

# Portfolio advisor

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## The Retirement Revolution

**Baby boomers are no strangers to social revolution. Now, as they approach the traditional retirement age of 65, baby boomers are on the eve of yet another revolution – a “retirement revolution” that is creating a whole new phase of life.**

In the past, the different phases of life could be neatly divided into three – your early years, working years and retirement. For most, the transition between working and retirement was very sharp. At age 65, you stopped punching the clock and hit the golf course – for good.

But with their different lifestyle aspirations – and longer life expectancies – baby boomers are on the cusp of creating a whole new life stage that blurs the distinction between work and retirement. For some, it will be an “active retirement” involving a day-to-day balance of work and leisure. For others, it will be a period where they cycle back and forth between work and retirement.

While most boomers will eventually retire in the traditional sense, they’re planning on doing it later – closer to 70 than 65.

Both social and economic reasons are behind these changes. Many boomers have higher lifestyle expectations than their parents or grandparents, and will simply need the extra money. They can also count on living longer, and will either need to continue earning an income, or ensure they have enough saved so they don’t outlive their savings.

But it’s not just about the money. According to one survey, roughly two-thirds of baby boomers intend to keep working more for the mental stimulation than anything else. They want to stay younger, longer.

**These changing attitudes are challenging the old approaches to planning for retirement. Read inside for new strategies for the “retirement revolution.”**

# Making bigger plans

Baby boomers are making big plans for retirement – in the process redefining what “retirement” means. This means the traditional approaches to retirement planning don’t always make sense anymore.

## Beyond the financial calculators

In the past, you could simply plug a few numbers into a financial calculator and it would tell you whether you were eating cat food or caviar during your retirement. Your accumulated savings, expected annual savings, projected rate of return, anticipated retirement date and life expectancy combined to tell you how much income you were likely to receive during retirement.

But what if you want to continue working part-time after you retire? Or take some time off, then go back to work for a year or two? Or change gears with a less demanding but more fulfilling job? These types of variations on the retirement routine – expected to become more and more common as baby boomers retire – “do not compute” with the old financial calculators.

Increasingly, it’s important to have a more comprehensive plan that captures the richness and complexity of retirement for the baby boomer generation. Yes, your retirement plan should help you calculate how much you need to save to retire the way you want. But it should go beyond that, and address concerns like finding the right balance between leisure and activity, giving back to your community, taking care of your family, and looking after your health.

## Funding your lifestyle needs

As a group, boomers want more from their retirement compared to previous generations. They’re healthier, living longer, and have higher lifestyle expectations.

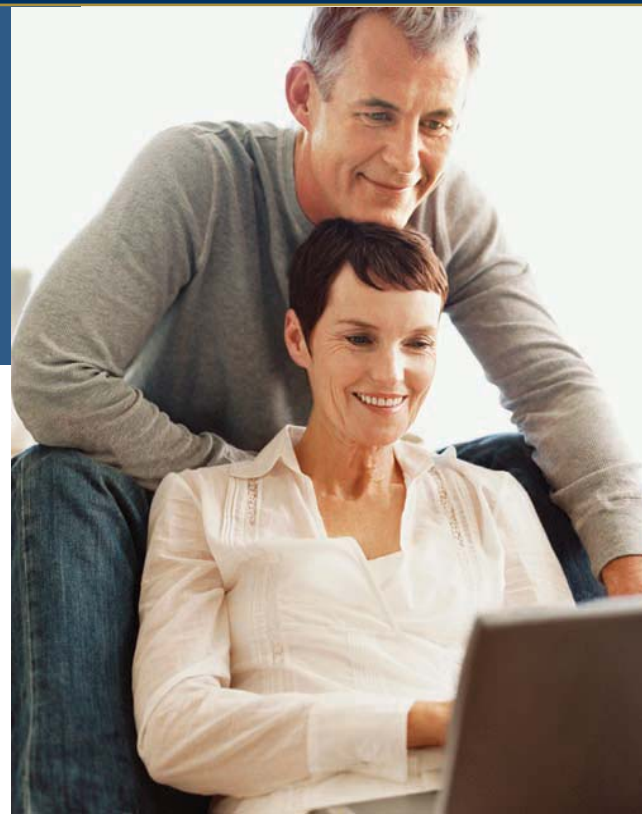
This means you may need more money than previous generations to really enjoy retirement to the fullest. Once you reach age 65, the average life expectancy is now 84, meaning you may need funds for nearly two decades – or more.

On the other hand, you may need less – especially if you don’t retire at 65. Like many other boomers, you may plan on retiring later, or working part-time, or even cycling between work and leisure for a certain time. This may require you to rethink your retirement savings and income calculations.

## Looking after your health-care needs

A longer life expectancy not only affects the way you calculate your retirement income needs – it also affects how you plan for your health-care needs. Medical breakthroughs and health-care improvements are lengthening life spans, and enabling more people to recover from serious illnesses than ever before.

However, there are costs associated with illness and recovery, many of which are not covered by government benefits. As a result, many people are forced to draw on their retirement savings in order to pay for things like specialized treatment or in-home care. Your retirement plan should address these possible costs ahead of time by ensuring you have the right critical illness, disability and long-term care insurance in place.



## Giving back to your community

Many boomers plan to make charity and community work a major priority during retirement. If charitable giving is in your plans, determine how much you are able to donate to charitable causes, while retaining sufficient funds for your retirement lifestyle. You should also get advice on the best ways to utilize tax incentives to maximize your charitable gifts.

## Taking care of your family

Boomers have evolved from the “me” generation into the “we” generation, placing a great emphasis not only on their communities, but also their families. When planning their retirement, they want to make sure their families are adequately taken care of. Make sure you have life insurance and an updated Will, and address specific concerns, such as passing on the family business or providing for children from previous marriages.

**Baby boomers want more from retirement – and they need more from their retirement plans. Does your current plan meet your needs? Find out – contact us today for a complimentary consultation.**

**MAKING YOUR 2006 RSP CONTRIBUTION** › The deadline for your 2006 contribution is Thursday, March 1, 2007. You can contribute up to 18% of your 2005 earned income to a maximum of \$18,000, minus any pension adjustment from your 2005 T4 tax slip.

**BRING IT ALL TOGETHER** › By consolidating your savings into one overall plan, you can reduce the extra costs associated with multiple RSP accounts, while making it easier to understand where you stand today, and where you will be tomorrow.

## Four key RSP strategies

Baby boomers have changed many things about retirement, but one thing that hasn't changed is the importance of your Retirement Savings Plan (RSP).

### 1. Maximize your RSP contributions every year

The tax advantages offered by your RSP can't be beat. Not only are your contributions tax-deductible, they also grow on a tax-deferred basis. In other words, you don't pay taxes on the investment income earned within your RSP, until you eventually withdraw it. This can result in significantly greater growth over time. Make your maximum contribution every year and, if you have unused RSP contribution room from previous years, catch up as soon as possible. Also consider contributing earlier in the year, or at regular intervals throughout the year – this can result in greater growth over time compared to contributing a lump sum at the end of the year.

### 2. Set the right asset mix for your life stage

Your RSP's risk/reward tradeoff is largely based on your asset mix between stocks, bonds and cash. Stocks tend to provide higher returns over 10-20 years, but fluctuate more in value. Bonds and cash tend to provide lower, but more consistent returns. How you balance these three asset classes largely depends on your life stage (see right).

### 3. Reduce future taxes now – with a spousal RSP

In Canada, the higher your income, the higher your tax rate. Because of this, it can make sense to "split" your income with your spouse, so that you have two smaller retirement incomes taxed at a lower combined rate, instead of one bigger one taxed at a higher rate. The spouse expected to have the higher retirement income can do this by contributing to a spousal RSP on behalf of the lower-income spouse, who will then receive income from the spousal RSP during retirement.

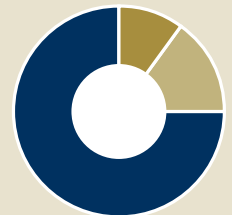
### 4. Go global to reduce risk and enhance return potential

With the elimination of the foreign content limit on RSPs, you have an opportunity to increase your allocation to global investments. By diversifying your RSP's assets among different geographic areas, you can offset the impact of negative performance in one area with stronger performance in another. In addition, many major global markets have outperformed Canada over the long term.

#### › 10-20 YEARS BEFORE RETIREMENT

Time is on your side, so you can afford to allocate more of your RSP to stocks.

- Cash 10%
- Bonds 15%
- Stocks 75%



#### › LAST DECADE BEFORE RETIREMENT

Add some more stability to your RSP with a fairly even balance between stocks and bonds.

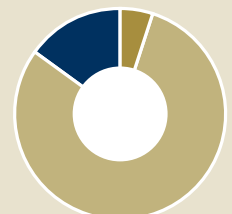
- Cash 5%
- Bonds 40%
- Stocks 55%



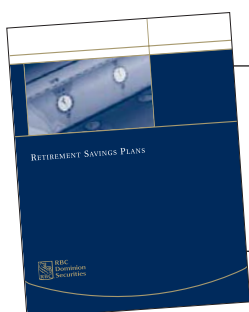
#### › RETIREMENT

Shift your balance more towards bonds to provide income and stability. Allocate part of your portfolio to stocks to enhance the longevity of your savings, which is particularly important given today's longer life spans.

- Cash 5%
- Bonds 80%
- Stocks 15%



Source: RBC Dominion Securities



**CONTACT US TODAY** for more information about making the most of your RSP. Ask us for your complimentary copy of our comprehensive RSP guide, which covers everything from tax advantages to investment strategies.

# New retirement income strategies

**Baby boomers are redefining retirement with their longer life spans, higher lifestyle expectations, and unwillingness to quietly ride off into the sunset after age 65. These changing demographic factors – along with several economic factors – are also redefining how boomers will successfully generate a retirement income.**

If you are approaching retirement – or have recently retired – here are some strategies to help you get the income you need.

## 1. Look beyond the traditional alternatives

Previous generations could rely on a combination of government benefits and interest-bearing investments like GICs and government bonds to provide an adequate retirement income. However, interest rates have trended lower since the 1980s, when you could get a Canada Savings Bond as high as 19.5%. Today, it's just 3%.

This has prompted the explosive growth of alternative income-producing investments like income trusts, which offer yields of 8% on average, plus the potential for capital gains.

### Some other income alternatives include:

- › Insured annuities that provide a combination of interest income and return of principal. Because the return of your principal is not taxed, insured annuities effectively offer higher income than conventional GICs or bonds.
- › Corporate bonds that typically offer higher rates compared to government bonds, many with only marginally higher risk.
- › Preferred shares that generally pay higher dividends than common shares, and slightly higher yields than corporate bonds.

## 2. Remember to keep your balance

While many of the alternatives to traditional GICs and bonds offer high income potential, they can also offer higher risk. Income trusts, for example, are not guaranteed investments, which many investors mistakenly believe.

The key is keeping your balance. If you diversify your investments between traditional and non-traditional income-producing investments, you can reap some of the rewards, while keeping your risk level in check.

## 3. Factor in your longer life expectancy

You can expect to live longer than your parents or grandparents – which also means that your retirement savings may need to last longer, particularly if you decide to retire at age 65 or earlier.

Building a bigger nest egg is the obvious solution, but your investment strategy also plays a big part. In the past, the typical investment strategy for retirees was to invest almost exclusively in

guaranteed investments. But that was under the assumption that you were only going to live for another half dozen or so years after retiring. You needed to know exactly how much income you would have for those years.

But now that you can expect to live 20 years or so past age 65, your investment strategy may need to include a greater percentage of growth investments like stocks in your overall asset mix. While stocks tend to fluctuate more in value than bonds, they also tend to provide greater returns over the long term.

## 4. Consider your expected retirement date

On the other hand, many boomers plan to continue working past the traditional retirement age of 65, perhaps working part-time or cycling back and forth between work and leisure. This affects your retirement income strategy, possibly reducing the amount you would otherwise need to save for your retirement, and allowing you to take a more cautious investment approach.



**Is your current retirement income strategy right for you? Contact us today to find out. Ask for your free copy of our Retirement Checklist, which highlights many of the key retirement income strategies you should consider.**