

Rethinking 65

A Realistic Look at Retirement Planning



To adequately prepare for a retirement, you might need to revamp your plan. Studies show that many Canadians will be working past the traditional retirement age – by choice. Having enough finances to cover a retirement period that might last 25 years or longer is spurring baby boomers – and their children – to rethink retirement. While some look forward to golfing in the summer and becoming snowbirds in the winter, others see themselves still working part-time for economic reasons or for personal fulfillment. Whether your goal is to fully retire or semi-retire, planning for it should be done in advance.

Lifestyles & Income

Before getting into motion, it's a good idea to have a picture of where you're headed. A key finding from the March 2008 TD Waterhouse survey Canadians and Retirement stressed the importance of saving early and having a financial plan in place for achieving retirement goals. Most financial experts agree that the majority of people will need 60 to 80 percent of their pre-retirement income to guarantee their current standard of living. A good place to start your retirement planning is to first imagine your retirement lifestyle, then consider concrete issues like income sources, healthcare expenses, aging parents, part-time work, etc. By having an outline picture, your financial advisor can

work with you to discuss your financial readiness and the feasibility of retiring sooner than 65 or later if you so choose.

Data from the 2006 Census revealed there are over 4 million people aged 65 or older in Canada and that one in seven Canadians is a senior. It counted 4,635 seniors who were 100 years old or older, and in this age group, five of six were female! With an aging population, an expense that is almost certain to rise is the cost of public healthcare. It is also likely to change in terms of what will be covered. Realistic costs include rising health insurance premiums and health-related expenses such as long-term care facilities, nursing care at home, private or semi-private rooms at hospitals, and home renovations to deal with disabilities.

Retirees can expect to live longer than their parents. In 1951, the average life expectancy was 67 for Canadian men and 72 for women.¹ In 2005 it increased to 79 for men and 83 for women.² Usually, as you age, your risk/reward asset allocation changes as the focus shifts from building wealth to preserving wealth and the appetite for risk softens from a more aggressive to a balanced or conservative approach. However, due to increases in lifespan, a degree of equity exposure within your retirement investment portfolio may be needed to seek the required funds to last a lifetime. Retirees should hold

appropriate assets that produce current real returns (since they will need to make withdrawals) throughout their retirement.

Retirement income can come from a variety of sources : (1) government benefits like the Canada Pension Plan (CPP)/Quebec Pension Plan (QPP), the Old Age Security (OAS), and possibly the Guaranteed Income Supplement (GIS) for pensioners with little income; (2) savings from RSPs; and (3) workplace pensions. On their own, each source is unlikely to cover necessary living costs in retirement, further emphasizing the merits of early planning and saving.

Power of Inflation and Effects of Volatility

Often overlooked but worthy of discussion is the effect inflation can have on an investment portfolio. Inflation is a general increase in prices across the economy over a period of time. If your earnings stay the same while prices of goods and services rise, your earnings buy less of those goods and services. As inflation goes up, it makes goods and services more expensive in the future. For example, if the rate of inflation was 1 percent a year, \$100 worth of purchases last year will cost, on average, \$101 this year. At the same inflation rate, those purchases will cost \$102.01 next year and so on. At a 3 percent annual inflation rate, it would take 24 years for



prices to double. Some baby boomers likely remember the 1970s when inflation rose from 1 percent in late 1970 to 5 percent one year later. By 1974 it was at 12 percent. Inflation impacts the value of your earnings and it is prudent to have a portion of your investments in securities that provide enough potential growth so that your purchasing power won't be reduced. That way you'll have the funds needed to retire in the level of comfort you've dreamt about.

Historically, equity returns have tended to outpace fixed-income returns over the long term; however, risk/reward asset allocation patterns will depend on your time horizon, age, and appetite for risk. Younger investors typically hold a higher proportion of equities in their portfolios since they have time on their side to weather market cycles. Near retirees and older retirees will require ongoing growth potential to counter inflation risk and to provide a steady stream of income. A successful retirement investment plan means matching the right assets to provide

potential investment growth during your pre-, early-, and latter retirement years while taking on a comfortable level of risk to gradually lead you from wealth accumulation to wealth preservation.

Stress-test Your Nest Egg

Retirement planning doesn't stop when you turn 65, especially if you have the stresses of reduced savings due to inflation and unanticipated expenses. Some baby boomers are finding themselves sandwiched between the high costs of raising and schooling their children and caring for their aging parents or other relatives. In 2002, the number of Canadians between the ages of 45 and 64 who were caregivers to two generations was 712,000 and this number is expected to grow.³ Delaying retirement, working part-time, or being conservative with annual RIF withdrawals are viable options to combat stressors like rising healthcare costs, disabilities, reduction in income, and potentially reduced levels of government support.

The first batch of baby boomers will turn 65 in 2011, the youngest in 2029. The boomers will have a considerable impact on issues such as the health care system, retirement homes and labour markets, making personal investments more important than ever as a major source of retirement income. This is especially true for women who tend to outlive men by an average of six years. To make your retirement plan even better, be sure you've got your bases covered and questions answered. Let a financial advisor help navigate you through a life-long retirement plan.

For more information, talk to your Financial Advisor today.

¹ http://www.macleans.ca/article.jsp?content=20070205_140146_140146&source=srch

² http://www.who.int/whosis/whostat2007_1mortality.pdf

³ <http://www.statcan.ca/bsolc/english/bsolc?catno=11-008-X20050017033>

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