Retirement Income Planning Case Study

Empire Life Investments

Case study support material

Retirement Income Priority Exercise

Introduction

A client of yours has introduced you to some long-time friends, Richard and Denise Martin. Richard will be retiring at the end of the year after a long career in the widget business. There are some changes occurring in the business and that, coupled with a pent up desire to go on some big, extended trips, have prompted Richard to start making some plans for the next phase of his life with Denise. Denise is a nurse who has been in a job share for some time now. She enjoys the flexibility this job structure has offered her to spend time raising their two children and now perhaps to enjoy more time with Richard. She plans to wind things down in a couple of years.

The couple has a bucket list of things they want to accomplish in life and are anxious to get a number of them done while they are young and healthy. They foresee spending more time with their grandchildren and friends down the road. They are essentially debt free and have a mixture of RRSPs, pensions, investments and savings. They have heard that they need 70% of their pre-retirement income to retire comfortably and maintain their standard of living. They also want to leave some legacies for their grandchildren and some favourite causes. They aren't sure if they have enough assets to accomplish all of this.

Richard and Denise have done some research and analysis using the internet. An advisor at their primary bank has also offered some assistance in terms of listing needs, projecting income and offering investment options. Denise liked the bank advisor despite the constant soft sell on their products. Richard isn't as confident.

Initial plans

Richard would really like to move out of their two storey home and live in a bungalow with a walkout basement. That way, neither Richard nor Denise would have to worry so much about mobility issues down the road. They really appreciate what the issues are since Denise's ailing mom moved in with them a couple of years ago. They figure that by downsizing, they can free up some equity in their home to supplement their lifestyle, particularly some exotic trips they want to line up in the next few years. That said, Denise really loves the backyard, her oasis and the current neighbourhood and friends who live so close to them now. She would rather not start all over again in a new home.

Richard has been pretty active in his community and in a service group. He'd like to devote more time to that now, perhaps taking on leadership opportunities. He and Denise would also like to get involved with some extra charitable giving either while they are alive or as part of a final bequest.

Ideally, they would want to travel at least a couple of months each year for the next decade or so. Giving back while enjoying life are values both hold dear.

Both are in good health, though Denise has had some scares over the last couple of years. Her family history suggests she could have problems down the road.

Background

Richard was born on April 15, 1952. Denise was born on Sept. 22, 1955. They have been together for 35 years and committed for 33 years. They celebrate that commitment date each year, though neither felt they needed a piece of paper to validate their relationship and commitment to each other.

The couple has two children:

Jocelyne, age 31 is married to Matt who is 33. They have a two and a half year old son, named Peter and a daughter, Rachel who is nine months of age. Jocelyne is a patent lawyer who was quite helpful with Richard's company, securing some intellectual property rights that gives the company some real competitive advantages. The family moved to New Jersey 18 months ago when Jocelyne was offered a dream job with the same firm. Matt is a marketing VP with an up and coming manufacturing company in Manhattan.

Nicholas is a 28 year old sports therapist who recently got married to Ashley, a school teacher. They live close by in an apartment. They're talking about having children.

Denise's mother, age 90 is not doing well, though the prognosis is unclear at this point. She can't travel much. Richard and Denise have adjusted their lifestyle to care for her. Denise has been named Power of Attorney for Property and Health Care. They are all cognizant of the impact this continues to have on the couple's day to day lives, let alone holiday and extended travel plans.

Richard's father, Stephen is 85, lives about 3 hours away on his own in the family home. He has some recreational properties in Ontario and Florida that the whole family enjoys. Stephen has a history of health issues. Richard has a sister and brother, both married with children. The siblings have been conducting some preliminary research into a long term care for Stephen. Richard and his brother have been named co-Powers of Attorney and Executors. They are familiar with their father's property and financial affairs. The will divides Stephen's assets equally among the three siblings.

Denise has one sister and two step brothers, all of whom live out of province. She is closest to Bill, one of her stepbrothers, who was named as executor of mom's estate. Mom has been thinking about changing that after the big move to Denise's house. Mom got married again after Denise was born. She is not sure how the estate will get divided or whether there were some strings attached favouring Denise's stepbrothers. She doesn't get along with her sister. Denise's dad passed a little while ago leaving her with some insurance monies and some household effects and heirlooms.

Both Richard and Denise find it difficult to discuss all the issues about their parents in family meetings since everyone is scattered across the country. There is some ongoing sibling tension and animosity.

Retirement Plans and Expectations

Richard and Denise made plans to go to Australia a few years back. That all changed when Denise's mother took ill and they decided to move her into their home to take care of her.

The couple also made plans to the Far East, perhaps taking in China, Japan and Thailand.

An African safari is on their "to do" list, perhaps tied into some volunteer work. They even looked into a voluntouring opportunity in South America, combining sightseeing with periodic volunteer work.

They have been to Europe a number of times over the years and look forward to an extended Mediterranean cruise and a tour of Italy.

They figure that this will cost an extra $16,000 a year, averaged over the next decade.

Richard and Denise also want to visit Jocelyne and her family more often. It's hard for their daughter and son-in-law to see them as often as everyone would like.

Richard has some hobbies he would like to spend more time on down the road, woodworking and household renovations. Denise loves her garden, time with family and friends and wants to volunteer at long term care facilities and the local hospital after retiring.

Both have a keen interest in keeping fit mentally and physically. Personal development is important as is a simplified life that will allow them to focus on what's really important. They look forward to a better balance in their lives, much like a long term neighbour and friend down the street. That neighbouring couple feel fulfilled; don't worry about funding their plans and being a burden on others. Richard and Denise can relate to their outlook on money that says; "we don't need lots of money to enjoy life; but money provides freedom and choice."

Finances

Richard has been earning $120,000 a year plus receiving about $4500 in investment income, mostly dividends. Denise earns $52,000 a year plus gets $1800 on average in investment income, much of that dividends and interest. He received a modest inheritance from an aunt and his mother, totalling about $85,000.

Richard plans to do some consulting work for his company, which might generate $10,000 a year, to help with some patents that are going into production. It is not time intensive work. He hopes to continue keeping a hand in the business for 5 years or so.

Denise received about $100,000 from her Dad's estate which she put into the bank, some Tax Free Savings Account deposits, premium savings and term deposits. About $25,000 went into a mutual fund recommended by her bank advisor. Denise is expecting to receive something from her mother but that depends on her mother's healthcare costs and need for long term care.

The couple is looking at spending about $15-20,000 upgrading appliances and furniture. They recently spent a small fortune replacing the windows in their home. They replaced their furnace and air conditioner a couple of years ago. In fact, they demonstrate true pride of ownership, upgrading and renovating their home and yard. They don't anticipate having to make any large investments here for quite some time, especially if Richard has his way with a move.

The couple is reasonably comfortable with their understanding of finances. They expressed interest in learning more about how different investments and income sources get taxed, to optimize income and minimize risk. Richard estimates himself being in one of the top tax brackets. Denise feels she is in a 30% marginal tax bracket. They did go through an exercise on income priorities and brought that document to the meeting. They are interested in hearing more about an IPS, whatever that is.

Both contributed to government pension plans. Their on-line research found that Richard should expect to get about $920 in government pension plus $6,000 in Old Age Security if he waits to age 65 to collect. Denise would get about $700 if she waited until age 65 to begin getting benefits. Richard has a small locked-in retirement plan estimated at $26,000. He is getting a pension from work which should provide him with about 50% of his final years' earnings. There is a survivor benefit equal to 60% of that amount.

Richard has no unused RRSP contribution room. Denise has been contributing the maximum for years now. Years ago, Richard contributed about $12,000 to Denise's RRSP.

They do value solid, sustainable rates of return and do not know the average rate of return on their holdings, certainly not if they included all of their assets, including pension and government benefits. They do have a handle on what they are making for different assets. About 60% of their investable assets are in stocks, 17% in bonds, 15% in GICs and 8% in cash. The couple thinks a consolidated statement would help get a better handle on their affairs and progress.

Richard describes his investment style as moderately aggressive; Denise places herself as an average risk investor or moderate. She got pretty nervous after the market drop around the year 2000 and again in 2009-10. Richard and Denise regret selling part of their portfolio in 2009 when the market value dropped 40%. They wanted to limit their losses so that they would have money to help pay off their children's outstanding graduate school costs. In retrospect, they feel they received some poor direction and should have held on or remixed their investment portfolio. The couple does feel that an average 2% inflation rate should be part of any projections.

They rely on their accountant for some investment and planning advice. They spread their investment business around as a risk management strategy and to get better overall advice. They read a book on retirement that talked about consolidating their assets around retirement. They aren't sure if this is the right time to do that. They would like some objective information on the advantages and drawbacks.

They want to deal with an investment advisor who offers planning. They expect their primary advisor to truly understand them, their priorities and concerns, to see the big picture and can help them see it too. Their primary advisor seems to be just adequate; it's one reason they have more than one. Not all the information they get is really valuable and it tends to be focused on performance, prognostication and timing sales to avoid downfalls in asset value. The bank advisor tends to be a little reactive on investing advice and follow ups. Richard feels she is more product focused, though she keeps bringing up estate planning. He thinks it's a veiled attempt to sell more products. Besides, he feels he gets some better counsel from his accountant who follows BNN and the Globe and Mail. It's been about three years since they examined their portfolio to see if it contains the most efficient asset and product mix. They have a number of recommendations they would like you to review.

Health Risk Management

Richard and Denise feel that they would each be there for the other as primary caregiver should one of them required health care today. They have some insurance and liquid assets to cover off extra expenses. They understand the responsibility, given their current situation and a caregiving role Richard had to coordinate with his siblings when his Dad had a stroke a few years ago. The experiences were draining; it was hard juggling the job and caregiving and getting back to the routine of work. Denise is now only doing part-time work instead of working more to save more money. She has less energy now too.

Neither one wants to be a burden on family, especially their children. They fear draining their assets on health care or spending all their income on it. They feel it is important to have funding in place to cover healthcare costs other than using retirement assets. Maintaining independence, dignity and choice are strongly held values. They want access to the care they need and enjoy quality of lifestyle. They dread long waiting lists, accepting the lowest form of care or facility and creating unnecessary emotional and financial hardship on their family.

Denise feels that all of Richard's sports injuries are catching up with him and that he works too hard, always going full out on the job and with his service group. Richard acknowledges this but is concerned about Denise's family history and some recent health issues she has had.

Plans for income and assets

The couple has had some conversations about how best to use their assets. They do worry about projected income needs after the bank advisor and accountant both showed them that income needs could increase by 2 ½ times by the time the last of them passes away. And with a starting point of 70% of their combined income, that looks like it's going to require a lot of money and an aggressive investment strategy. They want a guaranteed base level of income to cover essential expenses, money for lifestyle and some discretionary expenses, and some extra cash flow for the early active years of retirement. They believe that income needs will drop when they get to their 80s, in the range of 25%, though healthcare costs could escalate during that last phase of their lives. They want the best cash flow from the various sources available and to leave a legacy for their grandchildren and a couple of charities they have supported for years with money and volunteering. Hopefully they won't have to make tough choices amongst the need for income and the desire to leave legacies not liabilities. The charity focus is a value they want to pass on to their family and to represent a lasting statement for what they stand for in life.

Wishes and Dreams

The couple went to a couple of seminars on retirement and lifestyle planning. They discussed some things they would look forward to in the coming years and how money would affect any plans. They have a copy of that in their file. They also put together an asset and liability statement with the help of their accountant and completed a cash flow statement.

The couple grabbed what they felt were some good options for documenting last wishes. They downloaded a will template that they thought would cover their needs. It involved some fill in the blanks which they did manually and added a few things. They got their son to witness the document and then thought they should get their neighbour down the road to witness it as well a few days later. Two witnesses are better than one. Jocelyne was named as executor, since she is a lawyer. Nicholas is named as Power of Attorney for HealthCare. Richard and Denise named each other as Power of Attorney for Property.

Next Steps

You want to do a good job for this couple, especially since they were a referral from a valued, long-term client. You have recently been exposed to a series of retirement income planning sessions and want to put this material and knowledge to work. You have an opportunity to exchange ideas with some peers and account executives from a major provider of products and services. You need to be prepared to discuss your approach, including organization of information and product applications.

Feel free to use existing software and tools to assemble your findings and recommendations.

Your Income Target

Monthly, after tax

NEEDS	
Mortgage/Rent	
Property Taxes	400
Property Insurance	90
Water/Heat/Hydro	300
Condo Maintenance/Fees	
Property Maintenance	150
Food	1000
Clothing	150
Installment Loans	
Subtotal	$ 2,090.00
Life Insurance	250
Critical Illness Insurance	175
Long Term Case Insurance	
Health Insurance	60
Dental Care	200
Prescription Drugs	80
Non-Prescription Drugs	20
Other Medical	
Subtotal	$ 785.00
Auto Loan /lease	
Auto Insurance	200
Fuel	400
Maintenance	100
Total Needs	$ 3,575.00

DISCRETIONARY	
Vacations/Travel	500
Restaurants	200
Entertaining	300
Hobbies	100
Gifts	200
Charitable Donations	500
Memberships	300
Recreational Property	
New skills or interests	
Subtotal	$ 2,100.00
Other:	
Other:	
Other:	
Other:	
Other:	
Other:	
Other:	
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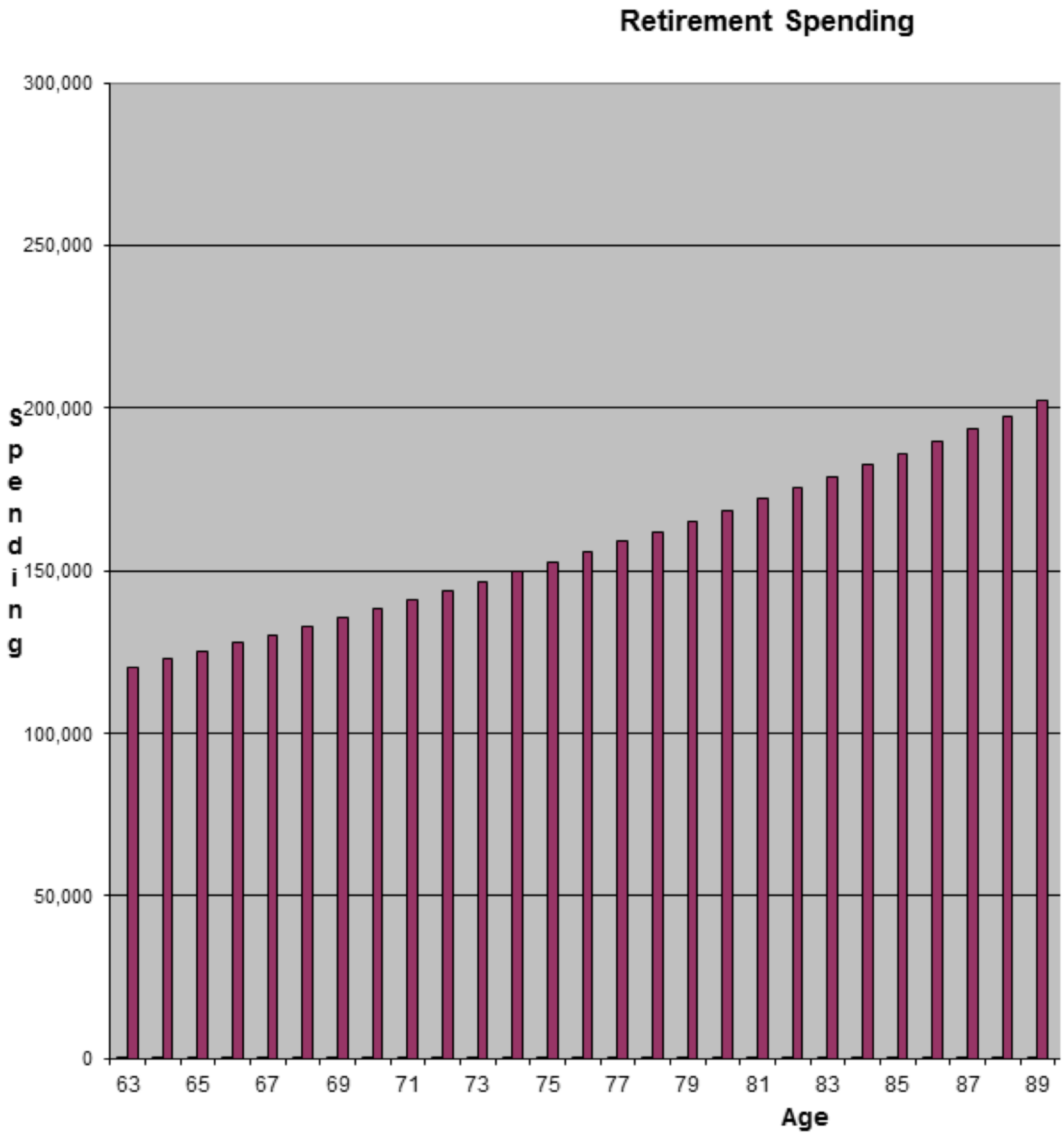
Total Discretionary	$ 2,100.00

Total Monthly Income Target
$ 5,675.00

Projecting retirement income need



Household Net Worth Statement

ASSETS

Savings and Investments

Chequing Account(s)	12000	Bonds	
Savings Account(s)	36000	Mutual Funds	350000
Canada Saving Bonds		Segregated funds	85000
GICs/term deposits	100000	Receivables	
Stocks	40000	Other Investments	21000
RRSPs/RRIFS, LIRAs	300000	DPSP	
Pension Plan Values		Life Insurance cash value	30000

Real Estate

Home	650000
Farm Property	
Other Real Estate	

Personal Property

Vehicles	50000	Jewelry	35000
Furniture	40000	Other Assets	
		Subtotal	$ 1,749,000.00

Business Interests

Value of Business Interest			
		Total	$ 1,749,000.00

LIABILITIES

Non-Deductible Debt

Mortgage on Home		Personal Loan	
Other Mortgage		Income Tax Owing	
Credit Cards		Loans from Family	
Car Loans	8000	Other Debts	
Business Loans		Investment Loans	20000
RRSP Loans			
		Total Liabilities	$ 28,000.00
		Net Total	$ 1,721,000.00

Other advisors' product and strategy recommendations

Compilation of ideas from bank advisor, accountant, et. al. (in no particular order of preference)

- Mutual Funds ownership: Richard: $200,000; Denise $150,000
- Leave mutual funds in growth dividends and dividend paying funds' investments. Funds pay about 4% dividend overall. Mostly reinvested; Richard takes $4500 in payments annually. Start taking out earnings.
- Segregated funds: Richard: $85,000. Move to bank mutual funds for consolidation, probably paying too much in MERs. Who needs guarantees. Invest in dividend paying funds and take out earnings.
- Denise has $11,000 in Tax Free Savings Account, money market and short term deposits. Leave as is to hold GIC type money
- Richard has $10,000 in Tax Free Savings Account, short term deposits and money market. Leave as is and move some money in savings to top up plan.
- Defer CPP for both Denise and Richard as long as possible, minimum age 65.
- Defer RRSPs as long as possible; then change two thirds to RRIF, balance to Series T mutual fund distributing 6% per year.
- Leave stocks where they are; consider not reinvesting dividends
- Take Richard's LIRA and move to guaranteed withdrawal benefit plan to put income on auto-pilot.
- Downsize home and target $75,000 in savings after moving costs. Invest in some Principal Protected Notes and targeted ETFs.
- Set up Laddering program with GICs and move any monies with insurance company to bank to get better overall return (better rate for $100,000). Currently, half is split between two banks and the other half is with an insurance company.
- Consider having Richard take commuted value of company pension and moving to Guaranteed Withdrawal Benefit plan for ease of handling and to get regular cash flow.
- Have Denise defer small pension at work (approximately $8,000 per yr.) until age 65 if possible
- Consider moving assets from parents to bank for ease of tracking, particularly Denise's mom and put into joint ownership to avoid probate and facilitate handling of accounts.
- Consider having both children as co-Powers of Attorney for HealthCare
- Look at cashing in Whole Life Policies (approximately $30,000) and buying some term insurance with part of proceeds to reduce costs. (Richard $250,000 Whole Life; Denise, $100,000 Term 100)
- Keep Critical Illness policy on Richard ($100,000) and Denise ($50,000)

Rank the following in terms of their importance. The higher the rating, the more important the issue is to you and your spouse/partner.

Retirement Income Priority	Rating 1-10	
	RICHARD	DENISE
Income Security Being certain you will not outlive your income	10	10
Safety of Capital Being certain your income producing assets are protected	8	10
Guaranteed Income Having a base level of guaranteed income that you cannot outlive	9	9
Highest Possible Income Today Use all assets to create the largest income immediately	4	2
Addressing Inflation Having your income grow to maintain purchasing power	5	6
Reducing Taxes Explore strategies to pay less tax on your income	9	8
Health Risk Management Minimizing the use of your personal assets for health care costs	7	7
Using Capital Assets Willing to reduce the value of your assets to create your income	8	8
Estate/Wealth Transfer Leaving assets to family and favourite causes rather than the tax department	7	8

What do you want to do over the coming years?

These questions will take some thought and effort to make them valuable and important to retirement income planning process. Think about the things you would like to do over the coming years. Be as specific as possible in terms of activity, location and time frame. For example, 'We would like to go camping with the grandkids and take in some family activities for two weeks in the summer of each year.' 'We would like to travel and stay in a villa in Italy to learn cooking and some Italian for 3 months.' Some activities you will plan on repeating for a period of time. Others will be a "once in a lifetime experience." Please identify the timeframe for each.

Next year

GO TO AUSTRALIA - EAST AND SOUTH COAST, INTERIOR
HIKING, EXPLORING ON OUR OWN, HOTELS, CONDOS - 3-4 WEEKS

Three years

GO TO FAR EAST PERHAPS, PERHAPS COMBINE WITH VOLUNTEER WORK
ONE MONTH

Five years

SAFARI - VOLUNTOURING EXPERIENCE, SAFARI - 3-4 WEEKS

Ten years

FAMILY, GRANDKIDS
EUROPEAN TOUR - MEDITERRANEAN

Longer term dreams and objectives

RICHARD - GET MORE ACTIVE IN SERVICE GROUP - LEADERSHIP
OR EXECUTIVE ROLE.
MAKE A MARK; LEAVE A LEGACY

DENISE: WORK (VOLUNTEER) IN HOSPITAL OR HOSPICE.
SPEND LOTS OF TIME WITH FAMILY, GARDENING

What other plans do you have? (hobby, volunteer work, avocation, second career, learn new skill)

WOODWORKING - RICHARD, GARDENING, VOLUNTEERING - DENISE
TIME WITH GRADKIDS; RENOVATION WORK

What is the most important thing that your money gives you today?

FLEXIBILITY, OPTONS

What would you like it to provide you tomorrow?

PEACE OF MIND, FLEXIBILITY, PREDICTABILITY, FREEDOM TO DO THINGS

What are the most important things in your life besides your money? Describe the top 3-5 things.

FAMILY AND FRIEND TIME
GIVING BACK TO COMMUNITY - HELPING OTHERS
KEEPING HEALTHY, FIT
PERSONAL DEVELOPMENT

How do your views on money relate to your views on life?

MONEY AS A MEANS TO AN END - TO ENJOY NORMAL LIFE;
MAINTAIN INDEPENDENCE, FREEDOM.
DON'T NEED LOTS OF MONEY TO ENJOY LIFE.

Describe what a "successful retirement" looks like to you?

LIKE DON AND MARIE DOWN THE STREET; FEEL FULFILLED, MAINTAIN
SATISFIED, NOT A LOT OF DAILY STRESS, BALANCED LIVES LIFESTYLE.
DON'T WORRY ABOUT MONEY
NOT A BURDEN ON OTHERS

Income Layering: Product Guide

"Consider the products you use from a different perspective"

Least Flexible Income Sources:

- CPP/QPP
- OAS
- Defined Benefit Plan
- RRIF
- Trust (maybe)

Guaranteed Products:

- Annuities
- GMWB
- Guaranteed Interest Option / Treasury Interest Option / GIC
- Principal Protected Notes (PPN's) / Hybrid's (G5/20 / Retirement Plus)
- Government Fixed Income
- "Savings Vehicles"

Growth Products:

- Higher Upside Capture Ratios

Income Stream Products:

- Lower Downside Capture Ratios

Tax Efficient Income Stream Products:

- Return of Capital Products (ROC) – T Series (trust and/or corporate class)
- Partial Return of Capital Products (ROC)
  - GMWB
  - SWIP
  - Annuities
- Any Capital Gain Vehicle

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