



Face retirement confidently

With her 54th birthday only a few days away, Bev sat at her kitchen table with a coffee in hand and her mind a million miles away. Each year, near her birthday, Bev liked to “take stock” to make sure she was doing all the things she had hoped to do by this time in her life and then she’d make a plan for accomplishing some of those things in the year ahead – kind of like her own personal new year’s resolutions.

As she sat there mulling over her financial future, Bev found herself left with more questions than answers and knew what she had to do.

“It’s good to see you again,” Bev said as she sat down across from her advisor.

“I’m glad you called,” said Marie with a smile. “What’s on your mind?”

Bev explained that recently she had been thinking about her retirement and, while she knew it was still 10 years away, she wondered if she was going to be okay financially when the time came.

“There have been a couple of articles in the paper lately about studies showing that people are spending more than they’re saving these days and the importance of reducing debt,” began Bev. “I’m confident I’m on track with my investments,” she added, “but is there anything else I can do right now to help ensure I’ll be fine when the time comes?”

“Absolutely,” assured Marie. “As you said, you’ve got a good investment portfolio in place and your insurance needs have been addressed. But there are a couple of things you can do over the next few years with your personal day-to-day finances that can have a very positive impact on your financial future.”

In the discussion that ensued, Marie explained how Bev could partner with her bank today to prepare for retirement in 10 years and outlined three key things she could do:

- Get out of debt more quickly
- Increase her savings
- Have access to funds for the unexpected

GET OUT OF DEBT MORE QUICKLY

Marie asked Bev to list all of her current debt, including her mortgage, credit cards, loans and lines of credit.

“With most credit card rates at nearly 20 per cent,¹ you can immediately realize savings in interest costs by consolidating your credit card debt into a line of credit with a lower interest rate,” advised Marie. “Ideally, it’s best to only use credit to the point that you can pay it off in full at the end of each month. But if you can’t one month, pay it off with your line of credit before interest is added. Then you could be paying a much lower rate on your debt, instead of 20 per cent. The difference can really add up over time.”

Marie went on to suggest that Bev consider an all-in-one account secured by her home. She explained that there are products on the market right now that not only would allow Bev to consolidate her debt – similar to a secured line of credit – but would also allow her to deposit her income against her debt which, over the years, could lead to saving thousands in interest costs. “Getting out of debt as quickly as you can and doing it for less is key,” said Marie.

INCREASE SAVINGS

The next thing Marie explained was that a 10-year horizon before retirement was typically enough time for Bev to realize some compounded growth in investments.

She told her that one of the best approaches was to contribute one larger lump sum to her investments, rather than making smaller contributions over the next 10 years.

“This could accelerate the growth of your investment through compounding,” explained Marie. “Either an RRSP loan – if you have room to contribute to your registered savings – or a leverage loan² for non-registered investments could help you increase your savings. You could take out an investment loan or, if you do decide to open an all-in-one account,”² added Marie, “you may be able to use it as an efficient way to borrow to invest without having to take out another bank loan.”

Marie asked Bev if she planned to travel south of the border during retirement. “Another thing you can do is start preparing for U.S. expenses now by saving in a high-interest U.S. dollar investment account,” said Marie. Then she talked to Bev about what would be most cost-effective for her individual situation – investing in a high-interest U.S. dollar account or eliminating her debt first – and they put a plan together that would address all of Bev’s needs.

HAVE ACCESS TO FUNDS FOR THE UNEXPECTED

“The last point we want to consider, Bev, is the importance of having the ability to access funds at a moment’s notice,” said Marie. She explained that when later in life expenses arise (post-secondary education, children’s weddings, etc.) or sudden emergencies, it’s important to have easy access to funds at a low rate to avoid cashing in any of her retirement investments as that could incur tax and potentially derail her retirement plans.

¹ All rates identified are for illustrative purposes only.

² Borrowing to invest may not be appropriate for everyone. You should be fully aware of the risks and benefits associated with leveraged borrowing since losses as well as gains may be magnified. Preferred candidates are those willing to invest for the long term and not averse to increased risk. You should be aware that this strategy may have a higher risk as your home is offered as security for the loan and you will be required to make payments regardless of the performance of your investment. The value of your investment will vary and is not guaranteed; however you must meet your loan and income tax obligations. The dealer and advisor are responsible for determining the appropriateness of investments for their clients and informing them of the risks associated with borrowing to invest.

“Again, an all-in-one account or line of credit is an ideal product to have in place for these kinds of financial needs,” assured Marie. Together, she and Bev discussed the features of the various products on the market to find one that suited Bev’s individual circumstances.

As the meeting came to a close, Bev smiled and extended her hand to Marie. “Thank you very much, Marie,” she said. “I’m feeling so much more positive now about my

plans for retirement. It feels good knowing I’m doing a little more to get all my ‘ducks in a row’ even if it is still 10 years away.”

“You’re welcome, Bev,” said Marie, smiling. “You’ve done a lot today to put yourself in an even better position to face retirement confidently. Happy Birthday!”

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