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Financial Planning &
Employee Benefit Plans

How to plan your retirement cash flow.

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You've worked hard...

...to save in the most tax efficient way and you need to work just as hard to ensure you don't blow it and pay too much tax in retirement.

- Which assets and sources of income should you use today?
- In what order?
- Which assets should you defer?

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Preserve valuable tax credits and government benefits.

You need to have a strategy which considers tax, government benefits and your needs through the changing stages of retirement.

INFLATION

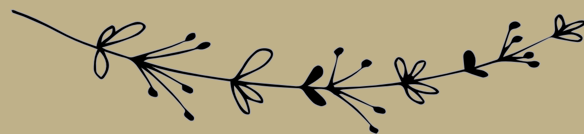
Inflation over the long term can significantly erode your buying power. Assuming a 3% inflation rate, your buying power could be reduced by 60% over a 30-year period. Think about your lifestyle and choose an inflation rate that's reflective of your spending.

LONGEVITY

It's best to assume that you'll live a long life and consider what your options will be at that time. A 'Reverse Mortgage' may be a good option for you. Downsizing your home seems like a good option, but in reality, it's hard to make that work.

In the first 5 years of retirement, market returns on your assets may have a significant impact on your portfolio's ability to last. Ensure this won't be a problem for you.

BE CONTENT WITH WHAT YOU HAVE; REJOICE IN THE WAY THINGS ARE. WHEN YOU REALIZE THERE IS NOTHING LACKING, THE WHOLE WORLD BELONGS TO YOU.
LAO TZU



Understand your spending habits.

We generally buy fewer ‘things’ as we age. Our needs and wants may change from things to experiences. Or we spend to create a cozy environment because we stay home more. Have you looked at your cash flow to really understand your spending habits?

Your sequence of return matters more when you are spending than saving.

Sequence of returns means the risk of receiving lower or negative returns early in a period when withdrawals are made from the underlying investments. The order or the sequence of investment returns is a primary concern for individuals who are retired and living off the income and capital of their investments.

During the accumulation phase, regardless of whether a portfolio experiences poor or strong returns early on, the market value will be the same in the end.

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ACCUMULATION PHASE

Age	**Porfolio A** **Poor early returns** Year-end value ($)	**Portfolio B** **Strong early returns** Year-end value ($)
40	200,000	200,000
41	189,400	230,600
42	185,423	222,068
43	171,887	253,157
44	145,760	275,688
45	159,461	319,798
▼		
55	191,036	810,445
56	188,170	885,006
57	199,461	906,246
58	226,388	925,277
59	247,895	874,387
60	281,112	934,720
▼		
65	484,130	970,919
66	561,591	1,062,185
67	611,573	900,733
68	697,193	834,980
69	671,397	817,445
70	774,120	774,120
Avg.	**774,120**	**774,120**

Starting value for Portfolio A and Portfolio B = $200,000

Annual income withdrawal = None

A portfolio that experiences poor early returns can run out of money during retirement, whereas a portfolio experiencing strong early returns can last for many more years and maintain a high market value. This illustrates how the sequence of returns in those crucial first years can produce two very different outcomes.

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RETIREMENT PHASE

	Porfolio A Poor early returns		Portfolio B Strong early returns	
Age	Withdrawal ($)	Year-end value ($)	Withdrawal ($)	Year-end value ($)
65	–	500,000	–	500,000
66	20,000	454,560	20,000	553,440
67	20,600	424,847	20,600	513,125
68	21,218	374,164	21,218	560,774
69	21,855	298,758	21,855	586,883
70	22,510	302,216	22,510	654,673
▼	▼	▼		
80	30,252	58,386	30,252	1,245,891
81	31,159	26,818	31,159	1,326,487
82	26,818	0	32,094	1,325,458
83	0	0	33,057	1,319,542
84	0	0	34,049	1,214,791
85	0	0	35,070	1,261,122
▼	▼	▼		
90	0	0	40,656	1,111,520
91	0	0	41,876	1,170,191
92	0	0	43,132	955,746
93	0	0	44,426	844,794
94	0	0	45,759	782,256
95	0	0	47,131	696,163
Avg.	**429,956**	**0**	**951,508**	**696,163**
Total income generated by portfolio during retirement =				
$429,956	**$951,508**			

Difference in withdrawals	**$521,552**
Difference in end value	**$696,163**

Total difference $1,217,715

Starting value for Portfolio A and Portfolio B = $500,000
Annual income withdrawals = $20,000 (4% of first-year value) adjusted thereafter for inflation. Inflation rate = 3%)

In this chart we look at two portfolios. Portfolio A has poor early returns and runs out of money within 17 years.

Portfolio B experiences strong early returns, has 13 more years of withdrawals, and still has a positive market value at age 95.

For illustration purposes only. Returns for Portfolio A are hypothetical returns, and not indicative of future performance. It does not include any fees or Management Expense Ratios (MERs). For Portfolio B, the returns are reversed. The sequence of returns has an average compounded annualized return of 4.6 per cent over the respective periods. The accumulation portfolios assume a starting value of $200,000 at age 40 with no annual withdrawals. The retirement portfolios assume a starting value of $500,000 at age 65 as well as a four per cent first-year withdrawal, thereafter adjusted for three per cent inflation annually.

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Protect your portfolio rate of return.

Market volatility can be both an investor's friend and foe. For the long-term investor, a stumbling market presents an opportunity to buy stocks at reduced prices. But this doesn't work for an investor with immediate cash needs, such as retirees drawing an income. If the market drops early in their retirement, it can make a significant dent in their retirement income.

The cash wedge strategy is designed to help mitigate the impact of volatility on your retirement income. This is a way of organizing your wealth so that the assets drawn from when your returns are negative are your stable-short term investments. The remaining money stays invested to capture the growth potential that may follow. As you use this portion it is replenished with future gains.

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The cash wedge.

Keep one-to three-years of retirement income in a stable, accessible investment that is less sensitive to market ups and downs. Accumulating this portion in the last few years of working works well for most folks.

FIXED INCOME

Keep another portion of your portfolio in low volatility investments, this creates another stable wedge to the portfolio.

EQUITY

Invest in funds that match your risk profile, that has investments in growth opportunities of the market.

This portion of the portfolio is more focused on growth, and any gains realized can be moved to replenish the other wedges in the portfolio.

Hire a financial planner.

You need the services of a specialist to construct your own personal plan. The skills and attributes which were helpful in accumulating your financial assets are not the same as those required to devise an effective income plan which addresses the changing stages of retirement.

We are consultants and educators in this specialized field, sharing our expertise with our peers through courses and presentations. But our first line of practice is in working with individual clients to devise, execute and monitor their plans and help them achieve their personal objectives. If you would like to talk to us about your own situation and see if there is the potential to work together, please contact us for a complimentary meeting.

Consolidate your assets.

You cannot have the best possible results if you have assets scattered about with different advisors and institutions. Conflicting advice is inherent in such a situation. It is stressful and counter-productive to an efficient income plan. Do your homework and find a specialist you trust who has access to a wide range of financial tools and products, then simplify your life.

How to reach out

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