Living in Retirement: A Successful Foundation

Everyone has different ideas about retirement. Whatever your plans, our goal is to develop a strategy that can help fulfill your expectations and protect you against things that could get you off track.

1. Plan for the Expected

It all starts with you – your vision of retirement, desired lifestyle and spending goals. To help find the proper investment mix, we'll discuss your objectives, time horizon, liquidity needs and risk tolerance.

Estimate Your Expenses ...

It's important to estimate how much you expect to spend in retirement as accurately as possible. Consider separating expenses into necessary (mortgage, utilities, food) and discretionary (travel, entertainment). And remember – your spending will likely vary in retirement.

... And Where the Money Will Come From

The next step is to analyze your income sources:

- Outside sources of income – Canada Pension Plan/ Québec Pension Plan (CPP/QPP), Old Age Security (OAS), company pension, part-time employment, etc.
- Investment sources – Registered Retirement Income Fund (RRIF), locked-in plans,* Tax-Free Savings Account (TFSA), investment accounts, etc.

Your investments will need to cover any "income gap" between your expected spending and outside sources of income.

Create Your Withdrawal Strategy

1. Portfolio Withdrawal Rate – This amount you're withdrawing from your portfolio each year plays the biggest role in determining how sustainable your spending strategy is. The table to the right shows our recommended initial withdrawal rates, which is a good starting point to see if your spending strategy is realistic.

2. Portfolio Reliance Rate – Secondary to the withdrawal rate, this rate shows the more you rely on your portfolio for income, the greater the chance that unpredictable events like market declines could derail your strategy. Someone who relies on a portfolio for 60% of his or her income will be more sensitive to market fluctuations than someone whose portfolio covers only 20% of income needs. A higher reliance rate could mean you'll need to be more flexible and start with a lower withdrawal rate.

Be Flexible

We'll help you determine if your withdrawal and reliance rates are appropriate, or if you need to make some adjustments like cutting expenses, working part time or retiring later. You may need to make some difficult decisions, but you'll likely be in a better position later.

Initial Withdrawal Rate Guidance

Age in Retirement	More Conservative	Less Conservative
Early 60s	3.0%	4.0%
Late 60s	3.5%	4.5%
Early 70s	4.0%	5.5%
Late 70s	5.0%	7.0%
80s+	6.0%	8.0%

Withdrawal rates can include the withdrawal of principal. If preservation of principal is a high priority, you may need to use a lower withdrawal rate. In general, the higher your withdrawal rate, the greater the risk that your money may not last throughout your time horizon. These are based on estimates and assume 3% annual inflation, a diversified portfolio – 50% equities, 50% fixed income – and a life expectancy of at least age 90.

* Life Income Fund (LIF), Locked-in Retirement Income Fund (LRIF), Prescribed RIF (PRIF)

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MAKING SENSE OF INVESTING

2. Prepare for the Unexpected

In retirement, something unexpected can throw you off track. Although you can't predict the future, you *can* prepare. Retirement risks can be viewed either as "expenses" to budget for or risks that you can try to insure against. For example, you can budget for living to age 100 and withdraw less, or you can consider an immediate life annuity or a segregated fund with a Guaranteed Minimum Withdrawal Benefit (GMWB).
In the table below, we outline the major retirement risks and expenses and how your strategy could potentially address them.

Budget vs. Insure

Ultimately, this decision is a personal one. The following can help you decide what you prefer:

- **Risk tolerance –** If you're uncomfortable with short-term market declines, you may want to consider income guarantees – such as an immediate life annuity – to help reduce the impact of potential swings in your portfolio and income.
- **Health/life expectancy –** The better your health and family history of longevity, the longer you could live, which may mean an immediate life annuity or GMWB is appropriate.
- **Portfolio reliance/outside sources of income –** If outside sources of income cover the majority of your expenses, you may not want to pay extra to insure your income. But if you're relying heavily on your portfolio for income, you may decide income guarantees are appropriate.
- **Flexibility to adjust expenses –** If you can trim expenses or adjust your spending, you may not need lifetime income streams from annuities or GMWBs to protect your income levels.
- **Legacy goals –** You can budget for your legacy by withdrawing less today, or you can insure your legacy by using life insurance.

Plan for the Expected	Prepare for the Unexpected	
Risks/Expenses and Assumptions	**Budget**	**Insure**
Living longer than expected – Withdrawal rate guidance assumes life expectancy of at least age 90	Reduce withdrawal rate to plan for living longer (i.e., age 100)	Immediate life annuity GMWB
Inflation – Balanced allocation to equities based on risk tolerance; withdrawal rate guidance assumes 3% inflation rate	Consider rising income investments Reduce withdrawal rate to incorporate higher inflation rate	GMWB
Market declines – Diversified portfolio; withdrawal rate guidance incorporates our expectations for market volatility	Short-term fixed-income ladder Be flexible with spending, and don't automatically increase for inflation during down years Reduce withdrawal rate to provide more flexibility	Immediate life annuity
Health care – Estimate what will not be covered at retirement	Include additional health care expense estimates to help buffer unexpected costs Reduce withdrawal rate to provide more flexibility	Supplemental health care insurance to bridge any gaps not covered by the provincial health plan
Long-term care – Outline desired care and how to handle decisions, including who is responsible for them and where care will occur	Include projected care costs in budget Identify possible costs and specific assets to "self-insure"	Long-term care insurance
Legacy – The amount remaining at death	Reduce spending to provide for larger legacy Specify legacy assets not used for retirement expenses	Life insurance to provide desired legacy amount
Premature death – Outline expected income and expenses as well as impact to pension and government benefits; also keep your power of attorney, beneficiary designations and other legal documents up to date	Emergency cash to cover final expenses Incorporate flexibility in strategy to reduce expenses, if necessary	Life insurance to cover needs if there is an income gap (i.e., reduced pensions, earned income, etc.)

Guarantees on annuities are backed by the claims-paying abilities of the issuing insurance company. Edward Jones does not provide tax or legal advice. Please consult with a qualified tax or legal advisor regarding your situation. Insurance and annuities are offered by Edward Jones Insurance Agency (except in Québec). In Québec, insurance and annuities are offered by Edward Jones Insurance Agency (Québec) Inc.

3. Position Your Portfolio for Both

As you get closer to retirement, the purpose of your portfolio begins to change. The portfolio no longer has to get you *to* retirement; it has to get you *through* retirement.

Growth Still Matters ...

Inflation doesn't retire, which has important implications on how your money is invested. We believe shifting most of your money to fixed income and cash in retirement is a mistake. Growth should remain an important part of your investment portfolio. Your retirement strategy must still pay for your expenses 25 years from now.

Don't Reach for Yield

Some investors focus on investments with the highest interest rates. But there's no free lunch. An investment with an extremely high yield often comes with higher risk. Instead of focusing on the interest rate, consider total return potential, which includes yield and growth.

... But Balance Is Key

As you transition toward retirement, we believe a more balanced allocation between equities and fixed income is important. Market declines, especially early in retirement, can jeopardize whether your money will last throughout your lifetime. Your focus should shift from maximizing your return to earning a return that is balanced between growth and risk.

Income for Today, Growth for Tomorrow

The mix between stocks and bonds may not be the only aspect that changes. The recommended investments, insurance and services may change as well. We'll work to help you position your investment portfolio to provide income for today and growth potential for tomorrow.

To position your portfolio for retirement, we recommend the following:

- Up to 10% of your portfolio in cash, with 12 months' worth of expenses and any emergency cash.
- A three- to five-year short-term bond ladder. Each "rung" on the ladder supplies that year's withdrawal needs from your portfolio.
- Quality intermediate- and long-term bonds, with a variety of maturities and issuers.
- A well-diversified portfolio of quality, dividend-paying stocks and/or mutual funds.
- Up to 35% of your portfolio in international equities (U.S. and overseas).

The Market, a Short-term Ladder and Your Emotions

Short-term market declines are a normal part of investing. Unfortunately, during these times, some investors make major changes to their long-term strategy and move to the "safety" of cash. However, a long retirement, and the inflation that can come with it, could make this move much less "safe" than you think.

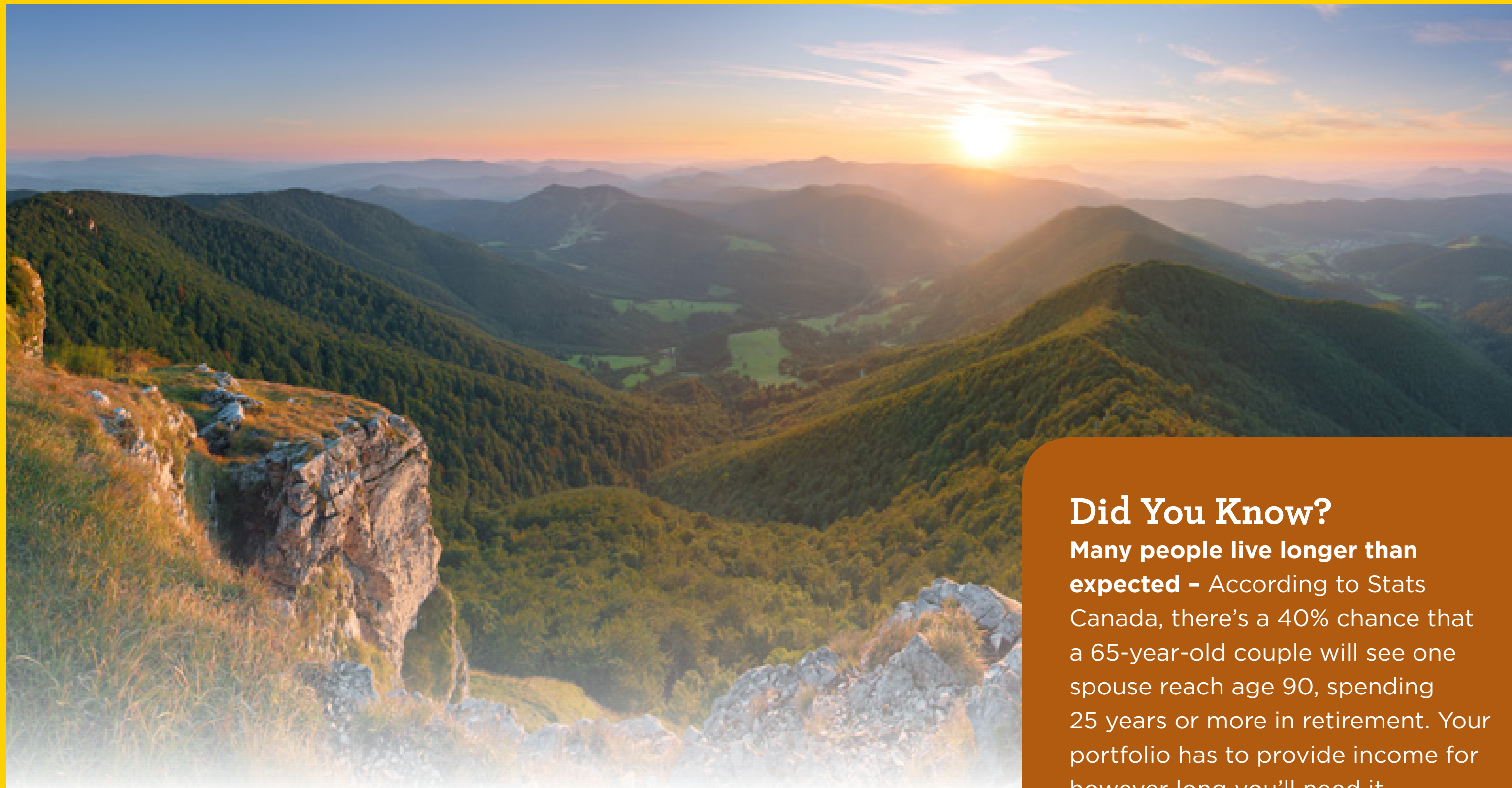
Withdrawals and Asset Allocation

How much you withdraw is just as important as your asset allocation. No investment strategy can prevent you from running out of money if you're withdrawing too much.

Being flexible with your spending can help you better withstand market declines. A short-term fixed-income ladder can also help put you in a better position to handle the ups and downs of the market, as well as address one of the biggest risks to your strategy: your emotions.

- **During a down market –** Maturing short-term bonds can provide cash for current income, along with dividends and interest from your portfolio.
- **During a strong market –** You could cover some of your current expenses through the growth of your portfolio, as well as "restock" this ladder.

Essentially, you're rebalancing the portfolio to maintain your overall investment mix and provide income. You'll take more from equities when markets are up and more from your short-term bond ladder during down markets. By helping to ensure your current income needs are met, you may be less likely to make major emotional changes to your portfolio during a market downturn that could derail your long-term strategy.



Did You Know?

Many people live longer than expected – According to Stats Canada, there's a 40% chance that a 65-year-old couple will see one spouse reach age 90, spending 25 years or more in retirement. Your portfolio has to provide income for however long you'll need it.

Inflation doesn't retire – Expenses could double in 25 years, assuming a 3% inflation rate. During your working years, periodic raises helped to offset inflation. In retirement, you'll be responsible for your own "raises."

When market declines happen is important – Many people rely on their investments for a portion of their income and will need some growth to help counter inflation. However, market declines, especially early in retirement, can put a serious strain on the portfolio and can be very difficult to recover from.

Unexpected expenses can affect your strategy – Expenses such as medical costs, car repairs, a new roof or caring for an aging parent can also affect your strategy. A successful retirement strategy should take all these considerations into account.

Remember Your Checkup

You'll need to adjust your strategy along the way – it can't run on autopilot. Reviewing it could be the most important step. Once you've positioned your portfolio for retirement, you and your Edward Jones advisor should review your spending and investment mix periodically, especially after a major market move or life event.

Start Today

Retirement planning should begin decades before you retire. But it's still not too late to develop a strategy if you're already retired. Discussing your retirement goals, and addressing potential roadblocks with your Edward Jones advisor, will help you enter retirement with confidence. Even if you've already retired from your primary career, review your strategy to help ensure you're properly positioned. Your Edward Jones advisor has the tools to develop a strategy that helps you achieve your retirement goals.

Dividends may be increased, decreased or eliminated at any point without notice.

Diversification does not guarantee a profit or protect against loss.

There are special risks inherent in international investing, including currency, withholding taxes and high levels of taxation, and political, social and economic risks.

Bonds may be subject to certain risks, including interest rate risk, credit risk, reinvestment risk, market risk and currency risk. The values of bonds fluctuate, and you may lose some, or all of your principal.

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