AN INTRODUCTION

Retirement:

Setting Goals & Addressing Risk

Setting Retirement Goals

Saving enough to support ourselves in retirement is often viewed as the most important financial goal. In order to determine the best method for achieving this goal, you must make several key considerations. What are your retirement goals? How do they affect the level of assets you will need? What level of risk can you tolerate? Based on your answers to these questions, a variety of responses may be appropriate; you may need to reduce expenses now or set assets aside. Whatever your best course of action is, the goals you set and the level of risk you accept are primary concerns.

Addressing Retirement Risks

The level of risk you can tolerate depends not only on your attitude toward risk, but also on your financial situation. The most critical point in determining the ability to take risk and how to allocate investments for retirement is financial risk tolerance analysis. There are three primary risks that can lead to failure: financial market risk, longevity risk, and the risk of not saving enough.

Financial Market Risk

This includes the volatility of investment returns, as well as the risk to your earning power. If the value of investments allocated to retirement goals drops early in the retirement period, the portfolio may not be able to generate the income necessary for cash flow needs. Too often in the process of formulating a strategy, a constant rate of return is assumed. Protracted economic slowdowns can greatly decrease the personal earnings that fund retirement, and could all but remove the option of earning additional income from employment in retirement if necessary.

Longevity Risk

While we all generally desire to live longer, there is risk in outliving the assets saved for retirement. This is especially true for those who retire early. For individuals retiring at age 65, there is a 70% chance that they will reach age 80 if female, and 62% if male. This means that it is likely that you will need to save for at least 15 years of expenses after your work years; and potentially many more. This potential risk continues to increase alongside rising life expectancies.

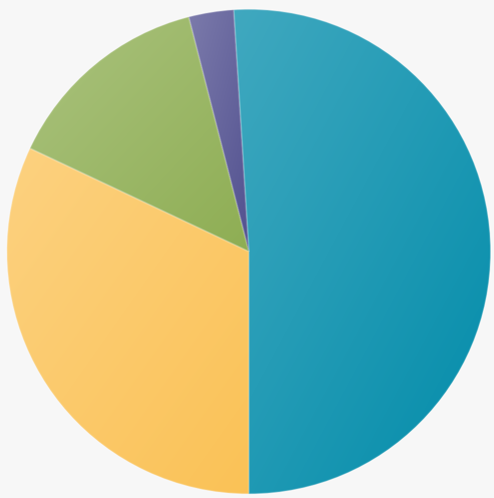
Risk of Not Saving Enough

Retirees are increasingly relying on investment income from their own portfolio, employer defined contribution plans, and social programs. Because of the uncertainty of returns from these income sources, it is difficult to determine exactly how much income will be available each year. Maximizing RPP contributions that are matched by employers and setting aside funds for retirement before being deposited into personal accounts are just two ways that may help you increase your savings.

By adequately identifying your retirement goals, how much risk you can tolerate, and what risks pose the greatest threat to your goals, you and a trusted professional can take steps to most efficiently and effectively increase the likelihood that you will achieve all of your objectives in retirement.

Retirement Income Statistics in Canada

According to government statistics, people age 65 and older have the following incomes:



The median after-tax income for people aged 65 or older was $26,710 in 2016, but there are wide differences within the total group. Approximately 13% have income under $15,000, and roughly 22% have an income of $50,000 or more.

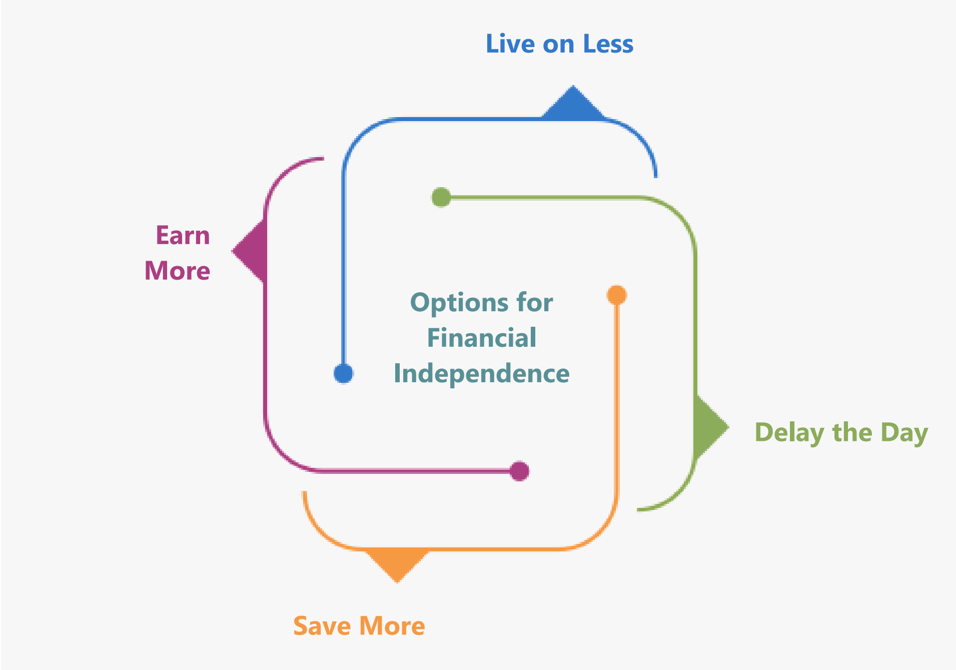
Income differences by age are associated with differences in marital status. Income is highest for married couples, who have a median income nearly 3 times that of non-married persons. In general, incomes are lower in older age groups. The striking differences by age are due in part to the disproportionate number of women in older age groups earning $20,000 or less.

In 2016, 94% of married couples and 96% of non-married persons aged 65 or older received OAS benefits while 95% of married couples and 92% of non-married persons aged 65 or older received CPP or QPP benefits. Although these benefits did not combine to make up a majority of income for this age group, they are a consistent income source in retirement that are heavily relied upon to cover necessary expenses.

Sources:
Statistics Canada. Table 11-10-0008-01 Tax filers and dependants with income by total income, sex and age
Statistics Canada. Table 11-10-0012-01 Distribution of total income by census family type and age of older partner, parent or individual
Statistics Canada. Table 11-10-0053-01 Sources of income of senior census families by family type and age of older partner, parent or individual
Statistics Canada. Table 11-10-0017-01 Census families by family type and family composition including before and after-tax median income of the family

Strategies to Achieve Financial Success in Retirement

Saving for retirement is becoming increasingly difficult due to rising costs and reduced reliance on retirement savings options (like pensions). If your current strategy does not satisfy your anticipated needs and expenses, there are strategies you can use to help meet your goal:



Spend less:

We all have an idea of the type of lifestyle we want for our retirement. However, compromises may be necessary. With life expectancy growing each decade while the retirement age stays relatively the same, retirement expenses must last over a longer period of time. With this in mind, as well as the risk that portfolio volatility poses, reducing retirement expenses may be one of the easiest ways to achieve success in retirement.

Save more:

Increasing your amount of monthly savings to provide the capital desired at retirement is a great way of increasing your nest egg. While many of us find this difficult, one way to ensure that you save more is to set up a regular savings plan directly from your paycheck. This way, no additional action is needed, and you are able to plan for regular expenses in pre-retirement by using the post-savings paycheck amount as a baseline.

Earn more:

Earning more money today, while more difficult than other options, is a way to increase savings for retirement. This includes, but is not limited to, working more hours, searching for another job, and making a more aggressive investment allocation.

Delay the start of Retirement:

While we generally have a strategy in place far in advance of what age we would like to retire, if we are unable to achieve a higher likelihood of financial success in retirement through the other likelihood of financial success in retirement through the other means suggested here, a delayed retirement may be necessary. One particular date or age on which to retire is not a commitment and usually can be changed. If this is not an option that appears particularly appealing, spending less, saving more, or earning more may be steps that you can take to reach your family's goals.

Important: The calculations or other information generated by NaviPlan® version 20.3 regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. These calculations are shown for illustrative purposes only because they utilize return data that may not include fees or operating expenses, and are not available for investment. If included, fees and other operating expenses would materially reduce these calculations.