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## **The importance of retirement income planning**

### **Canadians not saving enough for retirement: Study**

A study by BMO Global Asset Management found that one quarter of already-retired Canadians are surprised to find their savings are not as sufficient as they thought. A key factor is that people are living longer. Statistics Canada says the average Canadian male will live 84 years and females 87 years, with an increasing number of us reaching 100.

But longevity is not the only danger to sufficient retirement income. Many Canadians have simply not been planning adequately to provide for a comfortable retirement. A poll done by RBC found that although 61% of Canadians worry about running out of money in retirement, only 39% had put any money into retirement savings and 30% hadn't even started.

Sun Life Financial statistics show that Canadians who expect to work well past age 65 now outnumber those expecting a normal retirement. The somber truth is that 60% expect to work full or part-time after retiring.

Working longer is one way to address longevity, as are choices like saving more or having a reduced standard of living. Whatever a person chooses, it all begins with planning that reflects

factors like inflation, asset allocation, withdrawal rates, and health care costs.

One cannot ignore the erosive effect of inflation. PIMCO Investments reports that inflation of just 3% during the course of one decade can erode purchasing power by as much as 25%. Spanning several decades, the impact is dramatic.

Portfolios can be too conservatively positioned for extended periods. Market movements in the last few years have caused an allocation shift towards heavier cash weightings but with low interest rates and a Bank of Canada inflation target of 2% those portfolios are hard-pressed to keep up.

Withdrawal rates require attention. According to Fidelity Investments, annual inflation-adjusted withdrawal rates exceeding 4-5% of the original value of the portfolio raise the risk of outliving one's investments.

Expanding health care costs are a major consideration. Aging can bring chronic and complex health issues. Some are not curable, instead requiring continuous care that can very quickly deplete retirement assets.

## **The importance of retirement income planning**

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A favorable retirement outcome requires analysis that determines financial priorities and compares income needs against discretionary goals. Cash flow models should account for such factors as lump sum cash needs for special events, future inflation, and debt reduction.

That analysis should be followed by a comprehensive financial plan with a retirement income strategy reflecting income sources, retirement expenses, cash flow needs, tax considerations, estate goals, and funding gaps as well as a strategy for required withdrawals of registered accounts and locked-in assets.

Good retirement income plans will also make use of guaranteed income sources that guard against volatile markets and inflation erosion. These include government benefits, available pension income, annuities, and insurance.

It is clear that an increasing focus of government fiscal policy suggests Canadians will be expected to rely less on government and take more responsibility for their financial futures. Start your planning now.

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