ECHELON
WEALTH PARTNERS

Case Study – Pre-Retired

The Situation

Joe and Mary Sample came to us, as a referral, when they were 52 and 47 years of age. Joe works for the government and would like to retire at age 55 or 56, at which time he will be eligible for his pension. When he retires he would like to work part time in his own business doing marketing and social media work for companies around town. He plans to work part time until age 65. The earliest he can retire with an unreduced pension is at age 56. Mary has worked with a real estate development company for the past twenty years and is in the process of making a career change from real estate sales for the development company to becoming an independent real estate agent. She is not sure how this transition will go in terms of her income, but her current employer has guaranteed her a salary of $60K per year for the next two years if she continues to work part time for them while she pursues this new career path. Mary intends to work full time until age 60 and then work part time for the next five years after this. They have already downsized from their large house and currently own a condo worth approx. $400 000 with a mortgage of $200 000 on it. They have one child that is currently attending University in town and is living at home with them and her funding requirements for university aren't large as she is working while attending. Joe and Mary plan to fund this cost on a monthly basis and have excess cash flow to do so. Joe and Mary have no debt other than their mortgage and the interest rate on their mortgage is 2.99% fixed for another three years. They pay 20% extra on this mortgage per year and they intend to have it fully paid off within the next seven to eight years.

Retirement Goal:

Joe's current income is $65 000 per year and at age 56 he will be able to collect his indexed government pension (joint life option) of $2470 per month to age 65 and then $1724 thereafter. At present they have $139 000 in RRSP's and Mary contributes $300 per month plus plans to add $10 000 prior to the RRSP deadline each year. Her current salary has been $120 000 per year and her income will not decrease until she starts her new endeavor in the New Year. She expects to have a higher income this year versus her next couple of years as she starts out in her new business. Her income now will definitely be higher than her income in retirement. They also have $54 000 in their savings account that they are not sure if they should invest in their RRSP, a TFSA or put on their mortgage. They would like to achieve an after tax income of $60 000 per year in retirement, which would be composed of their part time earnings, Joe's work pension, Investment Income, CPP and OAS .

Investment Portfolio:

They are fairly risk averse, but realize that they need to have some exposure to the stock market to provide them with the growth they need to fund their retirement. They did not realize until we spoke that all of their investments are in mutual funds that have a high MER (approx. 3%), are bottom quartile funds and their equity exposure was greater than 70%. At present they have $139 000 in RRSP's and want to use a portion of their savings to contribute to their RRSP's this year. It was determined that $40 000 from their savings would be comfortable for them to add to their investment pool.

Family Protection:

Joe and Mary have term insurance that will be increasing in price in the next nine months. They have no other insurance coverage other than what Joe has through his employer. Joe has a life insurance policy through his employer that is equal to double his earnings and has an indexed tax free disability policy at 66% of his current earnings until retirement. Mary is not as concerned about if she becomes disabled as she feels that her job is something that could be done under most disabilities. What her number one priority though is that if she has a major sickness – i.e. heart attack, cancer etc. They are not concerned about leaving a large estate and feel their life insurance should be available to pay out their mortgage and a few extra expenses if something happened to either one of them.

Tax and Estate Planning:

Their accountant (their brother in law) will be consulted prior to the end of each year to determine how much should be contributed to Mary's RRSP based on her income in that year. Joe will not make any further RRSP contributions as any extra cash will be used to make RRSP contributions for Mary as she is in a higher tax bracket – marginal tax rate of 41% versus 29%. Joe and Mary have a lawyer already and recently updated their wills, power of attorney and representation agreements for both of them.

Analysis

Retirement Goal:

Prior to providing any advice the first step we do for all of our clients is input their information into our retirement planning software to determine if the goals they have stated are realistic with a 5% rate of return (for clients wanting a balanced portfolio), 3% inflation rate and both parties living to age 95. If your goals are achievable with these parameters we will then run a few different scenarios to determine what the effect of different decisions may be on your desired retirement income.

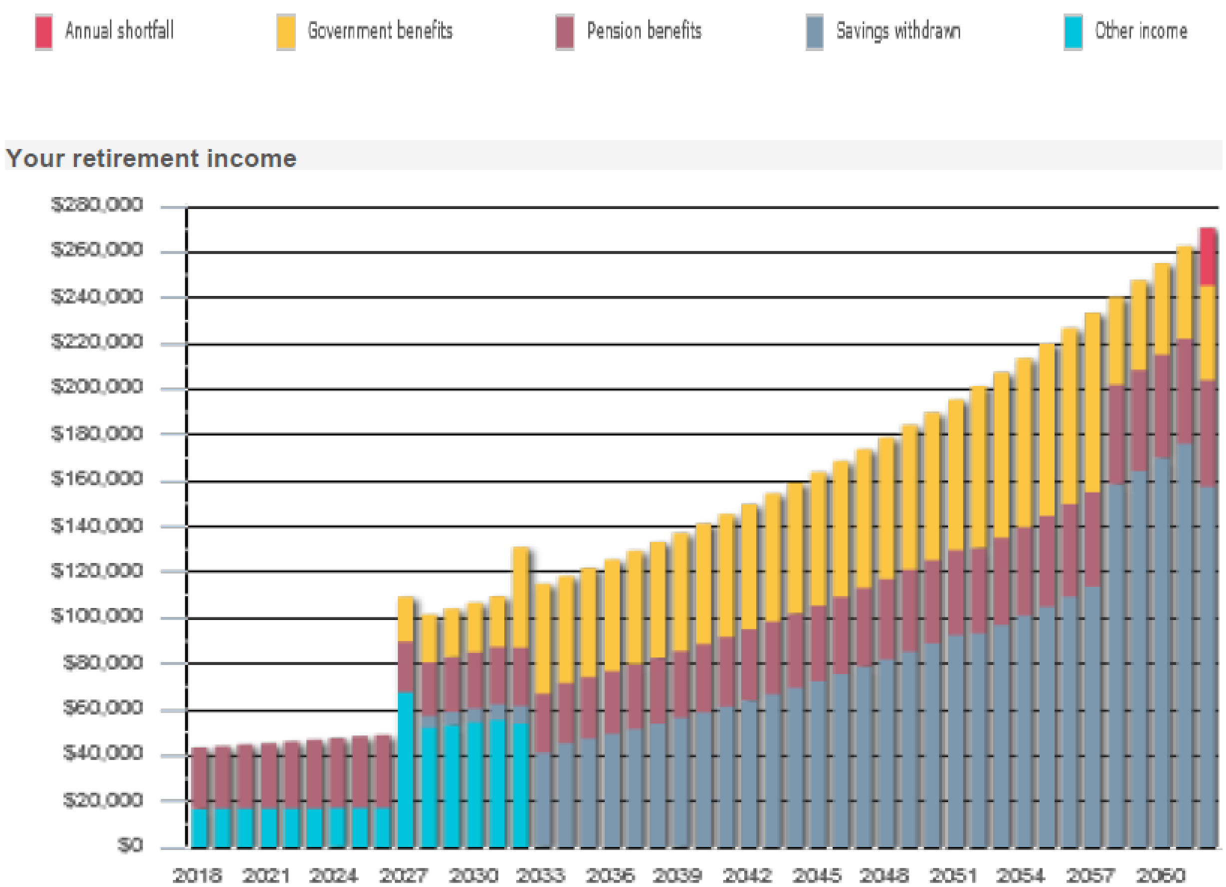
In this case we reviewed three projections with Joe and Mary – Summarized Below:

Projection # 1

5% return on your current investments, contributions of $13 600 per year to Mary's RRSP until age 60, Joe takes his pension at age 56 and you both work part-time until age 65. Joe earns $20 000 per year from age 56 to 65 working part time and Mary earns $60 000 per year working part time from age 60 to 65. Their after tax income in this situation would be *$65 500 per year until age 95*.

This graph shows your stated retirement income goal from the year the client retires until the year when the last person's retirement ends. It also shows how your retirement benefits and savings will be used to meet your income goal.

Your shortfall is shown as the difference between your income goal and your expected income from benefits and savings.



The numbers in the graph assume:

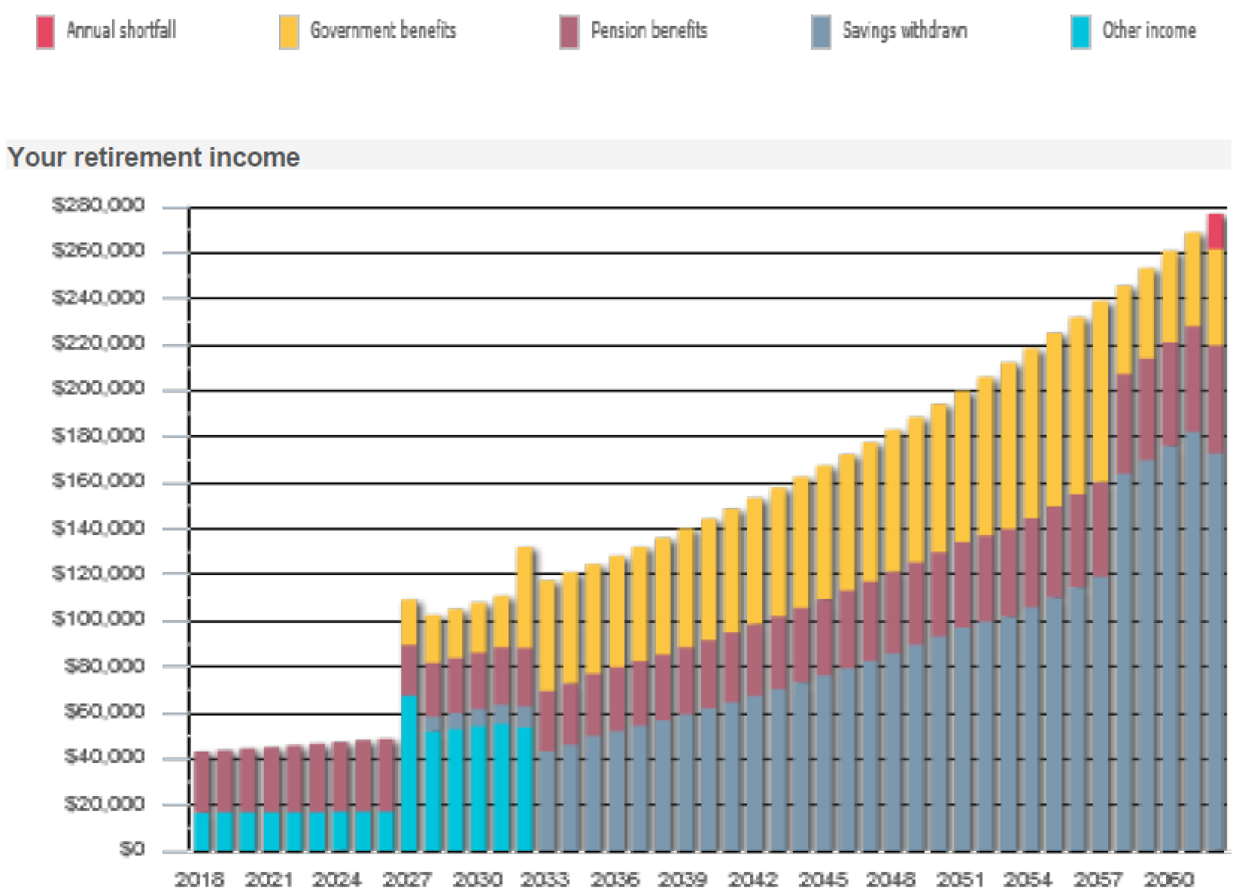
- Each year during retirement, withdrawals are made to meet your stated income goals
- Withdrawals will occur by investment type in the order specified by your advisor
- All RRSPs convert to RRIFs at age 71 and are subject to minimum RRIF withdrawals thereafter

Projection # 2 – Add additional funds when mortgage paid off

5% return on your current investments, contributions of $13 500 per year to Mary's RRSP until age 60, Joe takes his pension at age 56 and you both work part-time until age 65. Joe earns $20 000 per year from age 56 to 65 working part time and Mary earns $60 000 per year working part time from age 60 to 65. After paying of your mortgage you direct half of these payments each year to either your TFSA account. Their after tax income in this situation would be *$67 000 per year until age 95*.

This graph shows your stated retirement income goal from the year the client retires until the year when the last person's retirement ends. It also shows how your retirement benefits and savings will be used to meet your income goal.

Your shortfall is shown as the difference between your income goal and your expected income from benefits and savings.



The numbers in the graph assume:

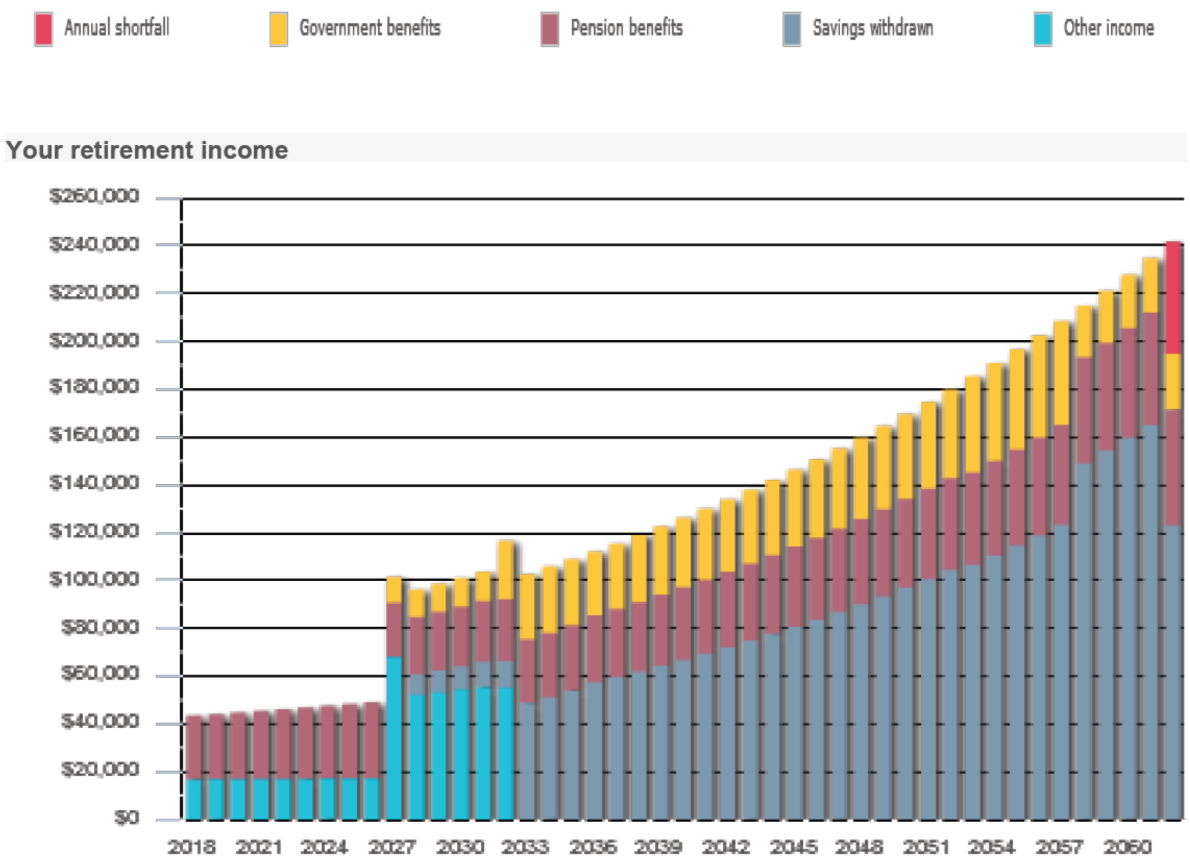
- Each year during retirement, withdrawals are made to meet your stated income goals
- Withdrawals will occur by investment type in the order specified by your advisor
- All RRSPs convert to RRIFs at age 71 and are subject to minimum RRIF withdrawals thereafter

Projection # 3 – Assume CPP is less than expected and OAS is not available

5% return on your current investments, contributions of $13 600 per year to Mary's RRSP until age 60, Joe takes his pension at age 56 and you both work part-time until age 65. Joe earns $20 000 per year from age 56 to 65 working part time and Ingrid earns $60 000 per year working part time from age 60 to 65. After paying of your mortgage you direct half of these payments each year to either your TFSA account. We have cut CPP down to $10 000 for both of you and assumed you will not qualify for OAS. Their after tax income in this situation would be *$58 500 per year until age 95*.

This graph shows your stated retirement income goal from the year the client retires until the year when the last person's retirement ends. It also shows how your retirement benefits and savings will be used to meet your income goal.

Your shortfall is shown as the difference between your income goal and your expected income from benefits and savings.



One projection that they asked me to prepare that I did not provide here, was Joe retiring at age 55 on a reduced pension and then starting his part time work. He had mentioned in our meeting that if this was feasible he would like to consider it as an option. When we ran our projections this would not allow them to achieve their minimum income goal of $60 000 after tax unless they saved a lot more money each year, which they did not want to commit to with Mary looking to transition her employment.

Investment Portfolio:

To give the growth that is needed, while still providing guarantees that give Joe and Mary the comfort they need to weather the volatility of the stock market it was decided to split the portfolio into thirds. The first third would be short to mid-term bonds through either ETF's or bond funds, the next third would be balanced segregated funds that would provide maturity and income guarantees and the final third would be large cap dividend stocks such as financials, utilities and telecommunication companies. All positions in the portfolio will pay an income stream when needed and until then the dividends and interest earned will be reinvested to take advantage of the effect of compounding of dividends/interest over the long term. All stocks purchased in the portfolio will have a review price assigned to them and when they go through this price the client will be contacted and a discussion will occur with regards to the outlook for the company at that time. On an annual basis the portfolio will be reviewed based on the performance of a blend of 60% bonds and 40% S&P/TSX index.

Family Protection:

In reviewing Joe and Mary's insurance policies it was determined that it would be better to look to replace their existing insurance with a Term 10 of $350 000 for Joe and a Term 20 of $500 000 for Mary as she will need coverage longer and needs more of her income replaced than Joe. They are both non-smokers and in great health so we were able to implement this coverage for half of the cost of their current coverage. Their plan is to review this coverage again once Joe retires and determine if they should still keep this coverage for him. Another review will be done when the mortgage is paid off and when Mary retires.

Mary decided to obtain critical illness coverage of $100 000 with a return of premium rider after 15 years or if she passes away. She also elected to pay for this coverage over 15 years so the policy will be fully paid for by age 62. If she hasn't claimed on this policy at any time after the 15 year mark she can turn the policy in and request a return of all premiums paid. This policy will remain in effect until age 75 and covers 22 conditions with an early intervention portion of up to 25% of the policy value.

Tax and Estate Issues:

Joe and Mary's accountant suggested that she contribute $40 000 to her RRSP this year to use up the majority of her unused RRSP room and this will be deductible in a high tax year for her. The remaining of their savings will be left in a high interest savings account and will be there for emergencies or to pay down a portion of their mortgage. Each year an annual review of Mary's income will be completed with her accountant to determine where additional funds should be invested – RRSP, TFSA's or Non-Registered savings.

A review of their wills and estate documentation has been scheduled every three years to ensure it is kept up to date.

In Summary:

This is an excerpt of the full L.I.F.E Plan that was prepared for these clients. This was originally prepared in February 2012 and to date their plan has been reviewed three separate times in person and updated as their situation has changed. In addition to RRSP savings we have discussed adding TFSA accounts to be used towards their retirement funds, but even without this they are still on track to meet their goals. Mary's new career has been very successful and she and Joe now work together part time as he maintains all of her marketing and social media presence. As her career begins to generate excess cash flow TFSA's will be utilized in addition to RRSP's to fund their retirement lifestyle.