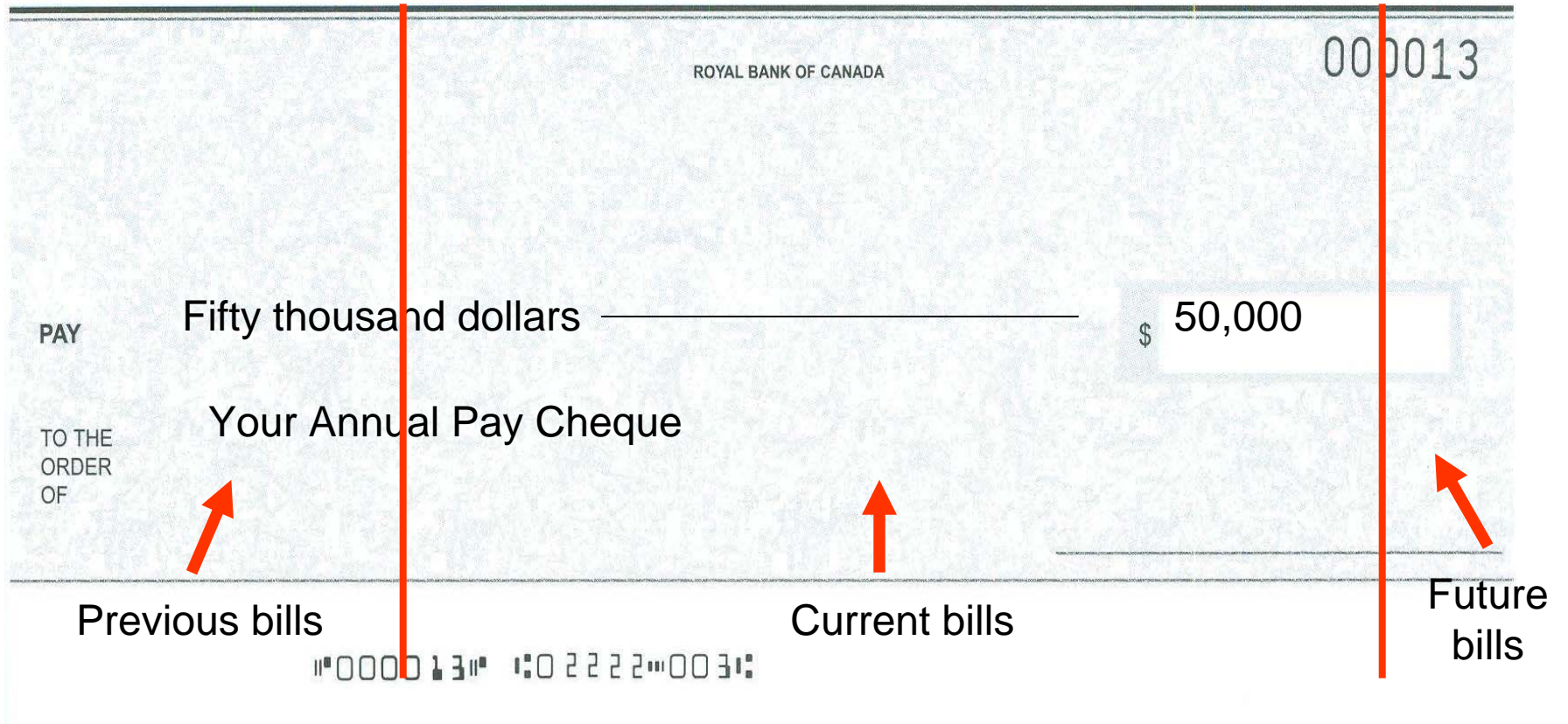
Inflation* Adjusted Monthly Savings Needed to Save \$400,000 by Age 65

Hypothetical Investment Yield

Age	3.00%	4.00%	5.00%	6.00%	7.00%	8.00%
25	\$681.85	\$551.86	\$442.08	\$350.78	\$275.94	\$215.38
30	\$800.12	\$666.74	\$551.31	\$452.58	\$369.06	\$299.13
35	\$958.27	\$821.66	\$700.64	\$594.34	\$501.71	\$421.63
40	\$1,180.23	\$1,040.68	\$914.26	\$800.40	\$698.42	\$607.56
45	\$1,513.84	\$1,371.89	\$1,240.52	\$1,119.39	\$1,008.09	\$906.15
50	\$2,070.79	\$1,927.52	\$1,792.22	\$1,664.70	\$1,544.74	\$1,432.09
55	\$3,186.07	\$3,044.22	\$2,907.68	\$2,776.36	\$2,650.15	\$2,528.93
60	\$6,534.66	\$6,405.28	\$6,278.49	\$6,154.24	\$6,032.49	\$5,913.21

*Inflation at 2%

Where does your money go?



What the Workforce Will Look Like

The Dependency Ratio

- Statistics Canada calculates this ratio based on the number of people under age 14 and over 65 per 100 people of working age (15-64)

2005	2031	2050
44	61	69

Choices for those who fail to plan

- Continue working past normal retirement date
 - Health is improving
 - Workforce demographics changing
 - Social change
- Downsize real estate
- “Granny” flat / move in with your kids
- Relocate to a less expensive area
- CHIP Program
 - Reverse mortgage where house is used as collateral
- Redefine lifestyle spending patterns

Potential roadblocks affecting your retirement nest egg

- Unrealistic expectations
 - Invest yields, life expectancy assumptions, early retirement preconceptions
- Failing to account for inflation
- Very large unexpected expenses
 - Health, Marriage breakup
- Sequence of return risk on withdrawal
- Sandwich generation issues
 - Financially supporting elderly parents and children

You may need a retirement income longer than you think

	50%	
Age	F	M
35	85	81
45	85	81
55	85	81
65	86	82
75	88	85

You may need a retirement income longer than you think

	50%		25%	
Age	F	M	F	M
35	85	81	91	87
45	85	81	91	87
55	85	81	91	88
65	86	82	92	88
75	88	85	93	90

You may need a retirement income longer than you think

	50%		25%		10%	
Age	F	M	F	M	F	M
35	85	81	91	87	96	92
45	85	81	91	87	96	92
55	85	81	91	88	96	92
65	86	82	92	88	96	93
75	88	85	93	90	97	94

You may need a retirement income longer than you think

- Typical actuarial tables give median age at death
- Using this in your planning assumptions can be dangerous
 - 50% of the time we'll run out of money before we run out of time
- In our experience, many clients incorrectly feel they won't need money past age 80 whereas our experience shows us otherwise

Very few things that we buy are inflation proof

- Exceptions:
 - Mortgage payments (only vary with interest rate changes)
 - Pre-paid items (funerals)
 - Some insurance policies

Some retirement income streams can be inflation proof

- Old Age Security
- Canada Pension Plan
- Indexed Defined Benefit Pension Plans
- Indexed Annuities

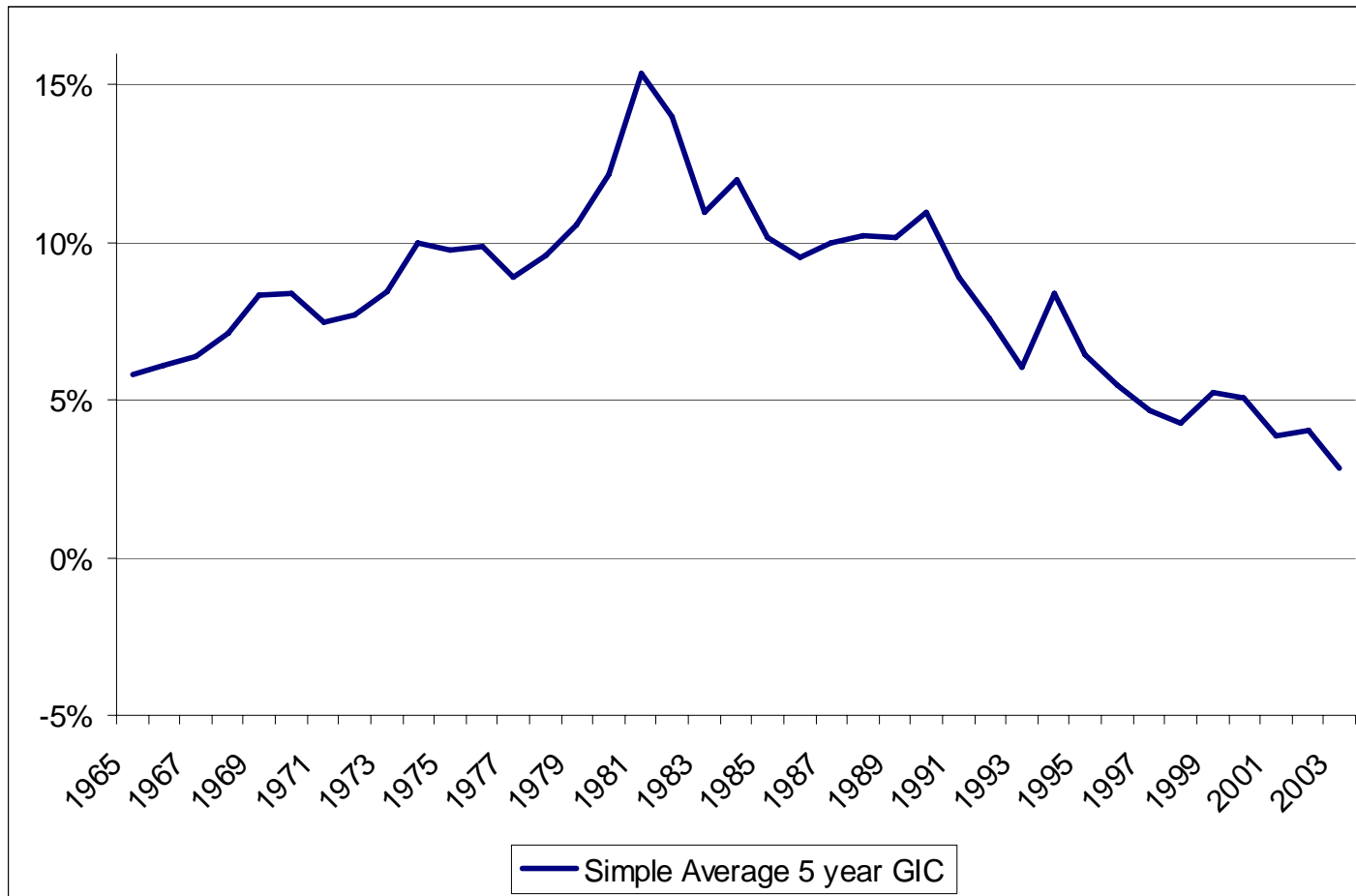
Income streams that are not inflation proof

- Defined Contribution pension plans
- RRIF Income (needs 6% internal rate of return just to remain level and last until mid 90s)
- Investment Income

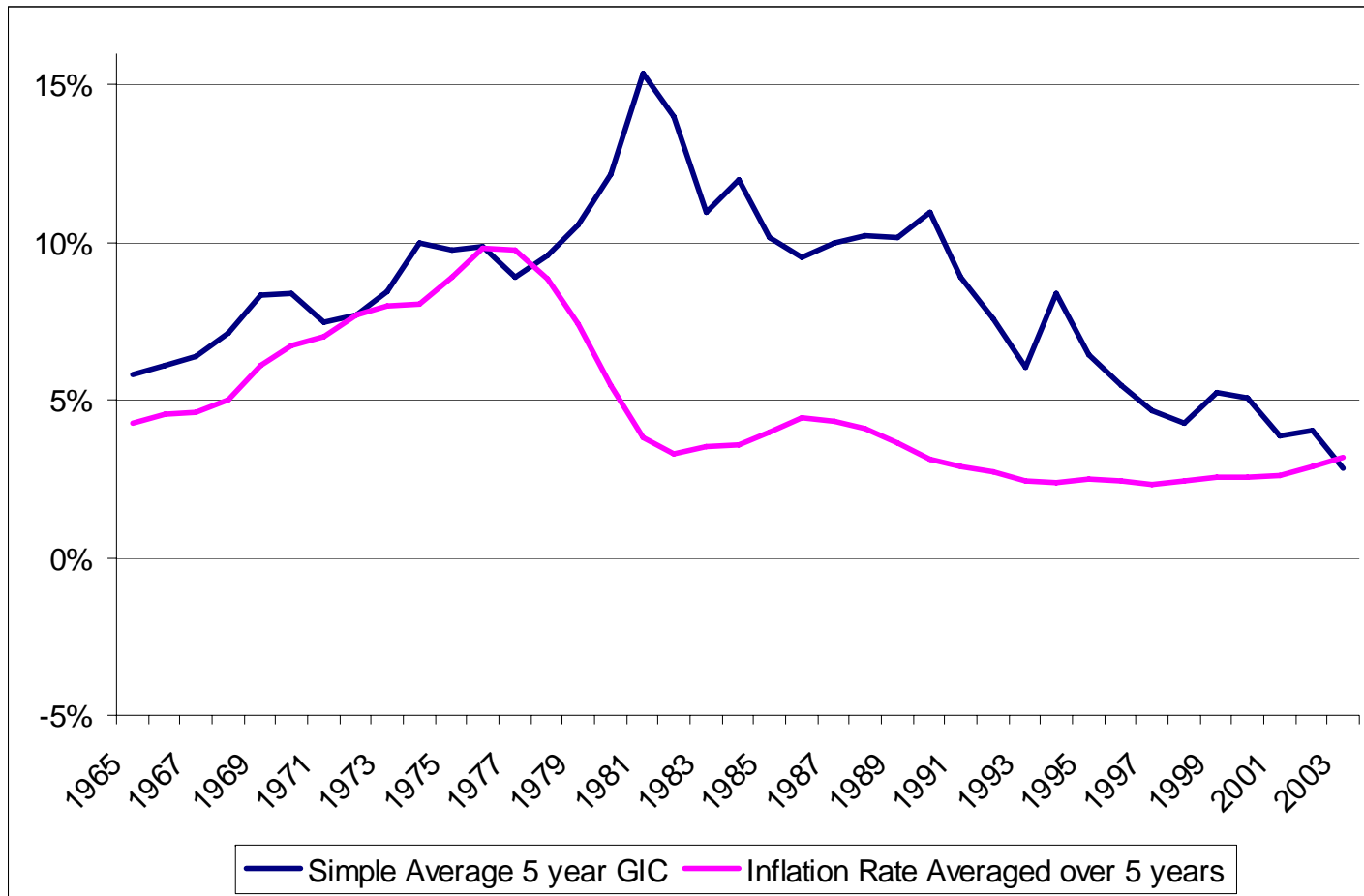
Inflation can affect retirement income

- If the bulk of your retirement income comes from non-indexed sources, inflation can be a major problem and won't be discovered until too late
- Current fiscal stimulus package could very possibly lead to significant inflation in the next few years as much as 5% or greater

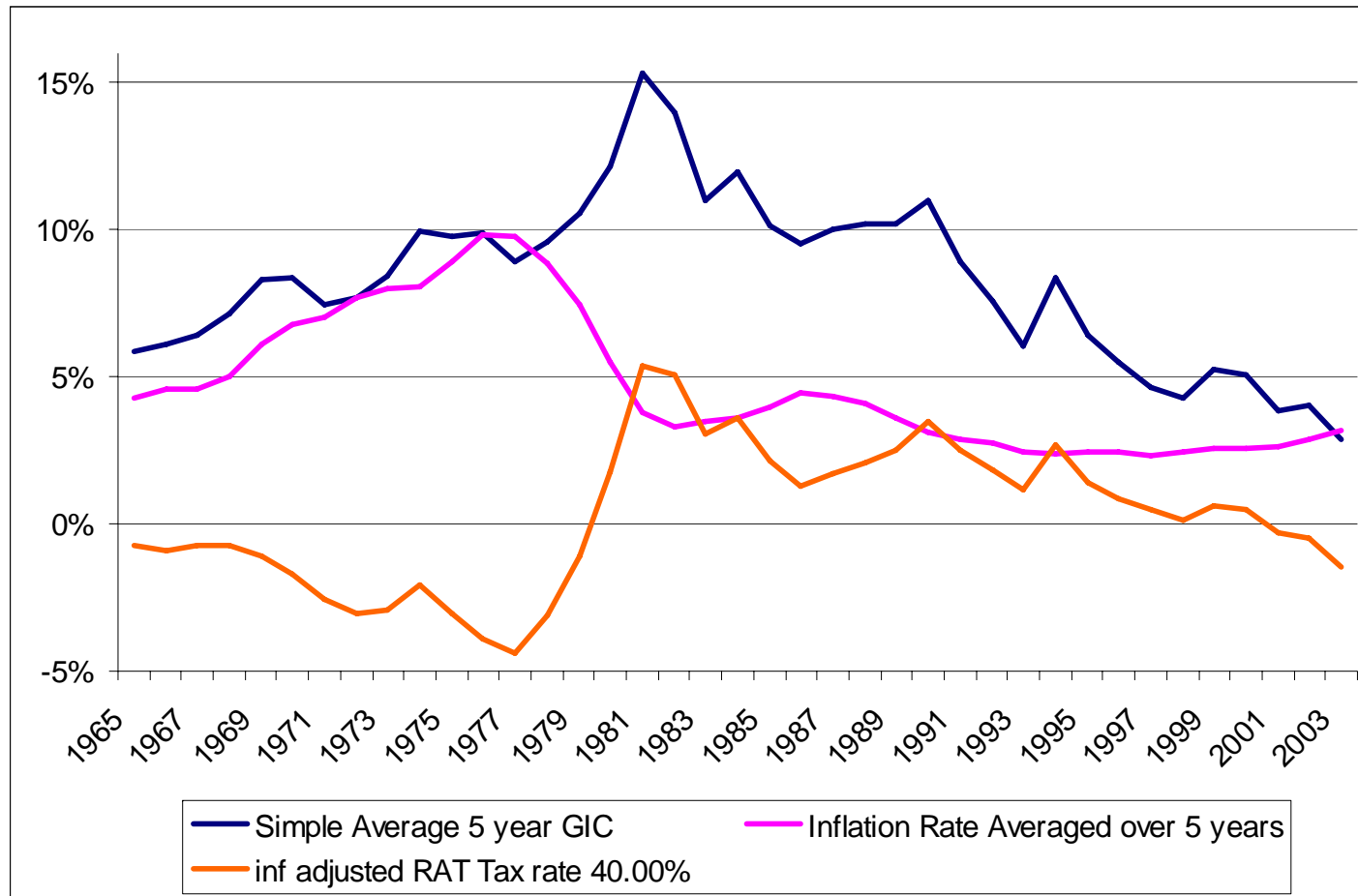
Average 5 Year GIC Yields since 1965



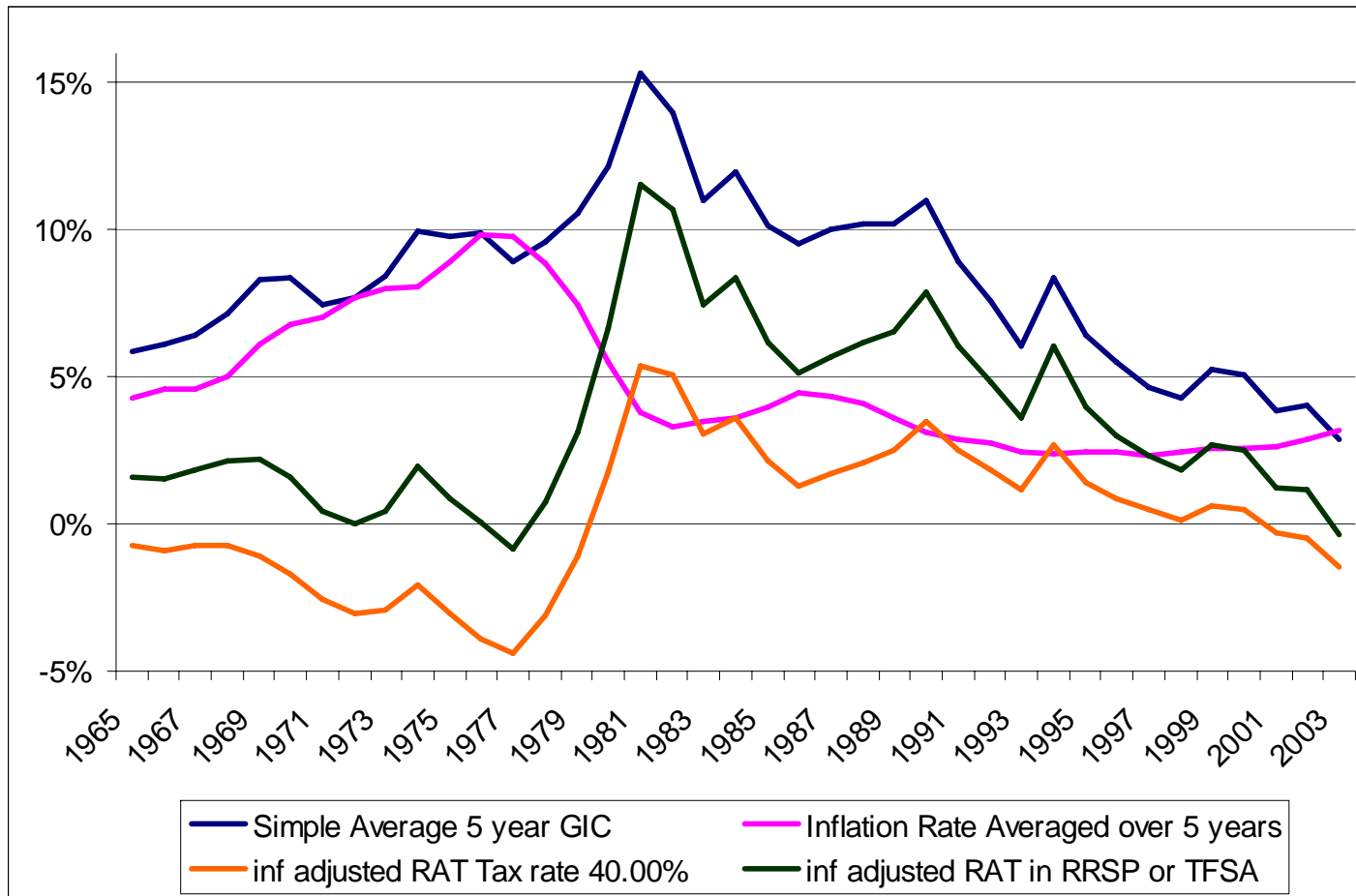
Inflation rate reduces real return



After tax and inflation, GIC real return often a losing proposition



The RRSP / TFSA would improve this significantly



Inflation solutions

- Consider purchasing indexed annuities
- Consider investing a portion of your portfolio in asset classes that perform well in inflationary times
 - Real estate
 - Real rate of return bonds
 - Stocks
- Holding the interest bearing portion of your portfolio inside RRSP/RRIF and TFSA accounts

Very large unexpected expenses

- Health
 - Could include remodeling home
 - Ongoing attendant care
- Marriage breakup
 - Doubling of fixed expenses
- Solutions include:
 - Saving money outside of pensions & RRSPs
 - Critical illness insurance, long term care insurance, in some cases, advances on life insurance policies

Critical Illness Insurance

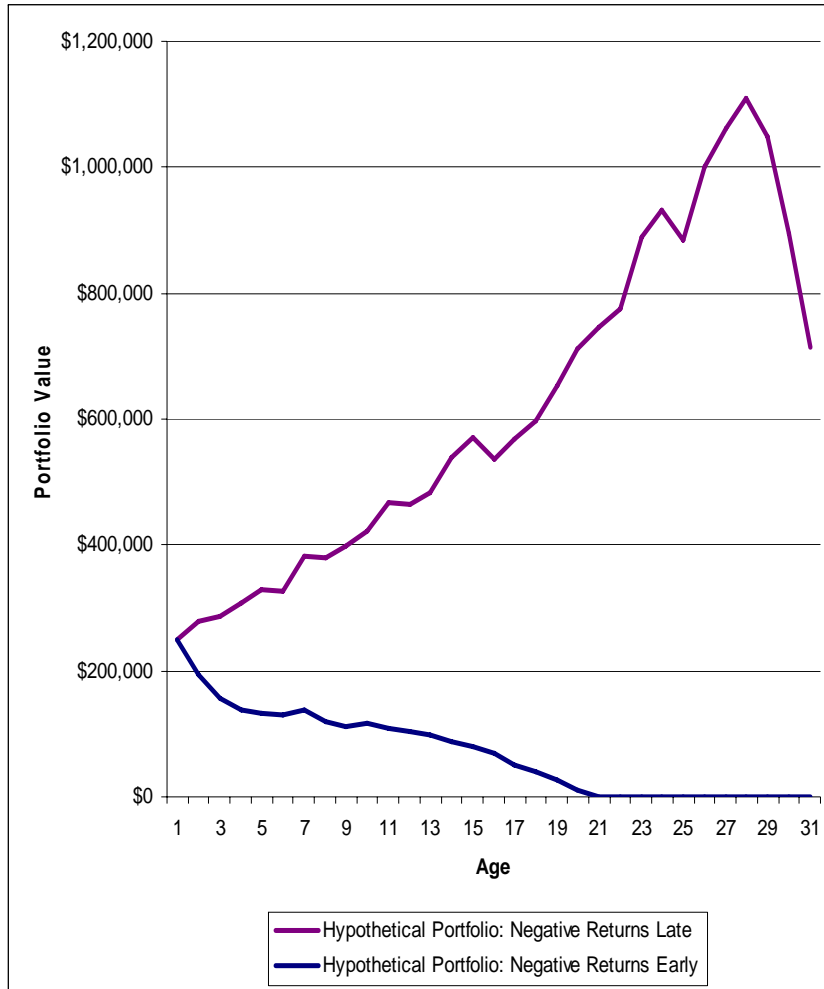
- Introduced in Canada in 2003
- Provides tax free lump sum payment to an individual who suffers a critical illness
 - Includes most major life threatening events including cancer, heart attack and stroke
- Individual selects the amount of coverage needed
- Premiums can be refundable for non-claimants

Long Term Care Insurance

- Introduced in Canada around 2005
- Provides weekly tax-free income for an individual that can't perform two or more of the daily acts of living unassisted (ie, dressing, bathing)
- Flexible benefit periods and benefit amounts

Market Volatility

Sequence of Returns Matters!



5% Withdrawals begin at age 62	Hypothetical Annual Net Rate of Return	Hypothetical Portfolio: Negative Returns Early	Hypothetical Annual Net Rate of Return	Hypothetical Portfolio: Negative Returns Late
Beginning Value		\$250,000		\$250,000
62	-17.60%	\$193,500	16.60%	\$279,000
63	-12.80%	\$155,982	7.40%	\$286,896
64	-3.50%	\$137,518	12.00%	\$308,319
65	6.40%	\$133,054	11.30%	\$329,893
66	8.30%	\$130,567	3.30%	\$327,249
67	15.40%	\$136,873	20.70%	\$381,189
68	-3.00%	\$118,690	3.30%	\$379,691
69	7.10%	\$112,758	8.80%	\$398,746
70	16.90%	\$117,169	9.70%	\$422,778
71	6.70%	\$110,080	14.30%	\$468,297
72	7.20%	\$102,769	2.50%	\$464,767
73	11.90%	\$99,456	7.20%	\$482,688
74	4.90%	\$88,476	14.90%	\$538,755
75	8.10%	\$79,473	9.10%	\$571,612
76	9.00%	\$70,132	-3.20%	\$536,827
77	-3.20%	\$51,064	9.00%	\$568,318
78	9.10%	\$38,551	8.10%	\$597,192
79	14.90%	\$26,792	12.10%	\$651,949
80	7.20%	\$10,868	11.90%	\$711,678
81	9.70%	\$0	7.20%	\$744,709
82	14.30%	\$0	6.70%	\$776,030
83	9.70%	\$0	16.90%	\$888,233
84	8.80%	\$0	7.10%	\$931,973
85	3.30%	\$0	-3.00%	\$884,302
86	20.70%	\$0	15.40%	\$1,000,379
87	3.30%	\$0	8.30%	\$1,062,903
88	11.30%	\$0	6.40%	\$1,110,011
89	12.00%	\$0	-3.50%	\$1,049,825
90	7.40%	\$0	-12.80%	\$893,685
91	16.60%	\$0	-17.60%	\$714,198

Reducing the effects of Market Volatility

- Reduce withdrawals during negative markets
 - This may not be possible in the case of minimum income RRIFs
- Establish a reservoir fund invested in cash equivalents
 - ie ladder GIC, money market funds, CSBs
 - Draw monthly income from this fund and only replenish in good years
- Use annuities and Guaranteed Withdrawal Benefit products to provide part of your retirement income
- Principal protected notes, market-linked GICs

Guaranteed Withdrawal Benefit Products

- Annuity contract issued by an insurance company that ensures that one's retirement income will not be lost due to poor market performance while at the same time rewarding positive investment experience
- After age 65 offer a lifetime guaranteed withdrawal amount
 - usually 5% of your principal invested
 - Broad range of investments available
 - The additional fee can range from 0.25% to 0.75%

Principal Protected Notes and Market Linked GICs

- Guarantees principal at maturity
- Links return to an underlying index or mutual fund
- Difficult to create an income
 - Non-redeemable until maturity
- Principal not guaranteed by CDIC

Planning is a process

- Each individual / couple's plan is unique
- There is no rule of thumb, magic number or retirement income black box
- What you live on during retirement is almost always the result of what you sent ahead
- Chances are, your savings habits will have a bigger impact than picking the right investments