Planning for Your Retirement

By Aleem Janmohamed CA, CFA
January 16, 2011

Agenda

- Introduction
- Why should I plan for retirement now?
- Overview of RRSP's
  - Rules, Deduction Limits & Deadlines
  - Types of RRSPs
  - Special RRSP Rules
- Investment options & strategies
- What to look for in selecting a mutual fund
- Other savings options – TSFA, Insurance
- Risks to your retirement plan

My Background & Bio

Background:

- BA Honours Accounting & MAcc from UW
- Chartered Accountant (CA)
- Chartered Financial Analyst (CFA)

Work:

- 10 years in financial services industry with KPMG and BMO, primarily wealth management
- Currently independent financial advisor focussed on Retirement, Insurance & Estate Planning

Why Plan for Retirement Now?

"*Don't put off until tomorrow what you can do today*"

- Canadians are living longer, healthier, and more active lives and as a result retirement has become a longer-term proposition, and potentially more expensive one.
- Maximum annual pension from the Canada Pension Plan is estimated to be only $13,537 ($1,128.11 per month) for 2010
- Employer pension plans have changed; change away from defined benefit plans and moved towards defined contribution

Why Plan for Retirement Now?

- Canadians need to start savings for their retirement
- We are living longer and as a result our retirement years will be longer
- Maximum annual pension from the Canada Pension Plan is for 2009 is $13,272 ($1,105.99 per month) and is estimated to be only $13,537 ($1,128.11 per month) for 2010
- Employer pension plans have changed; change away from defined benefit plans and moved towards defined contribution

What is an RRSP?

- A RRSP is a personal savings plan registered with the federal government that allows you to save for your retirement on a tax-sheltered basis.

Why should I invest in an RRSP?

- An RRSP can help maintain your standard of living.
- Helps to ensure you have a comfortable retirement without having to worry about money.

Why should I invest in an RRSP? cont.

Tax Benefits:

- Income tax is deferred until the money (and earnings) are withdrawn at retirement.
- At retirement, your annual income (including money withdrawn from your RRSP) will likely be lower than your income today.
- Therefore, you will be earning in a lower tax bracket, which means that a smaller percentage of your income will go to taxes.

RRSPs & Taxation

Earned Income →  **Tax Paid**

↓

RRSP

Tax Deferred On: **- Capital Invested**
- Income Earned

↓

Cash Out

↓

 **Tax Paid**

RRSP Rules

- Deduction room is based on previous year's earned income (2010 deduction based on 2009 income)

- Earned income
  - Salary/Wages (T4's) – this is the amount for most people
  - Net Rental Income, Taxable Alimony
  - Royalties, Net Research Grants

RRSP Deduction Limits

Unused deduction room from prior years

Plus the Lesser of

$22,000 or 18% of prior year's earned income

Note: Participation in Company pension plans will also reduce contribution room

RRSP Limits & Deadlines

- Contribution limit
  - 18% of your previous year's "Earned Income"
    - 2008 limit - $20,000
    - 2009 limit - $21,000
    - 2010 limit - $22,000
    - 2011 and following indexed to average wage growth

- Foreign content limit has been removed – used to be maximum 30%
- Contribution deadline: March 1, 2011 for 2010 tax year.

Types of RRSPs

Regular	Managed with an investment advisor or at a Bank.
Spousal	Splitting contributions between your RRSP and your spouse which can help save taxes in the future.
Self-Directed	You manage your RRSP and can hold a variety of investments that you decide.

Spousal RRSPs

- Contribute to your spouse (or common law spouse's) RRSP if your spouse's projected income on retirement will be lower

Strategy

– Contribute to an RRSP for your spouse, and claim the deduction yourself. Total contributions (to your own and spouse's plan) are still subject to normal RRSP limits

Advantage

– Spouse will ultimately be the one who reports the income for tax purposes, when the funds are withdrawn on retirement or otherwise. Overall, this would result in lower tax on the income

Note: There are attribution rules to avoid short term income-splitting

Special RRSP Features

Additional Benefits:

- Home Buyers Plan (First Time Homebuyer)
  - **If you qualify, up to $25,000 can be borrowed from your RRSP to buy a home, without counting the withdrawal as income**
  - **If you and spouse each have RRSP, you can borrow up to $50,000 between two of you if taking joint ownership**
  - **Must be repay loan (no interest) within 15 years.**

- Lifelong Education Plan
  - **Allows you to withdraw a maximum of $20,000 for education/tuition.**
  - **Must be repaid within 10 years.**

The Carryforward Rules

Deduction Room Carryforward

- Those who do not wish to take full advantage of the RRSP deduction room available this year, can defer making use of it until a future year.

Tax Deductibility Carryforward

- Ability to make your RRSP contribution and not claim the tax deduction until you decide it would be more advantageous from a tax perspective

What is your contribution worth?

- What is your contribution worth in tax savings? Depending on marginal tax rates and the provinces, they are approximately*:
  - 21% on income from $8,900 to $37,200
  - 31% on income from $37,201 to $74,400
  - 37% on income from $74,400 to $120,900
  - 46% on income over $120,900

* Based on 2007 tax brackets

How to make the most of your RRSP?

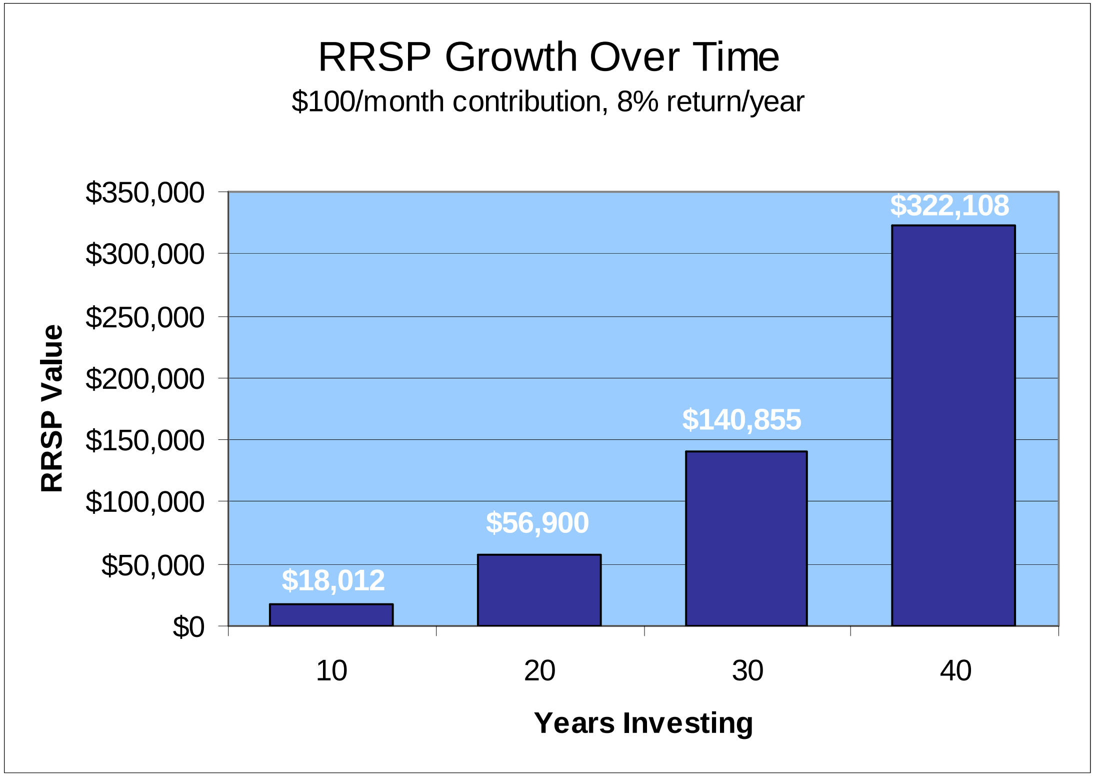
Start your RRSP early in life ?

Contribute early in the year?

Contribute throughout the year?

When should I Start Investing?

RRSP Rule of Thumb: The longer your money is invested, the more it will grow.



Funding Your RRSP

- Regular contributions are better than lump sum contributions near the yearly deadline.
  - Allows the money to grow tax free longer
  - Provides for dollar cost averaging
- What about taking out a loan?
  - If you invest your maximum allowable amount, you may be entitled to a larger tax refund, which can be used to partly pay off the loan.

Can I withdraw from my RRSP?

- Money invested in an RRSP is accessible at any time.
  - All withdrawals are taxable at that time.
  - You should generally not draw money from your RRSPs to pay for ordinary living expenses, cars, furniture or those sorts of items.

RRIFs

- At Age 71 at the latest, your RRSPs must be transferred to Registered Retirement Income Funds (RRIFs) or some other income plan
- You must withdraw a minimum income each year from your RRIF (increases every year) – only amount withdrawn in subject to tax each year

What happens when I die?

- The value of your RRSP is paid to the beneficiary you have designated.
  - If there is no beneficiary, the RRSP is paid out to your estate.
  - In certain cases, the RRSP can be transferred to a surviving spouse on a tax free basis.

Where do I start?

- Any major Canadian Bank
- Brokerage Houses
- Mutual fund companies
- With your employer if they offer Group RRSPs

What are my investment options?

Equities (Stocks)

- Ownership in company, Share in company profits
- Canadian or foreign, collect dividends

Fixed Income (Bonds)

- Promise to repay debt, Receives interest
- Government and Corporate

Money Market/GICs

- Federal government debt, Short term, bank certificates

Mutual funds / Segregated Funds

Exchange Traded Funds (ETFs)

Determining Asset Allocation

- This decision is yours based on a variety of factors including:
  - Your Age;
  - Time Horizon - when you want to retire;
  - Risk Tolerance
  - How much money you will need in retirement

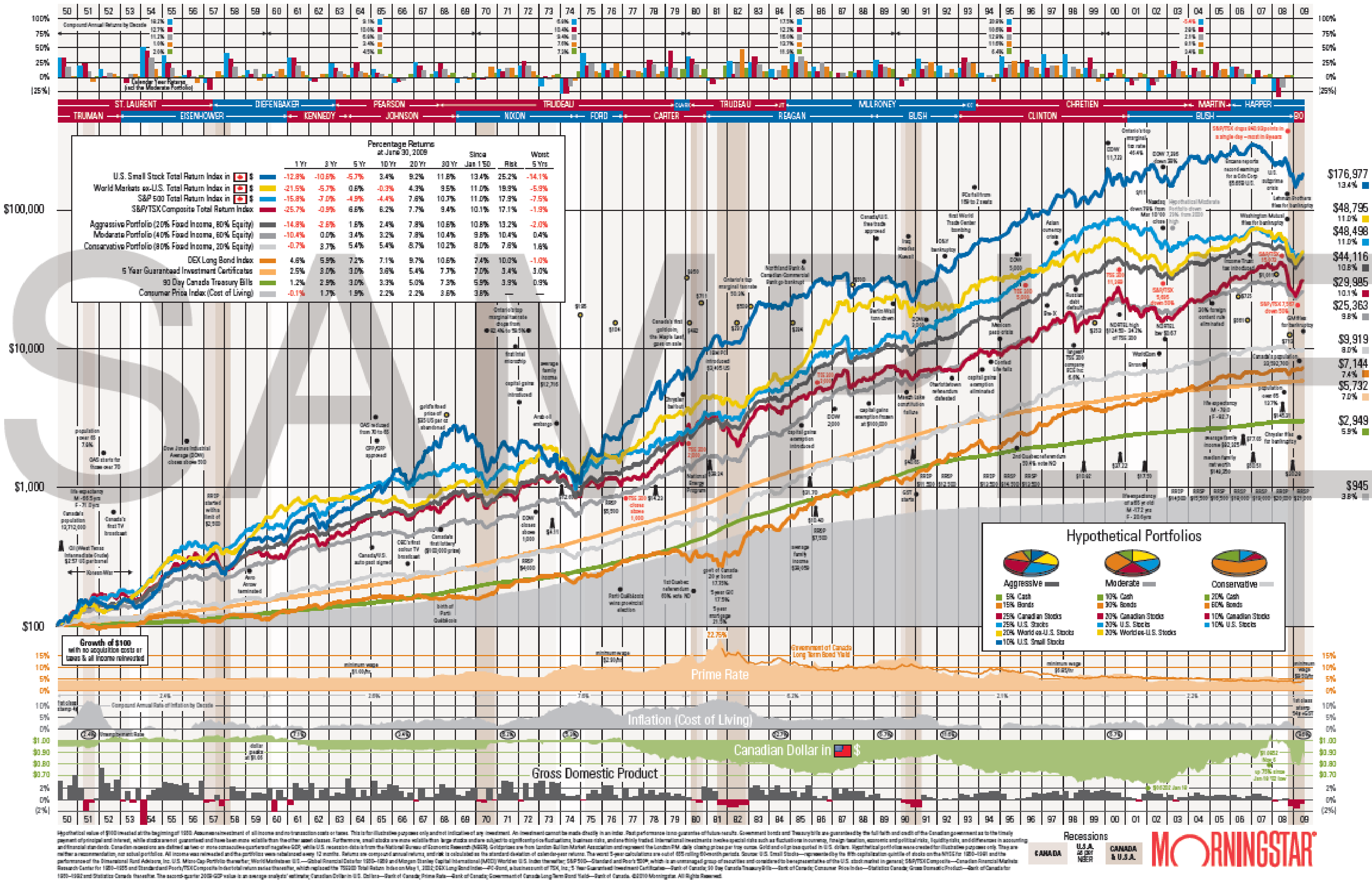
Young age/**long** time horizon + **low** liquidity requirements + **high** risk **tolerance** = **higher** exposure to equities

Considerations for RRSP Strategy

1. Risk/Comfort Level
   - Should be comfortable with what your holding / stock market exposure; risk profile questionnaire
2. Expected & Required Rate of Return
   - When preparing a financial plan calculate what return you will need to meet goals?
3. Flexibility/Liquidity
4. Portfolio Management -
   - Do it Yourself vs. Work with an Advisor (TIE – Time, Interest, Expertise)

2010 Andex™ Chart

1-888-4-CHARTS
www.andexcharts.com



Historical Asset Class Returns

	Percentage Returns at June 30, 2009								
	1 Yr	3 Yr	5 Yr	10 Yr	20 Yr	30 Yr	Since Jan 1'50	Risk	Worst 5 Yrs
U.S. Small Stock Total Return Index in $	-12.8%	-10.6%	-5.7%	3.4%	9.2%	11.8%	13.4%	25.2%	-14.1%
World Markets ex-U.S. Total Return Index in $	-21.5%	-5.7%	0.6%	-0.3%	4.3%	9.5%	11.0%	19.9%	-5.9%
S&P 500 Total Return Index in $	-15.8%	-7.0%	-4.9%	-4.4%	7.6%	10.7%	11.0%	17.9%	-7.5%
S&P/TSX Composite Total Return Index	-25.7%	-0.9%	6.6%	6.2%	7.7%	9.4%	10.1%	17.1%	-1.9%
Aggressive Portfolio (20% Fixed Income, 80% Equity)	-14.8%	-2.6%	1.6%	2.4%	7.8%	10.6%	10.8%	13.2%	-2.0%
Moderate Portfolio (40% Fixed Income, 60% Equity)	-10.4%	0.0%	3.4%	3.2%	7.8%	10.4%	9.8%	10.4%	0.4%
Conservative Portfolio (80% Fixed Income, 20% Equity)	-0.7%	3.7%	5.4%	5.4%	8.7%	10.2%	8.0%	7.6%	1.6%
DEX Long Bond Index	4.6%	5.9%	7.2%	7.1%	9.7%	10.6%	7.4%	10.0%	-1.0%
5 Year Guaranteed Investment Certificates	2.5%	3.0%	3.0%	3.6%	5.4%	7.7%	7.0%	3.4%	3.0%
90 Day Canada Treasury Bills	1.2%	2.9%	3.0%	3.3%	5.0%	7.3%	5.9%	3.9%	0.9%
Consumer Price Index (Cost of Living)	-0.1%	1.7%	1.9%	2.2%	2.2%	3.6%	3.8%	—	—

What are Mutual Funds?

Mutual Funds:

- Investment that pools money from many individuals and invests it in stocks, bonds, other
- Professional money managers make investment decisions to buy/sell (**Active Management** – higher fees)
- Mutual Funds can be a very cost effective way of owning a diversified portfolio of stocks/bonds
- Players: All Major Banks, Global Fund Companies (Fidelity, Franklin Templeton, CI)

What to look for in Mutual Funds?

- **Performance** – 1 yr, 3 yr, 5 yr, SI;
  - Quartile Ranking (1 to 4)
  - Relative performance – vs. Group and Benchmark
- **Size** – AUM – Bigger is not always better
- **Volatility** – often measured by std deviation
- **Asset Mix** – Equity, Fixed Income, Balanced
- **Investing Style** – Growth vs. Value

What to look for in Mutual Funds?

- **Portfolio Manager** –
  - Overall experience / Track record
  - How long have they been managing the fund
  - Designations/ Qualifications

Other Considerations:

- Fees – MERs Management Expense Ratios
- Sales charges: No Load, Front/Back/Low Load

Mutual Fund Profile example

Fund Facts

as at December 31, 2010

Fund Codes	Class A	Corporate Class
ISC	CIG691	CIG2310
DSC	CIG891	CIG3310
LSC	CIG1891	CIG1310

Managed By: CI Investments Inc.

Advisors: Harbour Advisors

Assets Under Management: $9,167.5 million

Portfolio Manager: Gerald Coleman and Stephen Jenkins

Asset Class: Canadian Balanced

Inception Date: June 1997

NAV: $18.71

Min. Initial Investment: $500

Subsequent Purchase(s): $50

Min. PAC Investment: $50

Management Expense Ratio: 2.39%

Top Holdings as at December 31, 2010

(Class A

Harbour Growth & Income Fund

Also available: Class F & I

HARBOUR™ ADVISORS

OBJECTIVE

This fund's objective is to obtain long-term total return through a prudent balance of income and capital appreciation. It invests primarily in equity and equity-related securities of mid- to large-capitalization Canadian companies and fixed income securities issued by Canadian governments and companies. The proportion of the fund's assets invested in equity and fixed income securities may vary according to market conditions. Any change to the investment objective must be approved by a majority of votes cast at a meeting of unitholders held for that reason.

Compound Returns and Quartile Rankings (as at December 31, 2010)

This table shows the historical annual compound total return of the fund compared with the Globefund Group Average and Globefund's benchmark Blend: 50% S&P/TSX, 50% DEX Universe. The returns listed below are percentages. Performance of the fund versus its official benchmark can be found in the Management Report of Fund Performance (MRFP). See the related document section on this web page.

	YTD	1Mo	3Mo	1Yr	3Yr	5Yr	10Yr	Since Inception*
Qrtl	3	1	1	3	2	2	1	{N/A}
Return	8.03	4.94	8.65	8.03	1.67	3.93	6.65	6.08
Grp Avg	8.96	2.98	5.2	8.96	1.83	3.2	4.74	{N/A}
Ind Ret	12.33	2.13	4.29	12.33	4.67	6.28	6.8	{N/A}

* June 27, 1997

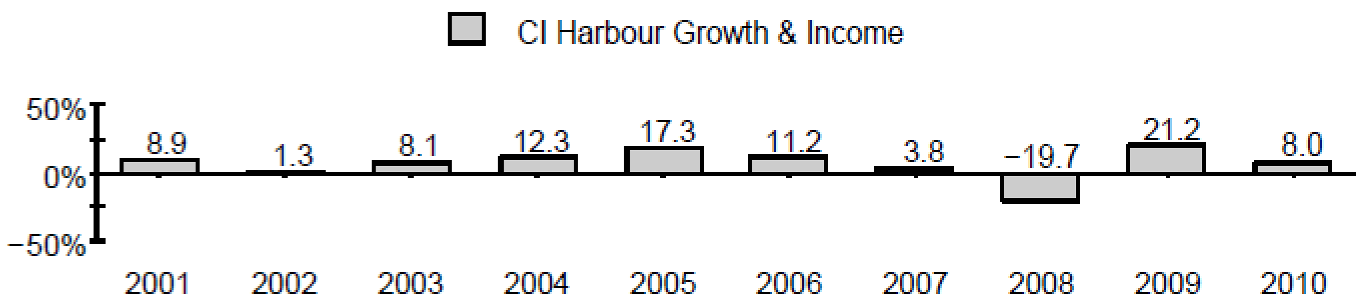
Source cifunds.com/ globefund

Mutual Fund Profile example cont'd

Top Holdings as at December 31, 2010	
Bank of Nova Scotia	–
BHP Billiton Limited	–
Cameco Corp.	–
Canadian National Railway	–
George Weston Ltd.	–
Intact Financial	–
Manulife Financial	–
Suncor Energy	–
Talisman Energy	–
Tim Hortons	–
Total	**33.99%**

Performance Data

This chart shows you the fund´s annual performance and how an investment would have changed over time.

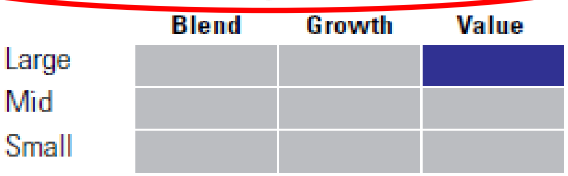


Mutual Fund Profile example cont'd

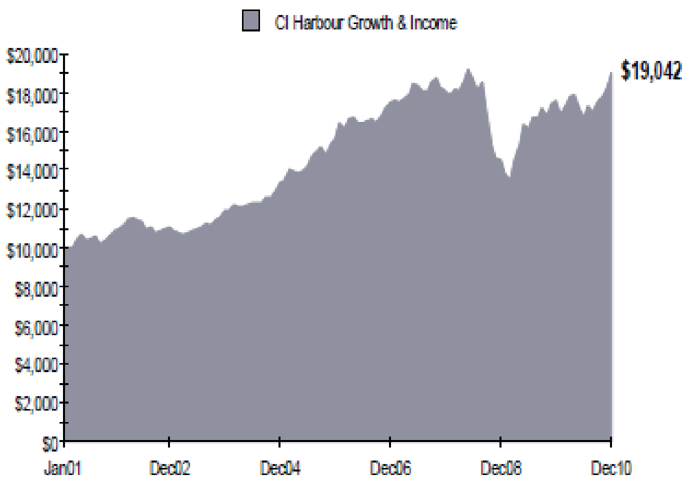
Volatility Meter

Based on 3–year standard deviation relative to other funds in its category, from Globe HySales.

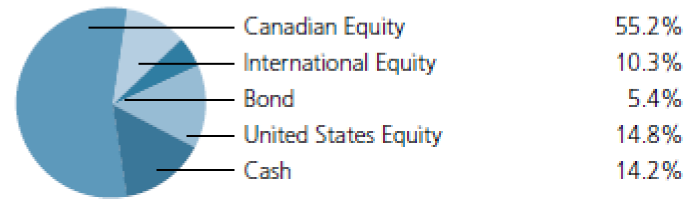
Equity Style and Capitalization Overview



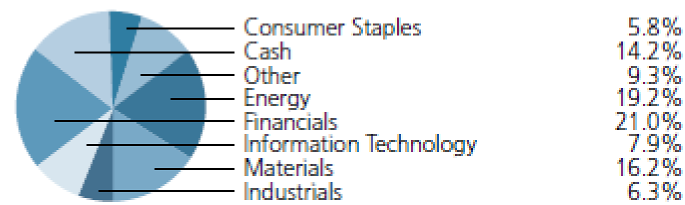
Current Value of a $10,000 Investment



Asset Class



Equity Sectors



Geographic Composition

What are ETFs?

Exchange Traded Funds:

- An exchange-traded fund (or ETF) is an investment fund traded on stock exchanges, much like stocks. An ETF holds assets such as stocks or bonds

- They offer **Passive Management** –

track index; therefore lower fees

- Players: Blackrock/Ishares; BMO, Claymore, Horizons

Investment Strategies

- Diversify
  - Asset classes
  - Geographically
  - Sectors
  - Products
- Stay Invested
  - Hard to time the market
- Focus on companies with strong balance sheets and good management
- Invest in dividend paying stocks/funds

Investment Strategies cont'd..

- Dividends are become more important for consistent income/yield as bonds are yields are so low
- History shows that dividends are a major contributor to total returns.
  - Past 40 years, **58%** of total returns earned in the MSCI World Index were from dividends
  - Past 30 years, almost **66%** from dividends with the rest from capital appreciation

What Does Your Employer Offer?

Important to find out what retirement plans/benefits your employer offers:

- Group RRSP Plan – do they match contributions?
- Pension Plan – Defined Contribution or Defined Benefit
- ESOP – employee share ownership plan; common with public companies; matching is common ($.50/$1.00)
  - Find out about waiting periods to be eligible for pension plans and/or ESOP/ Group RRSP and Vesting periods
- Insurance Coverage – Life: Fixed amount or X times salary; LT Disability – waiting period & monthly benefit

This is often <u>FREE Money</u> – Take advantage of it!

Other Investment/Savings Options

TSFA – Tax Free Savings Account

- Introduced in 2009
- Available for any Canadian Resident over 18
- $5,000 annual contribution limit
- No taxes paid on any income/ dividends/ capital gains earned
- Including 2011, cumulative room is $15,000
- Beneficial for seniors worried about impact of higher taxable investment income on Gov't benefits

Other Investment/Savings Options

Insurance (Insured Retirement Plan)

- Universal Life / Whole Life

Certain strategies using insurance are ideal for high income earners; maxed out RRSP

IPP (Individual Pension Plan)

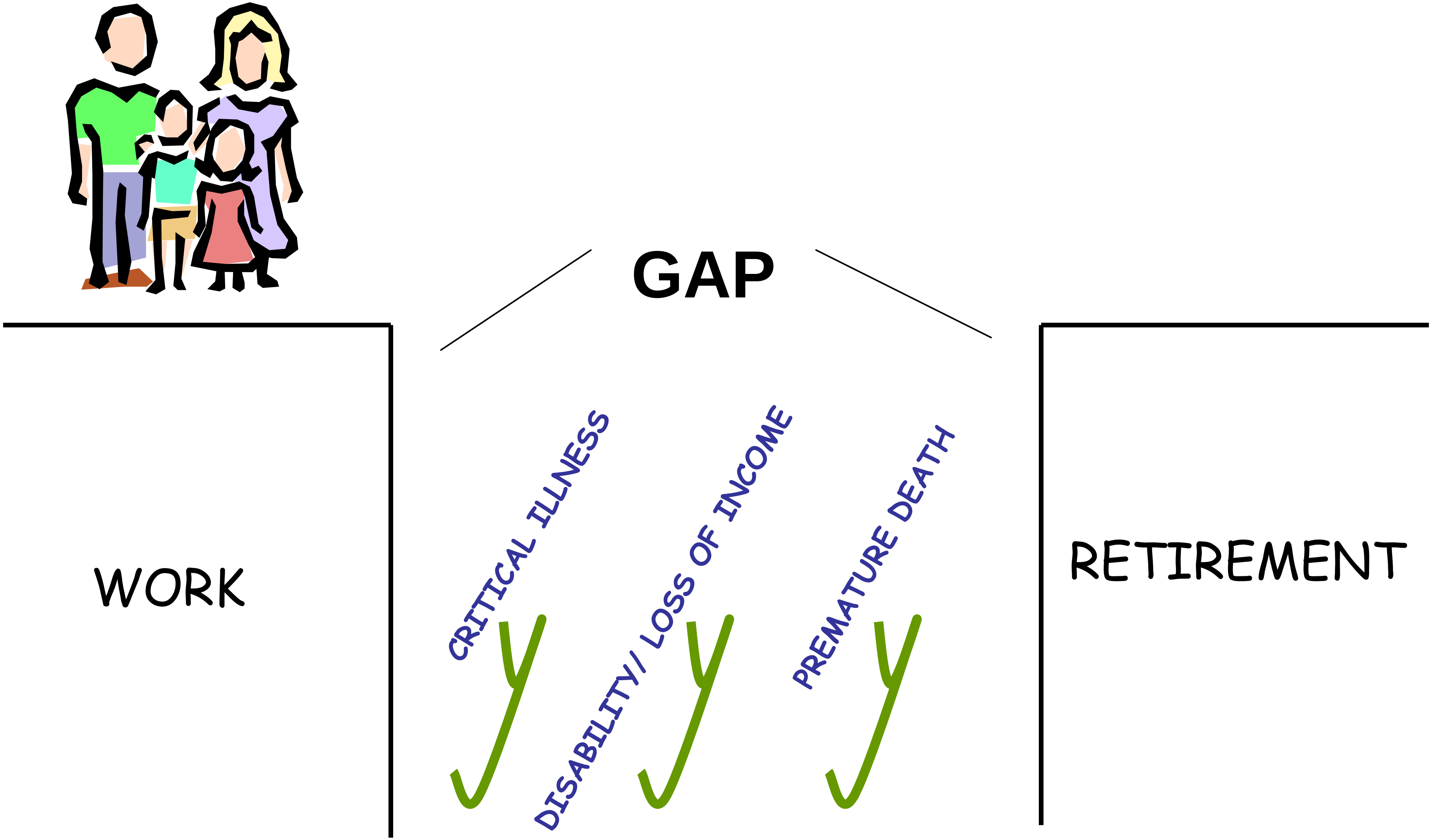
An IPP is a maximum defined benefit plan which provides contribution amounts in excess of RRSP contribution limit who satisfy certain age and income criteria

Risks to Reaching Retirement Goals

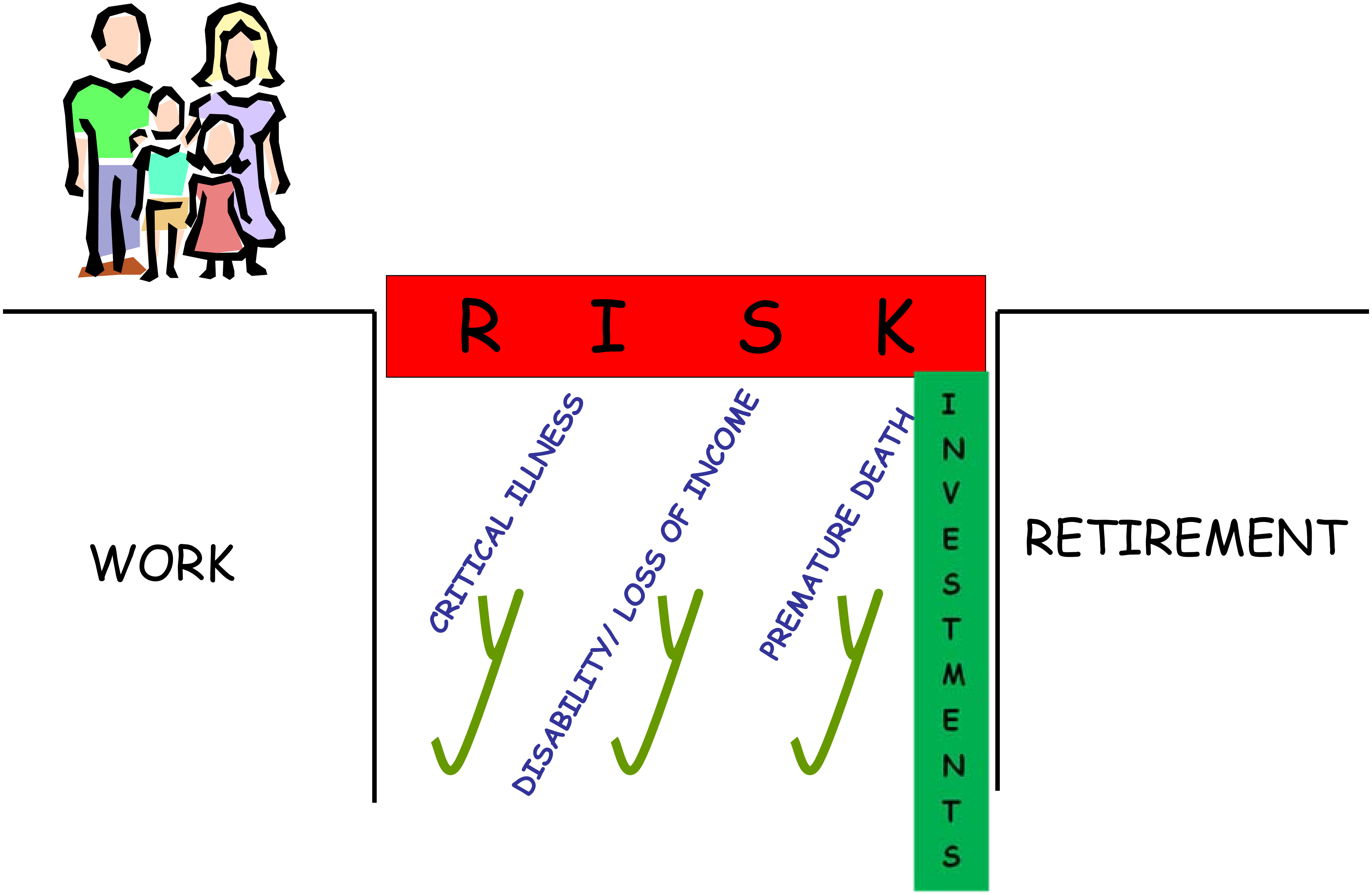
Unexpected events can significantly affect yours and your family's retirement goals

Risk Management is an important part of any solid financial plan

Risks to Reaching Retirement Goals



Risks to Reaching Retirement Goals



Risks Management: Insurance Protection

Life Insurance (tax free proceeds)

- **Term Insurance** – temporary Need; cheaper/ cost Effective; can be used to cover liabilities (mortgage)
- **Permanent Insurance –** coverage for life; cash values, tax advantage investment vehicle

Critical Illness Insurance – lump sum insurance benefit for illnesses such as cancer, stroke, heart attack

Disability Insurance – monthly benefit; designed to provide replacement income should you become disabled from work.

Protecting your Retirement Plan

Health Risks:

Premature Death, Critical Illness, Disability, Long Term Care

Solutions: Various Insurance plans

Longevity Risk: (Outliving Money)

Solutions: Life Annuity; Variable Annuities (Guaranteed Income for Life)

Investment Risks:

- Asset Allocation / Diversification
- Capital / Income Guarantees

Final Tips

- Start saving for retirement early
- Invest at the beginning of the year or throughout the year – don't wait until end of the year
- Know your risk profile/tolerance
- Diversify your investments
- Stay invested
- Plan for unexpected events

Appendix: Staying Invested in Volatile Markets

1. Predicting market behaviour is next to impossible

2. The perils of investor misbehaviour

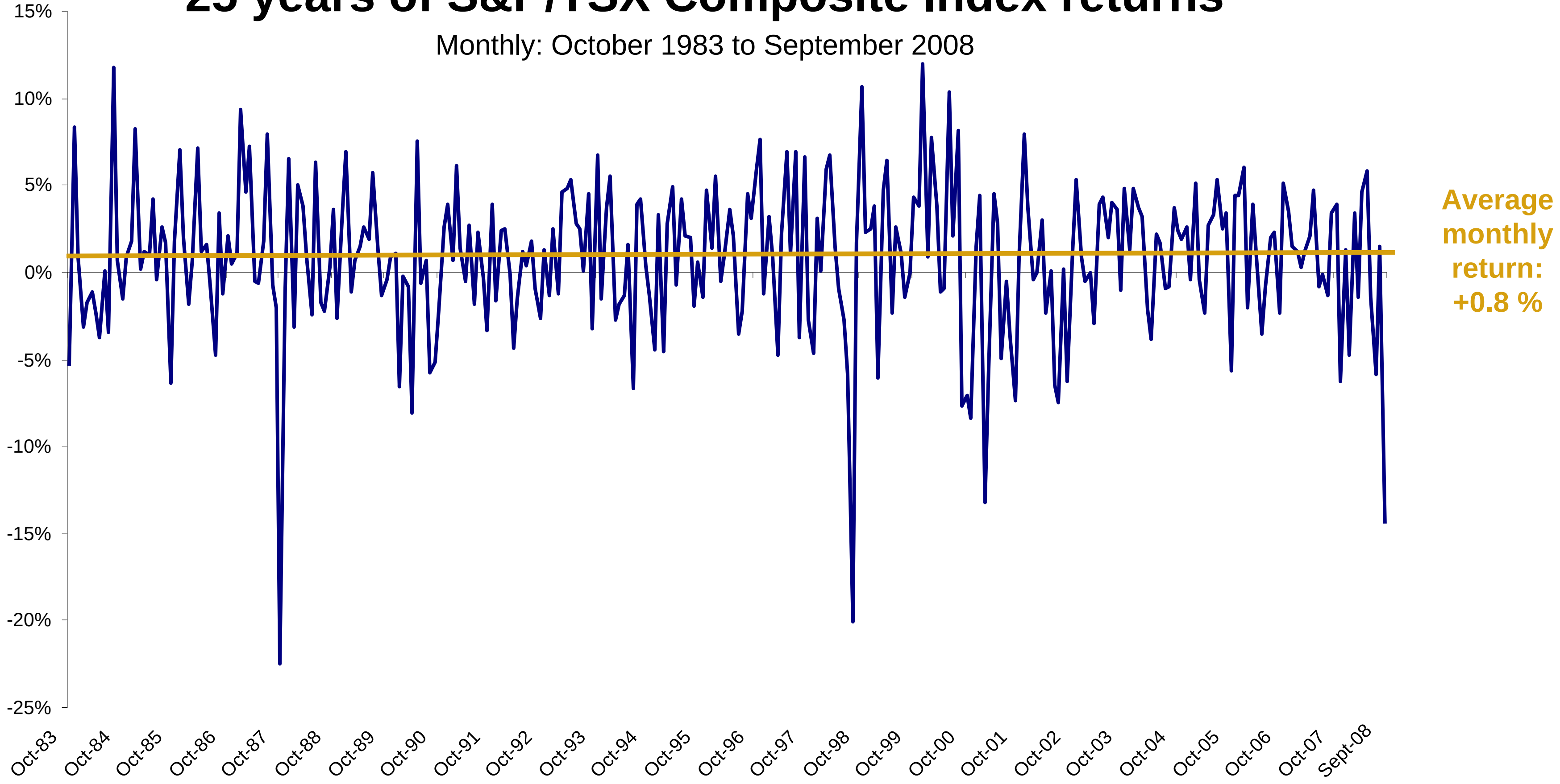
3. Strategies that support sound investor behaviour

Source: DynamicEdge Investor Presentation

Market behaviour:
Volatility is part and parcel of investing

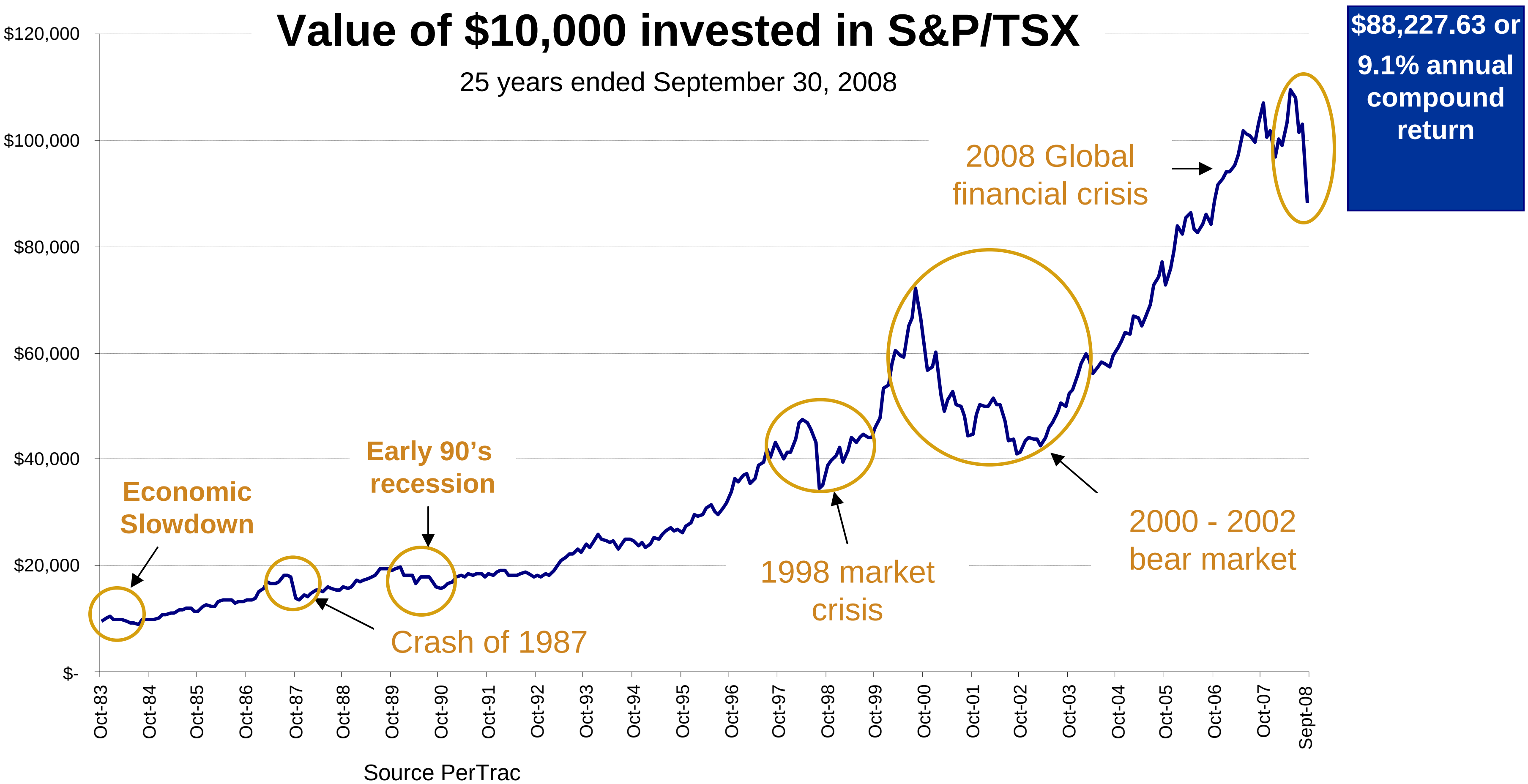
25 years of S&P/TSX Composite Index returns

Monthly: October 1983 to September 2008



Source PerTrac

Market behaviour:
Staying the course produces healthy returns



Investor misbehaviour: Difficult to win by trying to time the market

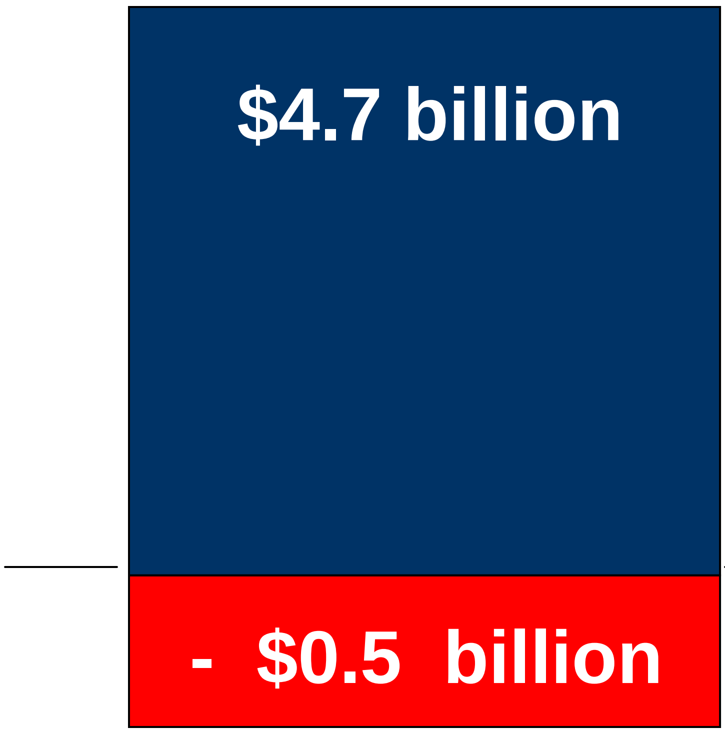
"While the S&P 500 returned 13.2% over 20 years, the average investor return was only 3.7%"

– Dalbar Inc.

Market timing is the #1 reason investor returns pale in comparison

Source: 2006 Dalbar Inc. (US) Research Report.

Investor misbehaviour:
Everyone buys at the top, no one buys at the bottom



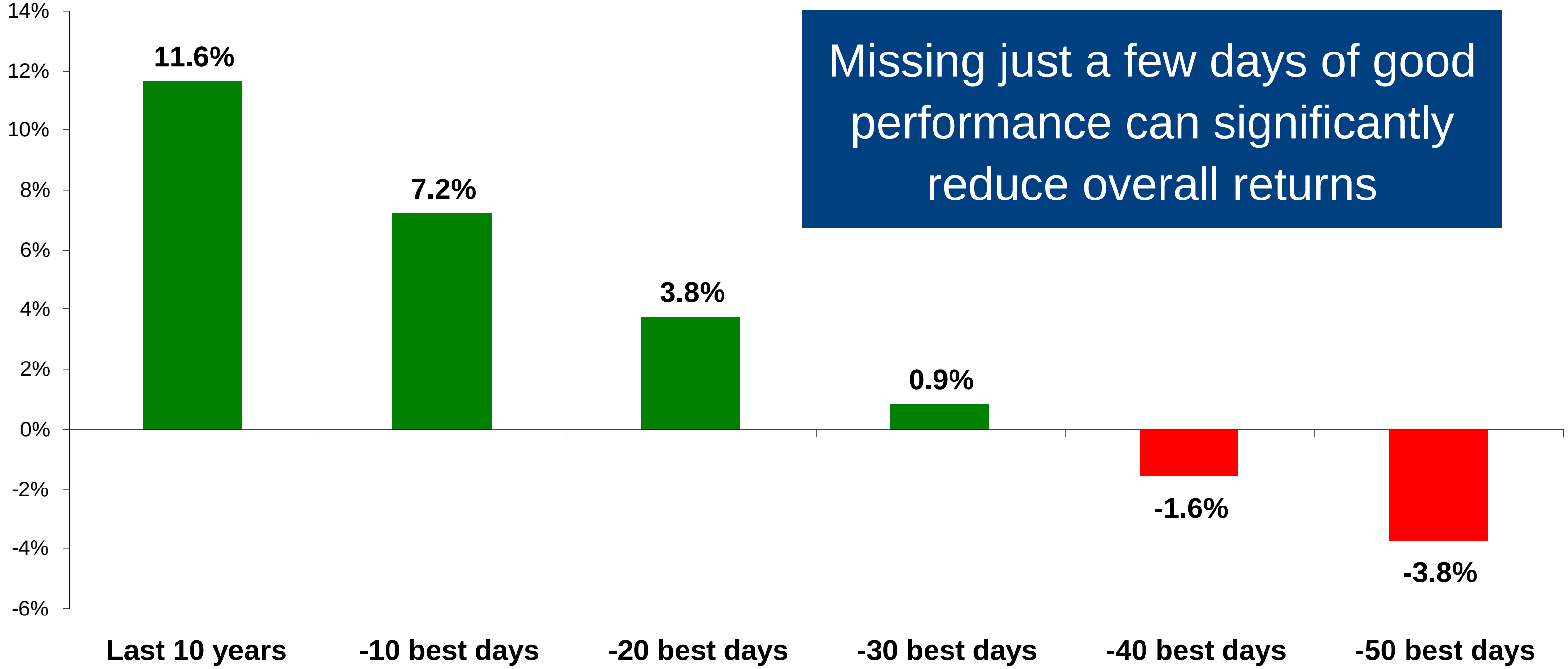
Net equity fund sales in March 2000, at the top

Net equity fund sales in October 2002, at the bottom

Most investor behaviour is guided by short-term market behaviour rather than long-term strategy

Sound investor behaviour:
Staying on course is the best strategy

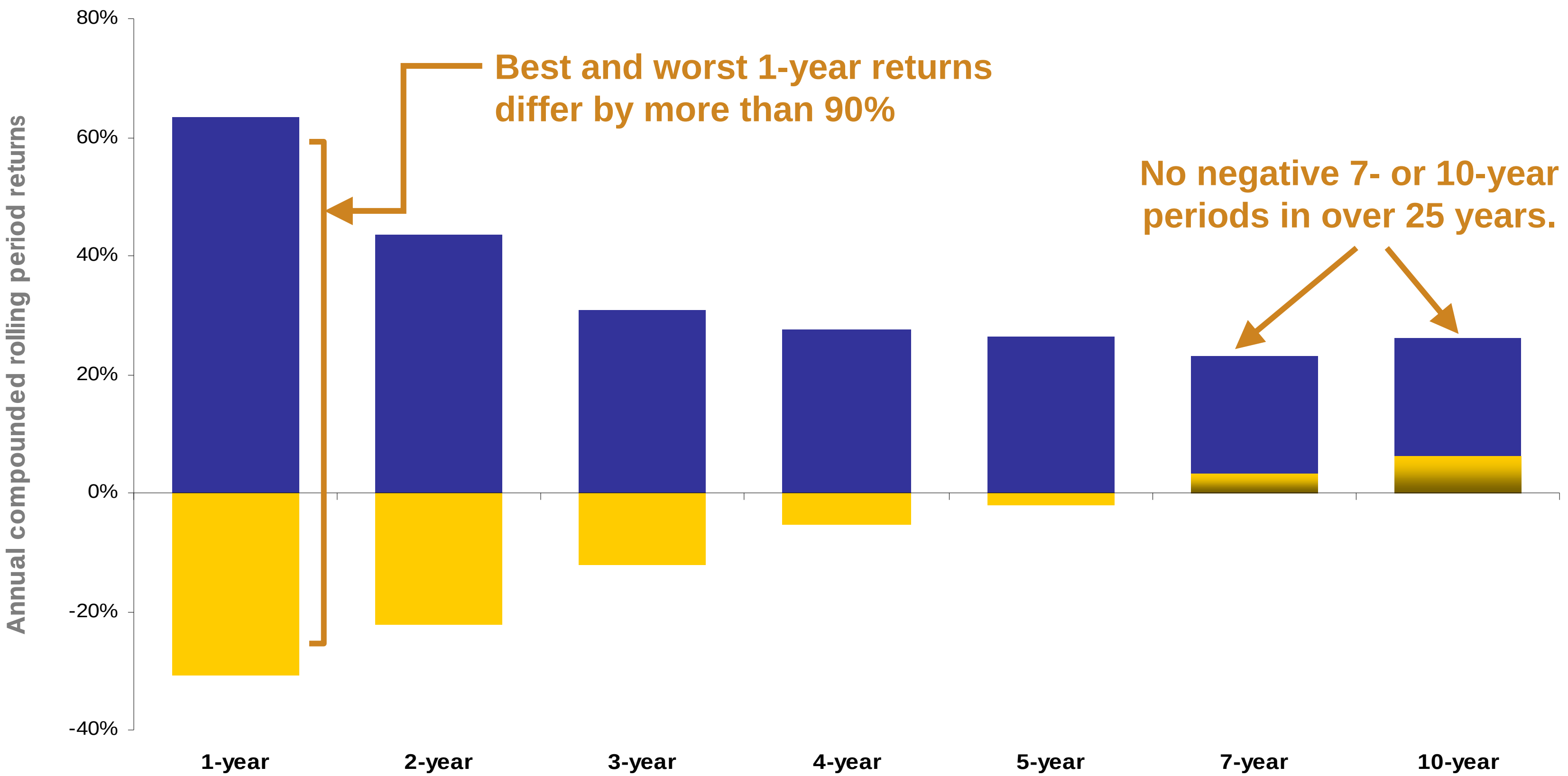
S&P/TSX Composite Index performance



Source: Bloomberg 10 years ended August 29, 2008

Sound investor behaviour:
Long-term strategies limit worries about losses

S&P/TSX Composite Index performance over 25 years



Source: Pertrac, S&P/TSX Composite Index, 1983 to 2008.

Questions?

Thank you.