



Retirement is for you not your money

KEEP YOUR MONEY WORKING FOR YOU

Many people think that protecting their retirement nest egg in low-risk, income-generating investments is a prudent financial move. But the fact is, maintaining a portion of your portfolio in equities that have growth potential is more likely to keep your money working for you.

Statistics suggest that today's 65-year old is probably going to live another 20 to 30 years. And investing solely in safe investments may not provide the income or growth necessary to maintain your living standard for that length of time.

That's why it's important to keep your money growing by investing it, even when you've retired. It's great to be able to stop working, but your money certainly shouldn't.

WHY "SAFE" ISN'T ALWAYS SO

One of the best ways to help your savings last for the rest of your life is to keep some of your money in the equity market.

Inflation could erode the value of your retirement funds if you move all of them into conservative investments focused on income-generation. Although those investments offer greater stability than equities, they won't help you grow your savings.

The key to living a comfortable retirement lifestyle is to properly diversify your investments so you don't drain your nest egg.

EQUITY VERSUS ESTATE

When you started investing for retirement, your advisor probably helped you diversify your portfolio to contain a mix of stocks, bonds, mutual funds, Guaranteed Interest Contracts (GICs), and cash. Now that you're retired, one of your priorities may be your estate or capital preservation.



But you should still continue to balance your investments between capital preservation (preserving the money you already have) and growth (potentially increasing the money you have).

Because you may need to start withdrawing some of your money as retirement income, definitely keep some of your savings in a safe place, such as a GIC or other income-generating investments.

But to keep ahead of inflation and not erode your savings, consider moving a percentage into equities. The equity portion of your portfolio can help ensure that it keeps growing, not dwindling. The kind of equities you invest in will depend on your risk tolerance, investment time horizon and investment objectives.

DIVERSIFY YOUR INVESTMENTS

Diversification is a crucial aspect of successful investing. To diversify means to spread your portfolio over many types of investments.

Diversification will ensure that if a portion of your portfolio is not performing optimally, there are other investments bringing in returns or paying out adequate income.

There are a variety of investments that you can choose from to appropriately diversify your portfolio while in retirement. But choosing the right investments can be a monumental task given the variety of choices out there. To achieve optimum diversification and return potential, consider an asset allocation strategy.

WHAT ARE THE CHANCES?

Take a look at the table below. Chances are you'll live longer than you thought.

| | | 75 10 more years | 85 20 more years | 95 30 more years |
|--------|--------|-----------------------------|-----------------------------|-----------------------------|
| Male | Age 65 | 82.8% | 49.3% | 13.4% |
| Female | Age 65 | 89.3% | 62.2% | 19.4% |
| Couple | Age 65 | 98.2% | 80.8% | 30.2% |

Source: Annuity 2000 basic mortality tables, projected with Scale G.





ASSET ALLOCATION

Asset allocation focuses on dividing investments among different kinds of assets – stocks, bonds and cash – to optimize the risk/reward trade-off.

Asset allocation is commonly described as the strategy of not putting all your investing eggs in one basket. When done properly, it's also a way to make sure your baskets are filled with only the best-quality eggs. Ongoing monitoring helps ensure that bad eggs are replaced when necessary, leaving you with the best possible selection at all times.

More than simple diversification, asset allocation may boost returns while lowering volatility, by blending asset classes in the proper mix. When certain asset

classes are not performing well, others are. This dynamic helps ensure positive returns in your portfolio, lower risk and less volatility.

The most important part of an asset allocation program is finding the right mix of investments. A portfolio that is well balanced can offer you the potential for growth and still keep the risk in check.

Your financial advisor can help take the guesswork out of the balancing equation and make it easy for you to invest with confidence.

No matter what your investing profile – conservative, moderate, balanced, growth or aggressive – you can choose from a number of portfolios at every risk level.



Efficient frontier

A well-allocated portfolio pushes towards the “efficient frontier,” the place where returns are maximized for a given level of risk.

As the graph shows, some asset classes such as T-bills, are associated with low volatility and low returns. Others, such as shares in small companies, have much greater performance potential but tend to be more risky. Asset allocation adds value by blending asset classes strategically to stabilize and optimize the performance of your portfolio.

SOURCES OF RETIREMENT INCOME

When most Canadians retire, their income is made up of government pensions, employer pensions, registered retirement savings and other personal assets.

However, the income you can pull from government and employer pensions is often fixed and does not grow. With the rate of inflation and longer life spans, you could very well outlive your personal savings.

HOW LIKELY ARE YOU TO OUTLIVE YOUR MONEY?

If you don't have an adequate equity portion in your portfolio providing growth, it's quite possible that you'll outlive your money. The table below shows how likely you are to outlive your money with different percentage allocations of stock (equities) and bond (income-generating) investments.

THE CHANCES YOUR MONEY WILL LAST FOR 30 YEARS

Stock/Bond Allocation¹

| Initial Withdrawal Amount | Stock/Bond Allocation ¹ | | | | |
|---------------------------|------------------------------------|------------------------|-------|-------|-------|
| | << More Potential Risk | Less Potential Risk >> | | | |
| | 100/0 | 80/20 | 60/40 | 40/60 | 20/80 |
| 3% | 93% | 96% | 98% | 99% | 99% |
| 4% | 81% | 84% | 87% | 89% | 89% |
| 5% | 64% | 65% | 63% | 57% | 40% |
| 6% | 47% | 45% | 38% | 24% | 7% |
| 7% | 33% | 28% | 19% | 7% | 1% |
| 8% | 21% | 16% | 8% | 2% | 0% |

<< MORE Likely
LESS Likely >>

Source: T. Rowe Price Associates, 2005. Reprinted with permission.

MUTUAL FUNDS AND SEGREGATED FUNDS

Other types of investments to consider are mutual funds and segregated funds. Although you probably already own mutual funds, it's important to consider what type of funds you have and if they are working for you.

Given that you're thinking about retirement, your portfolio probably holds a lot of bond and income funds – after all, they are low risk and likely to preserve your capital. However, they might not provide the type of growth your portfolio needs. And once again, given your expected longer life span, you may outlive your money if your portfolio is not growing.

Consider, instead, investing a portion of your portfolio in balanced funds and equity funds to create a better mix, so your portfolio can grow with you.

As with all equities, though, you should only invest in them if you are prepared to be in the stock market for several years without withdrawing your capital. And even though they present less risk than stocks, a fund's risk factor will depend on what type of holdings it has in its portfolio.

DO THEY MAKE SENSE FOR ME?

Mutual funds and segregated funds offer the advantages of diversification and professional management – and both help reduce risk. They give you access to a variety of investments in one easy-to-buy portfolio. More importantly, they can give you access to the type of equities your portfolio may need.



MORE ON SEGREGATED FUNDS

Segregated funds are an option that can provide you with access to the equity markets, and still help preserve your capital.

Segregated funds share many of the same features as a mutual fund, but have an important advantage: protective features only available through an insurance company.

- **Initial investment guarantee** – Different policies will guarantee the initial investment after a period of time, typically 10 years at ranges from 75 per cent to 100 per cent less withdrawals
- **You can designate a beneficiary** – In the event of your death, the proceeds can be passed on to a named beneficiary without having to go through probate. This saves on probate and estate administration fees
- **Guaranteed Death Benefit** – Because they are insurance products, the death benefit guarantee protects a specific percentage of the value of the investment upon the death of the annuitant
- **Creditor protection** – Investments may be protected against seizure by creditors in case of an unexpected lawsuit or bankruptcy

BEST OF BOTH WORLDS – A POWER OF TWO STRATEGY

We've established that, in retirement, not only should you be looking for protection of capital, but growth in your portfolio as well.

To fill both those needs, an innovative portfolio strategy, known as a power of two strategy, can offer you guaranteed growth plus the potential for higher returns.

This strategy is for those of you who have most of your investments in GICs and are not garnering the growth potential of equities. A power of two strategy calculates what proportion of your assets should be used to purchase segregated funds and what proportion should remain in GICs.

The result is a portfolio that can achieve a guaranteed rate of return plus provide you with the potential for growth.

EVEN SMALL INCREASES CAN GO A LONG WAY

Did you know that even a 1 per cent increase in your rate of return can make a difference of tens of thousands of dollars?

Say you have \$100,000 of RRIF assets invested in a low-risk portfolio earning a return of five per cent. If you changed your investment strategy to be slightly more aggressive with additional equities, and increased your rate of return to six per cent, you would earn an extra \$31,000 over 15 years.²



IT'S ALL IN THE BALANCE

When most people think of retirement, they want to do more of the things they love, or try new and exciting adventures. And why not? Healthier lifestyles and medical advances are giving you many extra years in which to enjoy yourselves.

Of course, everyone's financial retirement needs will vary. After all, the person who stays close to home and loves to cook dinner every night will need less money than the one who dines out at every opportunity.

But no matter what your lifestyle, you can't just sock away your savings in low-risk investments, cross your fingers and hope everything turns out all right.

Choosing the right retirement investments to see you through involves balancing risk and reward. Don't forget that your money needs to grow continuously, and you also need to keep an eye on protecting what you have.

Whether you choose asset allocation or a power of two strategy, deciding on the ideal investments and monitoring your portfolio can be complicated and time consuming. If you would rather spend your time in the garden or playing with your grandchildren, a financial advisor can help determine the amount of money you can safely afford to invest for future growth.

¹ **IMPORTANT:** The projections or other information generated by this analysis regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. The simulations are based on a number of assumptions. There can be no assurance that the projected or simulated results will be achieved or sustained. Results may vary with each use and over time. The chart presents only a range of possible outcomes. Actual results will vary, and such results may be better or worse than the simulated scenarios. The potential for loss (or gain) may be greater than demonstrated in the simulations.

Material Assumptions: T. Rowe Price has analyzed a variety of retirement savings strategies using computer simulations to determine the likelihood of "success" (having at least \$1 remaining in the portfolio at the end of the retirement period) of each strategy, shown as percentages. The analysis for each retirement strategy is based on running 100,000 hypothetical future market scenarios that account for a wide variety of return possibilities. The initial withdrawal amount is the percentage of assets withdrawn at the beginning of the first year of retirement, is a lump sum made at the beginning of each year, and is inflation-adjusted (three per cent) annually. Investment scenarios are based on hypothetical (not historical) annual rates of return for the three asset classes represented in the portfolio mixes. The return assumptions of 10.00 per cent for stocks, 6.50 per cent for bonds, and 4.75 per cent for short-term bonds are based on T. Rowe Price's best estimates for future long-term periods. The expense ratios for the asset classes are stocks 1.211 per cent, bonds 0.726 per cent, and short-term bonds 0.648 per cent. These examples only present a range of possible outcomes. T. Rowe Price's annual return assumptions take into consideration the impact of reinvested dividends and capital gains. Investment expenses in the form of an expense ratio are subtracted from the expected annual return of each asset class. Taxes are not taken into consideration, and no early withdrawal penalties are assumed. Investment expenses in the form of an expense ratio are subtracted from the expected annual return of each asset class. These expenses are intended to represent the average expenses for a typical actively managed fund within the peer group for each asset class modelled. The analysis does not take into consideration all asset classes, and other asset classes not considered may have characteristics similar or superior to those being analyzed.

² Rate of return is for illustration purposes only and is not indicative of future performance.

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