Group Savings & Retirement

Plan for life™

The basics of

financial planning

STANDARD LIFE

Hello.

Are you getting started on the road to retirement? Then finding out more about financial planning might be a good idea, so that you can take full advantage of your group savings and retirement program. Here's what you'll learn:

1

How to increase your financial thinking potential

2

Why understanding the three major sources of retirement income is important to your financial success

3

Time is the greatest ally you'll ever have

What is financial planning?

Financial planning is the process of gathering, understanding, implementing, and managing your financial resources in order to use them more effectively now and in the future. Financial planning is necessary if you wish to satisfy your own and your family's needs throughout your life cycle.

During your working years the focus on financial planning is on wealth creation, accumulation, and conservation of assets. At retirement, your focus will shift to preservation, and the distribution of your estate.

Setting the stage

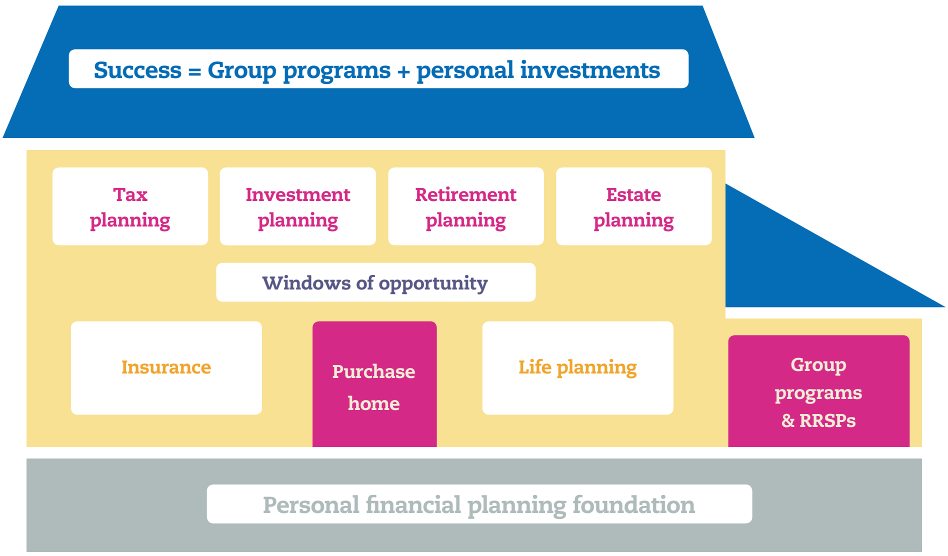
- What will it take for you to survive financially in the 21st century?
- What strategies would you have to put in place to ensure that you will achieve financial and career success?
- What would it take to improve your career, relationship, and financial success and achieve a balanced lifestyle?

Reality check

The three most important questions most people want answered are:

1. Will I have enough to retire?
2. At what age can I retire?
3. How much do I need to save and invest to meet my objectives?

Find out how to design your financial house



Your initial financial plan is the starting point for what should become a routine process. Your plan must contain recommendations for improving your financial health by taking control of your cash flow (net income from all sources), and providing maximum use of your assets.

The key to successful financial planning is to start with a solid foundation, then construct your "financial house" in stages – planning each step along the way.

Most people handle the basics in the lower part of the house, but few take advantage of the "windows of opportunities" to their maximum.

Reality check

Financial planning is a dynamic, continuous process that must also take into account fluctuating economic, market, and social conditions, as well as your changing personal goals.

It should be reviewed on a regular basis to reflect these changes and we recommend an annual review, or what we like to refer to as your annual "financial fire drill."

The three major sources of retirement income

Canadians rely on three major resources to fund their retirement: government programs, group programs and personal savings.

Government programs

Old Age Security (OAS) – In 2008 provides up to $6,028 per year and increases with the cost of living.

Canada Pension Plan (CPP) / Québec Pension Plan (QPP) – In 2008 provides up to $10,615.

Guaranteed Income Supplement (GIS) – In 2008 provides up to $7,608 per year for those who fall short on OAS and CPP benefits.

Group programs

There are six basic types of employer pension plans:

- Defined Benefit Pension Plans
- Defined Contribution Pension Plans
- Employee Profit Sharing Plans
- Deferred Profit Sharing Plans
- Group RSPs
- Non-Registered Plans

Personal savings

RRSPs - In 2005, six in ten families held RRSPs, with a median value of $25,000. There is over $419 billion in unused contribution room.

Home equity – About two-thirds of Canadians own their own home. It is not uncommon for Canadians to downsize their home at or near retirement to release equity to invest as part of their retirement income plan.

Retirement income from these sources can vary widely dependent on whether you have a group program.

Group programs can provide 30% to 60% of retirement income for long service employees (30 to 35 years). Unfortunately, only 39% of Canadians are members of employer pension plans which means that 61% have no participation within this leg. Guess what happens when you remove one leg of a three-legged stool? You're right; the stool will fall over unless massive support is produced by the other two legs.

The third leg of the stool holds the resources created by the employee. This leg often produces retirement income in the range of 20% to 60%. Obviously, an employee with no pension benefit from their employer under leg two would have to rely on a much higher percentage of their own resources produced under the third leg.

Consider this

Attaining your financial goals requires a powerful and flexible financial plan. But a financial plan does not spring into existence by itself. It begins with your effort, your resolve, your honesty – and a few winces along the way.

Your financial plan results from the process of gathering, understanding, and managing your financial resources in order to use them more effectively to achieve your objectives.

Plan your time management philosophy

Life expectancies

In 1900 the average life expectancy for Canadian males was 49 years; for women 47 years, many of whom lost their lives in childbirth. By 2015 the average life expectancy for Canadian men will be upper 70s, and for women mid 80s. Our potential lifespans have almost doubled during the last century and we continue to add 1 to 2 years every decade.

How much financial planning did the average individual do back in the year 1900? None! The plan for most people was to work until the day they died. They literally died with their boots on.

- Yesterday's employee worked a lifetime for one company and received a company pension.
- Today's employees often find themselves caught between the extremes of an employer's paternalistic patronage and the necessity of having to control their own destiny by creating a survival-of-the-fittest plan for their future retirement.
- Tomorrow's employee will work for a number of companies and take charge of creating a pension for themselves.

What is your philosophy regarding time?

Most of us understand the concept of time with respect to our investments and their various compounded returns. But what about the concept of time itself.

Imagine a man in his late fifties with an additional lifespan of twenty years. How long is each year? Most of us would respond with numerical data such as 12 months, 52 weeks, or 365 days. But the response we're really looking for is how long does each year feel? Well, that depends on what kind of year he's having. If he is having a good year, time just flies; if he is having a bad year, time can never seem to move much slower.

Suppose we were to divide the next twenty years into weeks. How many weeks does he have left? Well 20 years x 52 weeks = 1040 weeks. Now ask yourself, "How long does one week last?" Not very long; in fact, a week can pass with the snap of your fingers. Think about how quickly a week disappears – 1040; after this week – 1039; after the following week – 1038; and after one year passes – just 988 weeks would be left. When we measure our lives in terms of weeks, we realize that time is our best friend, the most precious ally we have, not just with respect to money and compounding but with respect to every aspect of our daily lives.

More detail

Everyone has the potential to have a very comfortable retirement for the first five to ten years. The concern is whether they can continue to maintain a comfortable lifestyle for the next five, ten, fifteen, or more years because of the ravages of taxes and inflation.

Above all, remember that inflation is not an increase in prices, it is a decrease in the value of your money. In retirement, one or both partners will likely see prices double or triple in their lifetime.

Let’s rehearse your plan for life

Consider the number of hours it takes to accomplish the following activities:

- It takes 1200 hours to learn to play the flute
- It takes 900 hours to learn to sing
- It takes 1000 hours to learn karate (black belt)
- It takes 2000 hours per year to earn a living
- Now ask yourself, “How many hours should it take to plan your retirement?”

Answer: [   ] hours

Step 1 In your mind’s eye write the number 4 in the first space.

Step 2 In your mind’s eye write a number between 0 and 9 in the second space of this two digit number.

This will give you a number between 40 and 49.

Here’s the good news!

If you were to spend 40 to 49 hours in serious contemplation about your financial and retirement plans it would place you in the top 5% of all Canadians.

Isn’t that amazing – it shows you just how little planning most Canadians are actually doing!

Consider this

One third of Canadians have no financial plans and no saving or investment program for retirement. Many may not be able to afford to retire. And the government may not be able to ensure the financial needs of retirees because there will be many more people drawing on government support at a time when the workforce that contributes the bulk of tax revenue is shrinking.

Manage your financial planning factory

Now that we have looked at time as it pertains to your lifespan and your financial considerations, let's examine the concept of your personal financial planning factory.

There are only two raw materials that can ever be placed in your factory – money and time. How you manage, manipulate, and massage these two ingredients will determine the output from your factory. We call this output comfortable retirement and it can begin at any age you want, dependent upon how well you manage the two inputs of time and money.

Based on your personal time frames, you will ideally design your asset allocation to deliver the retirement outcome you would like to achieve.

Pay yourself first!

Your primary payment during your working career should be made to yourself to ensure adequate financial reserves for your retirement.

And remember, that your money is always at work, 24 hours per day, 7 days a week, 365 days a year – it never takes a rest!

Financial fact

Over a 35 year career, an increase of 1% in the annual rate of return on your pension will deliver a pension payout that's 20% greater at retirement.

Are you satisfied with the level of production in your financial planning factory?

Only two ways to increase your real wealth

The history of markets has taught us there are only two ways to create real wealth.

The definition of real wealth is your return on investment after subtracting taxes and adjusting for inflation. Only two types of investments have delivered positive returns to protect purchasing power: ownership of equities and mutual funds, and real estate.

While neither one of these investments is perfect for every time cycle (especially shorter cycles), both will generally protect your purchasing power over long-term cycles.

Did you know?

- The average age for retirement today is 61.
- Increasing longevity, an aging population, and diminished government resources are putting a strain on government programs, whereby all social security programs may eventually become means tested based on income levels.

Financial fact

Financial planning throughout every stage of the life cycle has never been more important.

In a world crowded with new investments, changing tax laws, rapidly evolving financial products, and volatile economic cycles, people are looking for clear direction in their financial lives.

While some have the skills to manage their own affairs, most will look for professional guidance to help sort out their financial needs.

Key points

Test your knowledge

1. During your working years the focus on financial planning is on wealth ________; at retirement your focus will shift to wealth ________.

2. The ________ payment during your working career should be made to ________. Money is at work ________ hours per day.

3. Attaining your financial ________ requires a ________ plan with ________ objectives.

4. ________ is the greatest ally you'll ever have.

5. ________ is the life blood of any successful financial plan which should be reviewed ________ or more often.

6. Canadians rely on ________ major resources to fund their retirements: ________, ________, and ________.

7. Only ________% of Canadians are members of group programs.

8. The average age for retirement today is ________.

1.accumulation, distribution   2. primary, yourself, 24   3. goals, flexible, long-term   4. Time
5. Cash flow, annually   6. 3, government, group, personal   7. 39%   8. 61

Let's sum it up

Throughout your working years financial planning is a process focused on the creation and accumulation of assets. At retirement, the focus shifts to the preservation and distribution of your tax and estate plans.

Two major shifts have occurred since the previous generation approached retirement:

- We are living longer, healthier lives, adding one to two years to our life cycle every decade.
- We are retiring earlier, often in our mid to late 50s.

Just as an architect designs blueprints to build a house, starting with a very solid foundation, so should your financial plans be carefully constructed, planning each step along the way.

There are three major sources of retirement income: government programs, group programs and personal savings.

Time is your best friend. A person with 20 years of life expectancy has an inventory of just over 1000 weeks left.

There are only two ingredients (inputs) in your financial planning factory – time and money! What you do with these two ingredients determines your output.

The ultimate responsibility for your retirement belongs to you!

Retirement
Investments
Insurance

Talk soon.

To find out more about life and financial planning,
visit the Financial Education Centre in the VIP Room

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