Group Savings & Retirement

Plan for life™

The basics of

retirement planning

STANDARD LIFE

Hello.

Are you close to retiring? If you're almost there, then understanding retirement planning basics is key so that you can put your future income and lifestyle needs into real perspective. Here's what what you'll learn:

1
How to develop a rewarding retirement lifestyle

2
Retirement dreams – myths vs. realities

3
What resources you will need

4
Implement your own retirement plan

What is retirement planning?

Retirement planning is the process of gathering financial data, lifestyle information and insight into the three major activities at retirement:

- Leisure
- Volunteer work
- Full or part-time paid work

Beyond the obvious concerns of financial security and resources management, it is a time when you look ahead five, ten, twenty years down the line and think about what you hope to be doing with your life.

- Where will you be living?
- Will your spouse be alive?
- Will you move among the same circles of friends and enjoy the same pastimes?
- Will you still be employed at the same job?
- Will you be in good health?
- Will you get up each morning feeling a sense of purpose, looking forward to each new day?

Three major paradigms face the 21st century employee

The future of employment

You must engage in lifelong learning to support your need for lifelong earning.

The future of pension plans

4 out of 10 Canadians have a pension plan while 6 out of 10 Canadians do not. Where will the necessary retirement income come from for those who do not have company pensions?

The future of retirement and financial security

You must focus on the preparation required to build a rest-of-your-life financial and retirement plan.

Developing a rewarding retirement lifestyle

Financial security will alleviate many of the hardships and concerns commonly associated with retirement. But don't believe for a minute that money alone will ensure a satisfying, challenging, and emotionally rewarding retirement lifestyle. Successful retirement simply doesn't carry a price tag. Nor, as many would believe, does it occur automatically the hour we find ourselves freed from the burdens of the workplace.

True financial planning involves all aspects of finance such as your lifestyle goals and objectives, investments and taxation, income and life protection, Will and estate planning, and pension and retirement.

Retirement planning involves all of the above as well as the development of meaningful interests. This may take the form of a second career, but more likely it will involve friends and family, hobbies, recreation, travel, further education, a sunbelt home, to mention just a few.

Consider this

- The 65-plus age group is the fastest growing segment of the Canadian population.
- Between 2005 and 2030, the proportion of retirees in Canada will almost double (13% to 25%).
- Early in the 21st century, when the last of the baby boomers (now in their mid 30s to early 50s) reach retirement age 65, there will be some 7 million senior citizens in Canada.
- Nearly half of Canada's senior citizens (mostly women) qualify for the Guaranteed Income Supplement (GIS). They live at minimum subsistence levels defined by North American standards.

What do we mean by financial dignity?

Only one in ten Canadians retires with financial dignity. What do we mean by this? There are many definitions. The one we like best is to be able to:

- **do what you want**
- **when you want**
- **where you want**
- **with whom you want**

We like this definition because it allows one the flexibility to determine "how much is enough" to accomplish the above. More important, this is not just a retirement lifestyle goal, but one that can be attained much sooner in the working career if the appropriate strategies and objectives are put in place.

Reality check

A satisfying retirement is only possible where there is a meaningful use of your time. Ideally, you will have the opportunity to find leisure interests without having to earn money. Although some people choose a second career, retirement will most likely give you a range of leisure interests to pursue such as:

- hobbies and crafts
- educational courses
- socializing and friends
- travel and vacations
- reading and artistic pursuits

Stretch for your true potential. Sift through the possibilities for your future. Allow yourself to find meaning and value.

How long do you need to plan for?

If you had the foresight to anticipate your future needs by establishing a firm financial foundation and you enjoy good health, retirement can be the best time of your life.

If you decide to take care of your cash flow now; if you understand the difference between saving and investing; if you understand the RRSP maturity options with the cash, annuity, or RRIF alternative; if you can recognize the different types and degrees of risks associated with each and most importantly; if you are prepared to apply a winning mental attitude to the management of your money, then retirement with the luxury of financial security will be your trophy. It takes time, indeed, but your life is worth it.

Financial tip

Laying the financial foundation for a secure retirement should begin not at or after age 65, but in your 30s or 40s, or earlier. Nor should the prospect of developing a financial plan for the future be full of unnecessary anxiety. Few people realize how little cash they need to put aside if they start early enough and apply a consistent effort.

Specify your retirement needs

Establish your retirement expenses

Unless you plan to retire within the next few years, there is no way to gauge precisely what your annual cost of living will be. A rule of thumb is to count on needing 70% of your last working year's income. The exact amount you will require will depend upon such factors as:

- **Your desired retirement lifestyle**
  Will you be moving permanently to some remote getaway region where living expenses will be far less than they would be in the city? Will you be splurging on expensive, first-class travel? Will your newly acquired hobbies such as golf, tennis, adventure outings, and so on, involve expensive initial costs for equipment, club membership, etc?
- **Your personal commitments and responsibilities**
  Will you be providing financial assistance to your children? Will you and your spouse's health care costs be climbing? Will you get divorced or married? Will you be retiring earlier or later than you planned and how will this affect the amount of your assured yearly income?
- **Your assured sources of income**
  How much money will you be receiving from your company and from the government? Will you be supplementing this amount through part-time and/or self-employment?

The best time to establish a base for retirement budgeting is three to five years prior to leaving the workforce. By that time, you should count on having eliminated many personal expenses. For example, according to most planning experts, by the time you leave the workforce you should have:

- paid for many major personal items (appliances, furniture, equipment, vehicles, etc.)
- completed major repairs or renovations to your home, if you anticipate remaining there
- repaid all major outstanding personal debts, with the exception of those that are on excellent terms, e.g., a 7% mortgage; a 6% loan on life insurance policy, with proceeds invested at 10% or higher; etc.
- completed and reviewed all legal documents and have arranged for the effective transfer of your estate

Estimate your income requirements

Your retirement income needs should include the following:

- the four major costs of food, shelter, personal care, and transportation
- insurance and property taxes
- debt repayment of mortgages or other loans
- personal expenses
- recreational expenses
- discretionary expenses
- travel expenses
- estimated income taxes
- inflation projection for the next several years to try to determine any vulnerability you may have in becoming a victim of inflation

Consider this

When is the best time to leave the workforce? With retirement comes significant change so this question is best answered with two other questions:

1. Are you financially fit to retire?
2. Are you psychologically ready to accept the many changes retirement will bring?

For example, those who have had most of their needs fulfilled through work such as identity, self-esteem, work friendships, will face a greater difficulty leaving their work.

Creating your retirement plan

To create a financial plan for your retirement you must follow five steps.

1. Specify your needs
2. Estimate your income requirements
3. Analyze your resources
4. Select your investments and accumulate
5. Schedule and complete your annual financial fire drill to make sure you stay on course with the retirement objectives

Understand how the Consumer Price Index (CPI) works

As you approach retirement age your personal CPI changes, and changes greatly. For most Canadians, 70% of the income you required before retirement will be necessary after retirement.

The day you leave the workforce to retire, your costs may drop to 70% of what they were when you were working. Look at the assumed weightings in the CPI that follows for a typical empty nest couple Denise and Pierre.

A summation of the major components in the Index shows their personal index at retirement is 70% of the CPI.

Remember that the components in the CPI are based on a basket of goods for an average family of four. Your costs, if they include only you and your spouse, could be half of what they are for the average Canadian family.

Case profile:

Denise & Pierre – CPI calculations

Family or personal major components	CPI weighting		Denise & Pierre indexing at retirement %		Denise & Pierre expenditure at retirement %
Housing	38%	X	65%	=	25%
Food	18%	X	50%	=	9%
Transportation	19%	X	60%	=	11%
Clothing	6%	X	65%	=	4%
Tobacco & alcohol	3%	X	70%	=	2%
Health & personal care	5%	X	125%	=	6%
Recreation, reading & education	11%	X	120%	=	13%
All items	100%				70%

What is your personal inflation index?

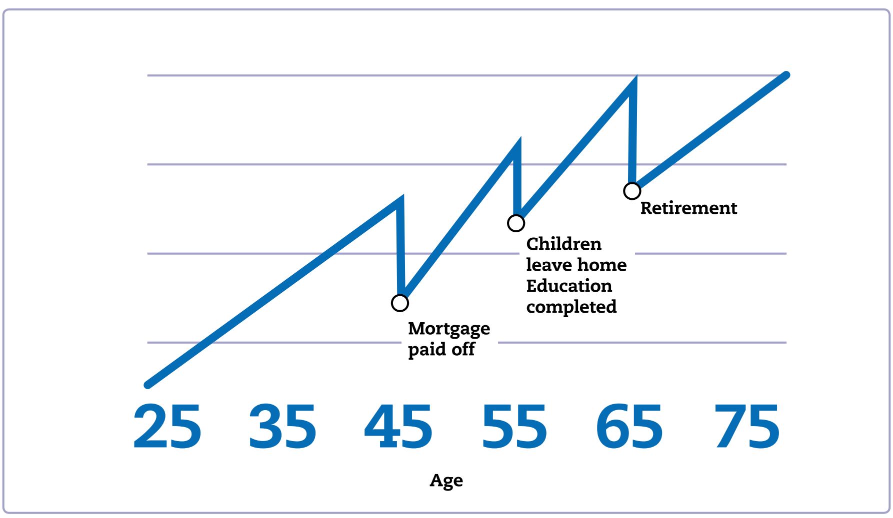
Every family has it's own inflation index that can be substantially different from the stated figures in the economy, at any point in time. The published figures rarely have any direct relation to your personal situation, especially at retirement.

If inflation is 4% at a given point in time, and your personal or family costs and expenditures are 70% of the CPI your personal inflation index is 70% x 4% = 2.8%. This would be 1.2% lower than the national average because you would be spending proportionately less in many of these categories.

However, it may well be that the weightings of your components differ greatly from these averages. For instance, you might experience lower housing costs, but substantially higher health care costs. And the inflation rate on these two components could differ also, e.g., housing rate increases might be less than 2% annually in a low inflation environment, while health care costs skyrocket with greater demands on the health care system. In this scenario your personal inflation index could actually increase.

Cost of living index

3 major decreases during lifetime



Be aware of your target age for retirement

Your target age will depend upon life cycle events such as: when your working career began, when you bought your home, and at what age you raised your family.

For example, if you leave your job at age 57, instead of age 62, your income might be $24,000 instead of $30,000. There is a substantial difference in income at retirement if you leave early because:

- you have five years less earnings
- you are contributing for five years less to your pension
- you have five years' additional drawings on your pension

Retirement fact

Many people who leave the workforce in their early 50s find themselves looking for a new job within 3 months. They find out the greener grass called "Freedom 55" is not quite as attractive as they thought it would be. And with life expectancies increasing into the early 80s, the absence of work leaves many early retirees feeling a loss of purpose.

Planning your retirement income

At retirement, there are a number of planning initiatives to consider to ensure you will have adequate income from your retirement resources. In fact there are three major stages to consider when plotting your retirement income whereby you can give yourself a raise to offset inflation:

Stage one

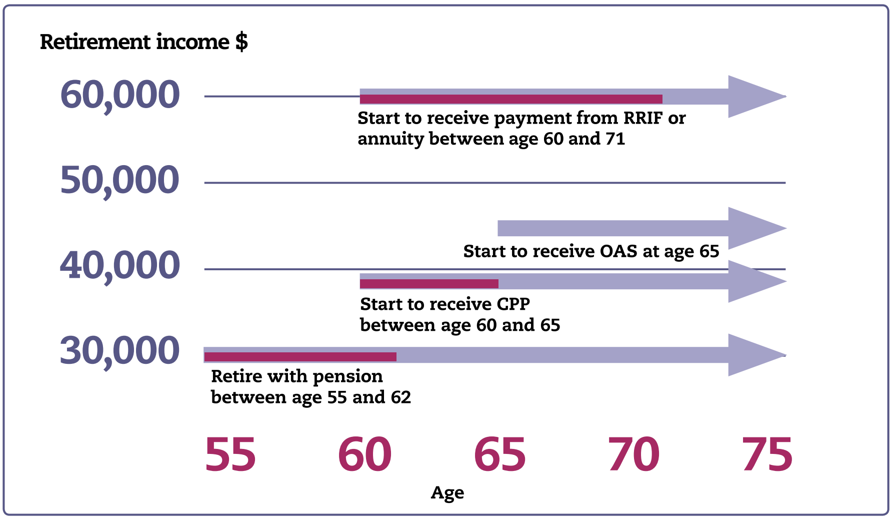
Retirement from workforce converting your group program to a pay-out vehicle.

Stage two

OAS and CPP/QPP added to your existing pensions which provide an increase in cash flow.

Stage three

Convert your RRSP to a RRIF or an annuity to give you a further increase in cash flow. The selection of a RRIF could give you the flexibility of increased cash flow as needed, to offset inflation beyond the age of 71.



When should you take your Canada Pension Plan/ Québec Pension Plan (CPP/QPP)?

The financial answer to this question is based on what would give you the best return? CPP/QPP normally starts at age 65 but you can apply to receive it up to 5 years earlier or later. Generally, if you expect to live a long healthy retirement into your 80s, 90s, or longer you should take your pension at age 65 or later; if however you foresee a shorter longevity you might want to start your pension earlier. Some people have the notion that a "bird in the hand is worth two in the bush". Many times the decision is based on need; for others it's based on how they might invest this pension income for the future.

Let’s sum it up

More than any time in history, retirement planning is essential due to increasing lifespans and an aging population that could spend 20, 30, even 40–plus years in retirement.

While most Canadians focus on financial security issues at retirement, there are numerous other issues such as relationships, home, new careers, volunteer work, leisure activities, to mention a few which also require serious planning. The key to a satisfying retirement is balance.

It is imperative to get a handle on your retirement income and expenses long before you actually retire – the sooner, the better.

Your Personal Inflation Index does not necessarily mirror the Consumer Price Index. When planning your retirement income be aware of your retirement age goal – the difference in income can be substantial.

Retirement stands as a big part of life’s journey; it requires planning, commitment, and action. If you don’t plan the trip before you start, it will be too late to choose your destination.

Retirement
Investments
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