



| For your future™

MAXIMIZE RETIREMENT INCOME TO HELP ENSURE IT LASTS



## PRODUCT ALLOCATION FROM MANULIFE

Now that you have your retirement nest egg, how can you maximize the income to help ensure it will take care of you for life?

If you've begun to think seriously about retirement, no doubt you've dreamed of a number of scenarios: travel, more time with family, taking up a new hobby...

But there are also questions you need to consider: Do you have retirement savings and if so, will they last as long as you live? Will they keep up with the increasing cost of living? Can your investments endure poor market conditions? In short, will your savings take care of you for life and meet your goals?

In the face of these challenges, the investment strategy you've used to accumulate your savings may need to change when you're looking to draw income for retirement. To better meet retirement's income challenges, Manulife has developed a new strategy: **Product Allocation**. Advisors are turning to this strategy in order to maximize their clients' retirement income and help ensure it will last.



## LEARN MORE ABOUT RETIREMENT'S INCOME CHALLENGES

### THE DEMISE OF THE DEFINED BENEFIT PENSION PLAN

Years ago, Canadians could turn to guaranteed income from “defined benefit” pension plans for their retirement income. With this type of plan, the employee was guaranteed income based on their earnings and the number of years worked, with no personal investment risk. However, the cost of running these plans can place an enormous strain on company resources.

As a result, many companies have phased out defined benefit plans, shifting the onus – and the risk – for retirement savings onto the employee, in what are known as “defined contribution” plans, which do not guarantee income in retirement. Instead, the retirement income depends on the performance of the investments the employee chooses.

If you have a defined contribution plan or no pension plan at all, you will need to find another way to help ensure you'll have sustainable retirement income for life.

### CANADIANS ARE LIVING LONGER

Canadians are living longer than previous generations, so investments have to last longer. The probability of one of a healthy couple living until age 90 is 63%<sup>1</sup>. When you live longer, the timeframe of your retirement

is extended, so the risk of outliving your savings is greater. You need to help ensure your retirement income will last for life.

### INCREASING COST OF LIVING

The cost of living is another factor to consider. A 25 cent cup of coffee in 1976 now costs \$1.57. Research shows that inflation appears to be back. Overall, Canada's Consumer Price Index is forecasted to increase to 2.9% in 2011<sup>2</sup>. The result would be higher gasoline prices and increasing costs for food, household products, and recreation. At this rate, the price of a bag of groceries that costs \$100 today will approach \$180 in 20 years. Your investments will need to keep pace with inflation in retirement. If they don't, your buying power will erode over time.

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Research shows that inflation may be back.

### VOLATILE MARKETS EARLY IN RETIREMENT

You may have the misfortune of retiring just as the markets are experiencing a significant decline. A portfolio experiencing poor market returns early in

<sup>1</sup> Annuity 2000 Mortality Table, Society of Actuaries.

<sup>2</sup> The Conference Board of Canada: Canadian Winter Outlook 2010, “Inflation Back on the Radar,” Doris Chu.

retirement – when income is also being withdrawn – can more quickly run out of money. A portfolio with strong early returns may provide sustainable income much longer. When close to or in retirement, your investments need to be resilient to volatile markets and poor early returns because there is less or no time to recover the losses.

### ACCOUNTING FOR YOUR GOALS

In addition to traveling or taking up a new hobby in retirement, most people have specific goals or preferences, beyond lifestyle aspirations, that could affect the ability of their investments to provide sustainable income. For you, this could be the emphasis you place on being able to access cash from your investments or the importance of leaving a legacy to your heirs or a charity. And for some, there's the risk of jumping in and out of the market, or "timing" the market. This can negatively affect finances long-term if you are out of the market when it begins to experience positive returns. Your retirement income

plan will also need to take into account your goals and personal investment patterns.

### TRADITIONAL INVESTMENT STRATEGIES MAY NO LONGER BE ENOUGH

Traditional investment strategies may no longer be enough to protect you from the risks and challenges your retirement plan will face as you begin taking income from your investments. An example of a traditional strategy is asset allocation, where you invest in a number of asset classes, such as stocks and bonds, according to your tolerance for the risk involved with these types of investments. This strategy helps you build wealth during working years and it still plays a role in a retirement income strategy, but alone, it may not be enough to protect you from the challenges that retirees uniquely face.

These challenges are important to consider and Manulife's Product Allocation approach can help you take action, to maximize your retirement income and help ensure it will last.



## THE SOLUTION STARTS WITH PRODUCT ALLOCATION

To better meet retirement's income challenges, Manulife has brought a new perspective to Canadians: Product Allocation. Advisors are turning to Product Allocation strategies to help clients maximize their retirement income potential, while minimizing the impact of financial risks they will face.

Product Allocation involves placing retirement savings into a number of product categories, in specific proportions that tap into unique guarantees and features, to help achieve sustainable retirement income no matter what risks you face or preferences you have.

### THE RETIREMENT SUSTAINABILITY QUOTIENT (RSQ)

Using Manulife's industry-first Product Allocation Tool, your advisor can actually measure your current retirement plan's chance of success. We call this measure the RSQ. The RSQ can range from zero per cent, where there's no chance of success, to 100 per cent, where the income stream can be sustainable for life. Your advisor can then work with you to determine if your RSQ can be improved by moving your savings into certain products in the optimal proportions that address the risks and preferences of most concern to you.

### FEATURES FOR A SUCCESSFUL STRATEGY

A number of product categories can be used in a successful Product Allocation strategy. Among them, those with the following features and guarantees are important:

- Guaranteed income for life
- Protection from interest rate fluctuations
- Growth potential of the markets to help keep pace with inflation
- Protection from market downturns
- A wide choice of investment funds
- Flexibility and access to cash
- Cost-effective and easy transfer of assets upon death

No one product will offer all of these guarantees and features. However, using the Product Allocation Tool to optimally allocate your savings among a number of product categories, each with its own guarantees and features, your advisor can address the retirement challenges of most concern to you.

## A SURPRISING STORY...

Wealth alone can't ensure retirement income is protected from risks and that you'll meet your retirement goals. It's true that years of saving are important in preparing for retirement, but wealth, or a high net worth, can't ensure your retirement income is safe from financial risks or that you can address your goals.

### CHLOE'S SITUATION

Chloe is single and almost age 65. She earns \$90,000 a year before taxes. Her home is mortgage free. She doesn't have a formal pension plan at work, but contributes the maximum each year to her Registered Retirement Savings Plan (RRSP). Chloe has a tendency to shift some of her RRSP contributions in and out of different mutual funds in response to market conditions. However, she's been fortunate and it has grown to an impressive \$750,000. She is debt free and financially ahead of most Canadians in her income bracket.

Chloe is confident that her RRSP will leave her in good standing for retirement, but she decides to meet with an advisor, Janet, for a financial check-up to see if she is on track.

CHLOE	
Salary	\$90,000
Home	\$500,000
RRSP	\$750,000
Debt	No
DB Pension Plan	No

Janet reviews Chloe's current retirement plan and commends her for contributing the maximum to her RRSP and for being debt free. However, Janet explains that Chloe's investment portfolio, an RRSP primarily comprised of bonds and a few mutual funds, is not protected from certain risks, like inflation or market volatility. She expresses concern that Chloe doesn't have a pension plan that could provide guaranteed retirement income and supplement her government entitlements. Janet further explains that Chloe's tendency to move money in and out of mutual funds could result in a poor investment decision. If she's out of the market, she can't benefit when it begins to experience positive returns.

Janet enters Chloe's financial information into Manulife's Product Allocation Tool, which shows that her RRSP savings only provide an RSQ of 71%. This means there is a 29% chance that her current plan will not provide sustainable income for life. Janet explains that, despite her wealth, Chloe has a low RSQ because her RRSP savings, although substantial, are not invested in products offering the features

and guarantees that would help protect it from retirement's income challenges.

Chloe asks what she could do to improve her situation. Janet says that she could improve her RSQ – and her likelihood for a successful retirement income plan – by broadening her current strategy to include Product Allocation. Using the Product Allocation Tool, Janet places \$637,500 of Chloe's current RRSP savings into products that can offer guaranteed lifetime income and protection from market downturns, and \$112,500 into a product that provides a higher degree of liquidity. In doing so, Chloe achieves a much higher RSQ of 92%.

The bottom line for Chloe is that more guaranteed income can mean a higher likelihood of a sustainable retirement income plan.

**A proper Product Allocation strategy – and not necessarily wealth – is the key to maximizing retirement income and helping to ensure it will last.**

For illustration purposes only.

## LEARN YOUR RSQ AND BUILD A PRODUCT ALLOCATION STRATEGY

So what can you do to maximize your retirement income potential and help ensure it will last?

The first step is to meet with your advisor to learn your current RSQ number. He or she can then help improve your RSQ by building a Product Allocation strategy that will take into account the financial risks of most concern to you and your retirement goals.



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