

# STEPUP

Sales Tax Estate Planning Underwriting & Product Newsletter



**Peter A. Wouters,**  
Director, Tax  
Retirement &  
Estate Planning  
Services

Peter works with independent advisors and other professionals raising awareness on issues and concerns faced by affluent individuals, professionals and business owners. He supports efforts in researching and developing optimal solutions for clients aimed at improving their financial well-being and supporting their personal wishes and lifestyles. He has provided 1000s of workshops, seminars and technical support throughout the country on tax, retirement income and estate planning issues, concepts and strategies to both advisors and consumers. As an accredited Registered Financial Gerontologist, a good deal of his time is spent on building awareness and educating people of all professions who work with or specialize in the needs, expectations and issues of elders. Comprehensive lifestyle planning is an important element of these processes.

The Sales, Tax, Estate Planning, Underwriting & Product (STEPUP) team provides internal and broker support, including seminars, education, advanced concept illustrations & Client case technical consultations.

**Peter can be reached at**  
[peter.wouters@empire.ca](mailto:peter.wouters@empire.ca)

## First in a series

In the opening segment, we will review some of the top investor concerns as they approach retirement and some key risks that impact how long savings and income streams may last.

Some of the most frequent questions asked by investors looking at retirement include these:

- How long does my retirement income have to last?
- Will I outlive my savings?
- What happens if there is a market downturn around the time I plan on retiring?
- What happens if I need extra money for emergencies?
- What happens if markets improve after I've set up my retirement programs?
- I'm looking for some certainty and peace of mind when it comes to my retirement income. Can I get it with the product choices available?

## The Risk of Longevity

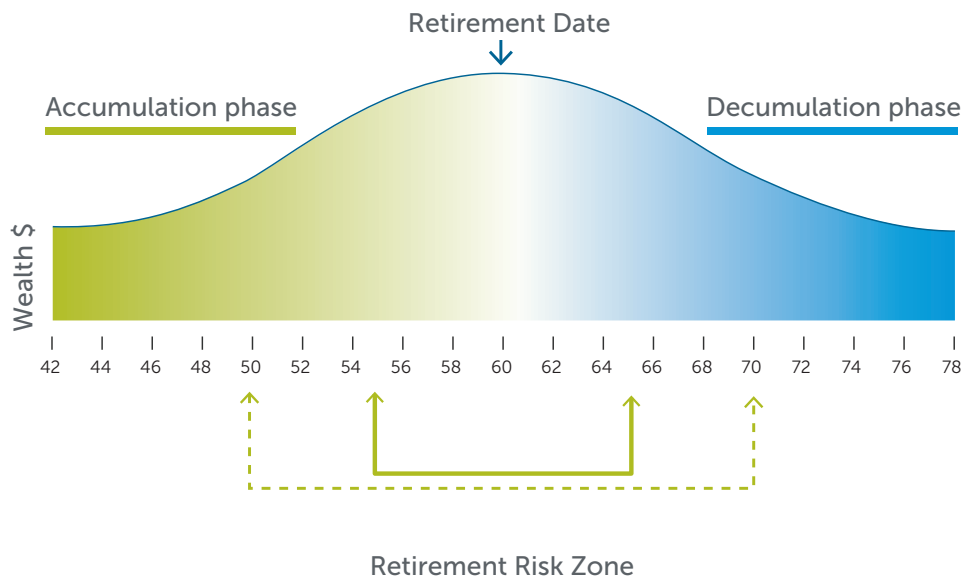
Canadians are living longer these days, so it's even more important to be financially prepared.

### Longevity for 65 year olds

Who	Reaching age	Odds	Reaching age	Odds
woman	86	50%	92	25%
male	83	50%	89	25%
couple	90	50%		

- A 65-year-old woman has a 50% chance of living to age 86 and a 25% chance of reaching age 92.
- A 65-year-old man has a 50% chance of living to age 83 and a 25% chance of reaching age 89.
- For a couple both aged 65, there's a 50% chance that at least one spouse will reach age 90.

Source: Canadian Institute of Actuaries, 2007



## Retirement risk zone

One of the less commonly discussed risks of retirement is the risk of having too much market risk in your portfolio at a time when you need income. Here is an opportunity to create and build awareness for something called the retirement risk zone.

The 5 to 10 years before and after the onset of retirement or the time when cash-flow begins represent a very fragile and critical period in the investor's financial lifecycle. It is called the retirement risk zone. When planning for retirement, retirees should consider a review of their portfolios and see how much exposure they have to market risk during this period when the retirement nest egg is most vulnerable to market downturns. The retirement risk zone should be important to investors and advisors alike because short term portfolio losses due to market performance during this time can have significant, long term, negative effects on the longevity of the investment portfolio.

## Sequence of Returns

It is vital that investors are aware that the sequence of returns can have a dramatic effect on the longevity of an investor's portfolio when the emphasis switches from accumulation to spending. Put another way, investors and advisors should be mindful that the order of the rates of return that an investment earns over a period of time may not matter when saving for retirement. Yet they get surprised all the time. The order of the rates of return

matters a great deal when the investor is spending their accumulated money during retirement and it's a much bigger surprise.

Most investors these days are exposed to the markets, including those that are in the retirement risk zone. Most financial and retirement planning is done using average return assumptions. No investment based product package returns an assumed rate of return consistently for decades. The sequence of returns may not matter during an accumulation period; it may not impact average rates of return.

Average returns can be misleading particularly during income generation. Negative returns early in the withdrawal cycle magnify the challenge in returning to asset levels capable of generating sustainable income. Volatility may not be a big issue during the accumulation years; in fact it can be quite beneficial when looking at dollar cost averaging tactics. Volatility can be very troublesome to a portfolio's size and its ability to generate sustainable income for life during retirement years, particularly low or negative returns in the retirement risk zone.

An investor in the Accumulation Phase, that period of time when their primary focus is on building their long term investment nest egg, has a longer time-period to recoup losses, earn income and invest additional monies. Someone in the Retirement Risk Zone may not have the luxury of time to sit on an investment and wait for positive rates of return to make up for investment losses.

Any new monies invested just before retirement may not be left to grow long enough and potentially reap the benefits of longer term, positive investment returns. Furthermore, an investor in the Retirement Risk Zone may be withdrawing income and thus depleting assets faster. A negative sequence of returns has a greater and long term effect during the Retirement Risk Zone than in the Accumulation Phase. What is one safeguarding measure? Low volatility of an investment that does have respectable rates of return in line with the particular investor's overall plans, is quite an attractive alternative for helping to make retirement income plans work. This is in addition to having some cash on hand or very conservatively invested savings that can be used for cash flow and to support lifestyle when markets are underperforming.

## Peter Wouters

© 2020 by Peter A Wouters

### Related articles and resources

[GWB Order to Disorder series 1 of 7: The Risk of Longevity](#)

[GWB Order to Disorder series 2 of 7: Rate of Return and Impact on Accumulation vs. Withdrawal periods](#)

[GWB Order to Disorder series 3 of 7: When did you get on the rate of return cycle](#)

[GWB Order to Disorder series 4 of 7: What is a Guaranteed Withdrawal Minimum Benefit \(GMWB\)?](#)

[GWB Order to Disorder series 5 of 7: Investor behaviour](#)

[GWB Order to Disorder series 6 of 7: Calculating guaranteed retirement income](#)

[GWB Order to Disorder series 7 of 7: Many Protective Features, Benefits & Advantages](#)

This document reflects the views of Empire Life as of the date published. The information in this document is for general information purposes only and is not to be construed as providing legal, tax, financial or professional advice. The Empire Life Insurance Company assumes no responsibility for any reliance on or misuse or omissions of the information contained in this document. Information obtained from and based on third party sources are believed to be reliable, but accuracy cannot be guaranteed. Please seek professional advice before making any decisions.

A description of the key features of the individual variable insurance contract is contained in the Information Folder for the product being considered. **Any amount that is allocated to a Segregated Fund is invested at the risk of the contract owner and may increase or decrease in value.**

FOR ADVISOR USE ONLY

® Registered trademark of **The Empire Life Insurance Company**. Policies are issued by The Empire Life Insurance Company.

### The Empire Life Insurance Company

259 King Street East, Kingston, ON K7L 3A8

**Insurance & Investments – Simple. Fast. Easy.®**  
empire.ca info@empire.ca 1 877 548-1881

INV-2780-EN-05/20

