



Make the most of your pre-retirement years

If you are approaching middle age, you've likely heard how important it is to remain invested for the long-term. This advice is based on sound financial evidence. History shows that, due to the power of compound investment returns, it's the amount of time you stay invested in the financial markets – and not how successfully you manage to time the markets – that can be the most significant factor leading to financial success.

If you are like many Canadians, recent market volatility may make it more difficult to follow this disciplined approach. With talk of a U.S. recession, financial institutions announcing massive write-offs and the U.S. housing market in a tailspin, investors are understandably nervous and want to protect their hard-earned savings.

It's important to remember that you'll likely require the continued growth potential of the financial markets to help you save enough money for your retirement years –but of course you don't want to risk the money you have saved up until now to realize your retirement dreams.

If current market conditions have you fretting about your investment plans, there are some effective solutions available that can help you remain confident about investing for the long term.

A STRATEGY FOR GROWTH-ORIENTED INVESTORS

One potential strategy to discuss with your advisor involves the use of investment products that include a Guaranteed Minimum Withdrawal Benefit (GMWB). New to the Canadian marketplace, these products, offered through insurance companies, combine a number of features and benefits that can go a long way towards helping guarantee that you'll have predictable, sustainable and potentially increasing

income during your retirement years. What's more, these products feature valuable protection benefits that can allow you to access the growth potential of the financial markets without placing your future retirement income at risk.

To understand how these products work, let's take a look at some of the unique features that can be available within some of these products.

WHAT ARE GMWBS?

When you invest in a GMWB, an annual guaranteed income amount is initially set to equal a percentage of the amount you deposit (for example, five per cent). At a minimum, that is the amount guaranteed to be available to you for regular future withdrawals. If the markets perform well, the amount you can withdraw each year has the potential to increase over time. If your investment falls in value, you are guaranteed to receive, at the very least, an amount equal to your original deposit through regular payments.

At least one GMWB product in Canada currently provides income for life. Upon reaching a specified age, the annual income amount can be guaranteed to last for the rest of your life.

WHAT ARE BONUSES?

Many products offering GMWBs in Canada offer bonuses that can increase guaranteed income. The bonus is an attractive feature ideally suited to people looking ahead to their retirement years, but with several more years to go, and who are not planning to withdraw any income in the near future. In most cases, this benefit provides an annual bonus that will be added to the guaranteed income each year. It is usually available for the first 10 or 15 years after your initial deposit. There is one important stipulation, however.

A bonus will only be available to you in each eligible year that you do not make a withdrawal from your investment.

This bonus feature can be a powerful tool that can help you plan your guaranteed retirement income with greater confidence.

WHAT ARE RESETS?

Another attractive characteristic of these types of products is the reset feature. Resets have the potential to lock in market growth and potentially increase your annual guaranteed income. With most GMWB products, these resets occur automatically every three years and are generally based on the date when you made your original investment. It's important to note that these resets will only lock in market gains. If the value of your investment has fallen on a reset date due to market volatility, the income guarantee remains the same. In other words, a reset will never reduce the amount of the guarantee.

PUTTING IT ALL TOGETHER

The following case study demonstrates how guarantees, bonuses and resets can work together, and how these benefits can help reinforce your investment in a GMWB product to provide predictable, sustainable and potentially increasing retirement income during your retirement years.



Carol, age 50, has worked as a Chartered Accountant for a medium-sized company for more than 20 years. Her employer provides modest pension benefits and, being smart with her money, Carol has managed to accumulate \$200,000 in various RRSP accounts she set up at a number of different financial institutions. Carol's mother recently passed away and, when her estate settles in the next year, Carol will have additional non-registered money for expenses and possibly to supplement her retirement income, if needed.

Carol met with Jack, her new advisor, to discuss the best way to invest her registered savings. Carol mentioned that she expects to work at her current job until she retires at age 65. Carol has become quite concerned about recent market volatility. She also understands that if the equity markets fail to perform in her favour over the next few years, there is not a lot of time left for her investments to recover and grow before she needs to begin withdrawing income. In addition, Carol mentioned to Jack that she'd like to consolidate her various RRSPs in one place to simplify her investment strategy and get a better overall picture of how her investments are performing.

THE RECOMMENDATION

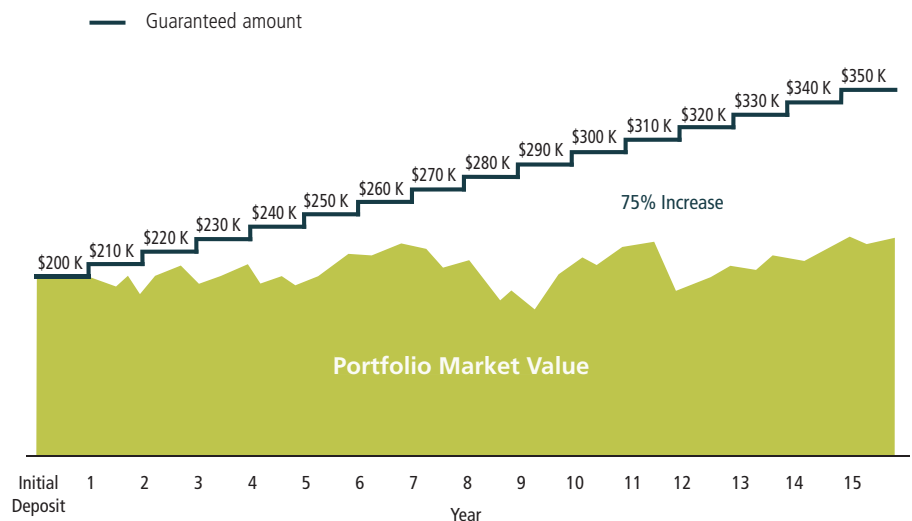
After listening to Carol's concerns, Jack recommended that she invest in a GMWB product with a 15-year bonus period, resets every three years and a lifetime payout guarantee after age 65. Jack told Carol that no matter how the markets perform, her guaranteed retirement income would be safe from market volatility. Furthermore, her guaranteed retirement income would receive a five per cent bonus each year for the first 15 years, as long as she refrained from making withdrawals over that time period.

Jack also told Carol that, in the unlikely event that her investment failed to provide a positive return over the next 15 years, her \$200,000 initial investment would grow to \$350,000 if no withdrawals are taken due to the annual bonus feature. Beginning December 31st of the year she turns 65, she could withdraw five per cent of \$350,000, or \$17,500 per year, for the rest of her life from her investment as a stable source of retirement income (see chart A).

Carol's portfolio in moderate market conditions

CHART A

In this example, Carol's initial deposit establishes a guaranteed amount of \$200,000. Even in a down market, this value grows to \$350,000 through annual bonuses of \$10,000 for the first 15 years. The annual lifetime withdrawal amount available to Carol after December 31st of the year she turns 65 will be \$17,500 (five per cent of \$350,000) for life.



Jack then revealed to Carol what would happen to her investment if the financial markets grew as they had in the past. In this case, Carol's \$200,000 would have grown considerably due to the combination of market growth, bonuses and resets that GMWB products provide. Over 15 years, Carol's investment would have grown to \$798,680 and, due to the reset feature, this amount would be locked in for life. What's more, she would be guaranteed to receive five per cent of \$798,680, or \$39,934, each year for the rest of her life as retirement income (see chart B).

Carol had a few questions. First, could she access her money at any time in case of a financial emergency? Jack replied that she could easily do so, but if she has

to withdraw more than five per cent in any given year, this may reduce the amount of annual income that is guaranteed to her in future years.

Carol's second question was whether the amount of income guaranteed to her each year could increase to help offset inflation. Jack replied that while there was no absolute guarantee that it would, Carol's investment would remain intact throughout her retirement to provide for continued growth. As her investment continues to grow in value, the reset feature would continue to lock in any market growth every three years until the contract matures. In other words, as long as her investment continues to grow, the reset feature has the potential to increase her guaranteed payments well into the future to help offset inflation.

Carol's portfolio in strong market conditions

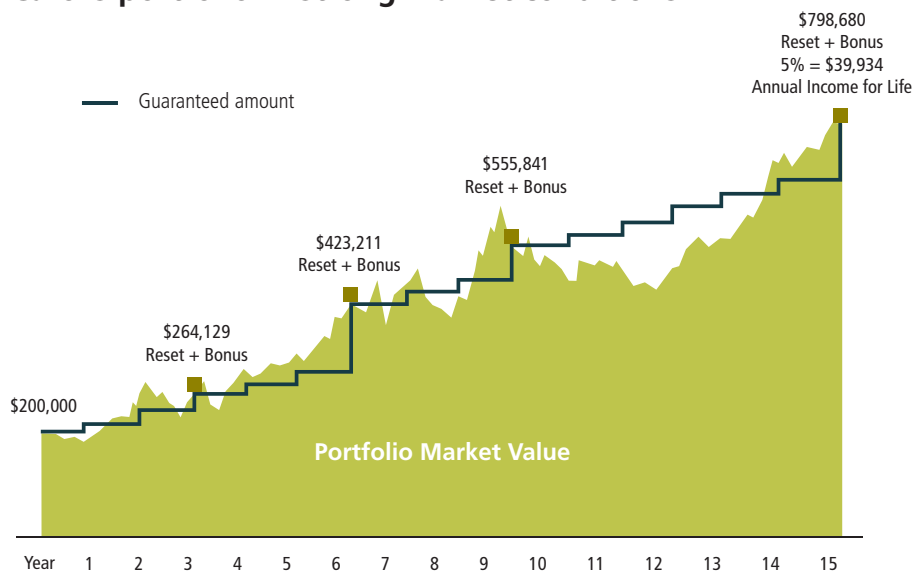


CHART B

When markets perform well, Carol will benefit from automatic resets of her guaranteed amount every three years. By the end of year 15, when Carol is ready to retire, her guaranteed amount has grown to \$798,680 and the annual lifetime withdrawal amount available to her for lifetime retirement income is \$39,934.

For illustration purposes only. Portfolio consists of 80 per cent TSX/S&P Index and 20 per cent ScotiaMcLeod Universe Bond Index from Dec. 1991 to Dec. 2006. Returns have been reduced for guarantee fees.

CASE CLOSED

With these concerns addressed, Carol felt a great weight lifted from her shoulders. She had always worried about how market volatility could impact her plans and if she would have enough saved to provide a dependable income during her retirement. Thanks to Jack's help, she was now happy to learn she could invest her RRSP with confidence knowing that, at the very least, she has the opportunity to receive a five per cent bonus on her guaranteed income for the next 15 years. And if the markets perform well, she could also enjoy the potential for additional growth that would exceed her expectations.

SPEAK WITH YOUR ADVISOR

As this case study reveals, GMWB products can provide a highly effective solution for investors who want to grow their savings while minimizing risk. If you feel you might be uncomfortable when it comes to investing your savings as you approach your retirement years, it may be beneficial to discuss the advantages of these investments with your advisor. He or she can provide an objective assessment of your current situation, calculate how much income you'll need for your retirement and determine whether these investments are the best solution to help you stay on track. It's important to remember that your advisor is with you every step of the way when it comes to ensuring that you have the right investment solution to provide the income you require during your retirement years.

All performance shown is not indicative of future results and actual performance may vary.

Exceeding the withdrawal thresholds may have a negative impact on future payments. In most products, payments can continue until the contract reaches maturity or upon death of the last surviving annuitant. Certain age restrictions may apply. Bonuses are not cash deposits, they increase the amount that is guaranteed for withdrawal.

Examples and case studies shown are for illustration purposes only. Each GMWB product is different and further information should be obtained regarding the benefits and features before investing. factor leading to financial success.

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