ESSENTIALS OF A MORE SECURE RETIREMENT

CFA Institute is a champion for ethical behavior in investment markets and a respected source of knowledge in the global financial community. Our goal is to create an environment where investors' interests come first and markets function for the benefit of society. We have created the "Essentials of a More Secure Retirement" to highlight key principles and practices that will help individual investors achieve a more secure retirement.

START EARLY & KEEP IT GOING

MAXIMIZE YOUR SAVINGS

INVEST WISELY

RETIRE SECURELY

START EARLY & KEEP IT GOING

If you've not yet initiated a savings program, start now. A successful retirement is about establishing a savings plan, starting early and sticking to your plan. So, be disciplined. A savings program is for your future!

Have at least double the largest surprise expense you've recently encountered in cash, and work toward having six months' expenses.

Einstein is rumoured to have called compound interest the "most powerful force in the universe."

Saving $100 each month for 30 years at 6% grows to $97,451. The same saving grows to only $45,344 over 20 years.

A CREDENTIALED FINANCIAL ADVISER CAN HELP YOU UNDERSTAND YOUR SAVINGS NEEDS AND DESIGN A SAVINGS PLAN THAT IS APPROPRIATE FOR YOU.[6]

CREATE A BUDGET THAT INCLUDES REGULAR SAVINGS:

- Review your finances and ensure that you spend less than you earn.
- Work toward having an emergency fund so that you can insulate yourself from having to tap into your retirement savings during an emergency.
- Find out more about how to make a budget.[1]

GET STARTED AND KEEP GOING! EACH CONTRIBUTION WILL ADD UP OVER TIME. THERE ARE IMPORTANT BENEFITS TO STARTING EARLY AND CONTINUING TO INVEST CONSISTENTLY:

- Set an automatic deduction monthly or directly from each paycheck to start building your savings and enforce discipline. Small contributions are a great way to start as time works for you. Doing this is usually preferable to trying to time your contributions or investing in lump sums at the end of the year.
- Consider making a promise to your future by saving 50% of your annual raise. To help make this a reality, enroll for auto-increase of your payroll deductions, if available, or schedule a date to make the adjustment yourself each year.
- Save as much extra money as you can. When you have some money left at the end of the month or receive money you didn't expect — perhaps a bonus or an inheritance — do something nice for yourself, and try to save the rest.
- Learn more about the need to set financial goals, the importance of saving[2], the power of compounding[3] and how much to save and invest.[4]

UNDERSTAND THE BALANCE BETWEEN SAVING AND REDUCING DEBT:

- Most consumer loans come with rates that are much higher than what you can earn on savings or even on most risky investment programs, so these loans are harmful to your long-term success. Channeling a portion of your savings budget to debt reduction can be a highly rewarding "investment", especially if it's high-interest credit card debt. There are exceptions, however, especially if savings trigger a tax benefit. Find out more about the trade-off between savings and debt reduction.[5]
- Whenever possible, do not use debt to buy things. With the exception of homes, cars (that are reasonably priced and truly necessary) and education, using debt is almost always a bad investment.

1 fcac-acfc.gc.ca/Eng/resources/publications/budgeting/Documents/TSBudget-eng.pdf
2 blogs.cfainstitute.org/insideinvesting/2014/05/22/why-should-you-save/
3 investopedia.com/university/beginner/beginner2.asp
4 cfapubs.org/doi/pdf/10.2469/faj.v69.n6.4
5 getsmarteraboutmoney.ca/en/managing-your-money/investing/rrsps-for-retirement/Pages/RRSP-contribution-vs-paying-down-debt.aspx#.VJmbCV4AAA
6 cfainstitute.org/learning/investor/adviser/Pages/index.aspx

MAXIMIZE YOUR SAVINGS

You should take advantage of any program that will enhance your ability to increase your total savings potential.

FAMILIARIZE YOURSELF WITH THE DIFFERENT RETIREMENT SAVINGS OPTIONS AVAILABLE TO CANADIANS:

- Government programs such as the Canada Pension Plan, the Quebec Pension Plan and Old Age Security;[7]
- Personal savings;
- Workplace savings programs.

LEARN ABOUT THE WORKPLACE SAVINGS PROGRAMS AVAILABLE TO YOU AND TAKE ADVANTAGE OF THEM:

- Workplace savings programs include Defined Benefit Plans, Defined Contribution Plans, Deferred Profit Sharing Plans (DPSPs), Stock Plans, Group Registered Retirement Savings Plan (Group RRSPs), Group Tax Free Savings Plans (Group TFSAs) and Voluntary Retirement Savings Plans (VRSPs) in Quebec. Enroll in your employer's savings program, if available, or don't opt out if you are automatically enrolled. If your employer offers matching programs, be sure to take advantage of them. A matching contribution is a benefit from your employer, so don't miss out on this great opportunity!
- When changing jobs, make sure not to cash out your employer-sponsored retirement program; roll it over to your current employer or into a private plan.

LEARN ABOUT THE PERSONAL SAVINGS PROGRAMS AVAILABLE TO YOU AND TAKE ADVANTAGE OF THEM:

- A RRSP allows you to reduce current taxable income and accumulate investment returns tax-free up until the end of the year in which you turn 71. A Tax-Free Savings Account (TFSA) allows you to save money on a tax-exempt basis with no age limitation. Both improve your ability to accumulate greater wealth.
- Find out more information on individual retirement accounts such as RRSPs[8] or TFSAs[9] and how they compare.[10]

AVOID BORROWING FROM YOUR RETIREMENT SAVINGS IN ORDER TO CONSUME OR TO COVER SHORT-TERM FINANCIAL PROBLEMS:

- You could fall short of your investment goals at retirement and negate some of the benefits of compounding. You may also trigger tax penalties in your Registered Retirement Savings Plan (RRSP).

Canadians without access to workplace savings plans must rely on government programs as well as their personal savings in order to meet their retirement income needs.

If your employer offers to match your contributions, contribute at least enough to receive it. The match will double your saving capacity, so be sure not to miss it!

Saving $100 each month for 30 years at 6% grows to $97,451 if the return is tax exempt as in a TFSA. Assuming a 40% tax rate on returns, the same annual savings would only accumulate to $64,009.

7 servicecanada.gc.ca/eng/services/pensions/cpp/retirement/index.shtml
8 cra-arc.gc.ca/tx/ndvdls/tpcs/rrsp-reer/rrsps-eng.html
9 cra-arc.gc.ca/tx/ndvdls/tpcs/tfsa-celi/menu-eng.html
10 getsmarteraboutmoney.ca/en/managing-your-money/investing/tax-free-savings-accounts/Pages/Comparing-TFSAs-and-RRSPs.aspx#.VJmtEl4AA

INVEST WISELY

Establish a low-cost, globally diversified portfolio that's appropriate for your long-term goals.

Diversification allows you to spread your investments among many different (or uncorrelated) securities, which significantly reduces risk. Furthermore, a more stable portfolio risk can also enhance returns.

Saving $100 each month for 30 years at 6% grows to $97,451 if there are no fees. Most of us pay fees. Assuming fees of 1.5%, your assets will only be $74,706.

A CREDENTIALED FINANCIAL ADVISER CAN HELP YOU BUILD AN INVESTMENT PROGRAM. MAKE SURE THAT YOU AND YOUR ADVISER REVIEW YOUR RETIREMENT NEEDS AND YOUR INVESTMENTS REGULARLY.

UNDERSTAND YOUR RIGHTS AS A CONSUMER OF FINANCIAL SERVICES BY REVIEWING "THE STATEMENT OF INVESTOR RIGHTS."[11]

BUILD A LOW-COST AND APPROPRIATE INVESTMENT PROGRAM:

- Think long term. Understand that you're planning for the rest of your life. Don't focus on the short-term performance of your investments. Instead, stick to your long-term plan and review your portfolio periodically to stay on track.
- Use a broadly diversified portfolio of global stocks and bonds. The percentage of stocks versus bonds depends, in part, on your age (time of retirement) and your ability to tolerate market turbulence or risk.
    - A simple way to achieve a diversified portfolio is to invest in an "all-in-one fund," which is a diversified portfolio in a single fund. Examples are target date funds (those that use the fund date that most closely matches your retirement date) and target risk funds (those that most closely match your risk tolerance). These funds offer a low cost and effective way to achieve a diversified portfolio aligned to your specific needs and goals.
    - If you are not using an "all-in-one fund" you must rebalance your portfolio components periodically. Rebalancing helps manage risk and enhances returns.[12]
    - Find out more about diversification and its risk reduction benefits.[13]
- Seek low-expense products such as low-cost funds and ETFs. Returns are only expected, but expenses are certain. Transaction costs and fees are your enemy because they reduce the amount you save. Be sure to implement your plan with low-cost investment products, and be mindful of commissions, front-end loads, and other expenses. Understand that not all fees are fully disclosed. Find out more about the impact of fees on retirement savings.[14]
- One way to determine your future retirement needs is to find a retirement calculator that takes into account relevant factors such as your age, retirement horizon, financial situation and lifestyle.[15]

CONSIDER THE NEED FOR INSURANCE, INCLUDING HEALTH INSURANCE, LIFE INSURANCE AND DISABILITY INSURANCE.

BEWARE OF THE 12 COMMON MISTAKES INVESTORS MAKE.[16]

11 cfainstitute.org/learning/future/about/Pages/statement_of_investor_rights.aspx
12 blogs.cfainstitute.org/insideinvesting/2014/05/22/why-should-you-save/
13 fischerfinancialservices.com/wp-content/uploads/2012/12/diversification.pdf
14 smh.com.au/money/super-and-funds/fees-have-big-impact-on-savings-20140506-37syg.html and cfapubs.org/doi/pdf/10.2469/faj.v61.n6.2769
15 srv111.services.gc.ca/generalinformation/index/
16 bedrockcapital.com/wp-content/uploads/2013/04/12CommonMistakesInvestorsMake.pdf

RETIRE SECURELY

Your ability to achieve a secure retirement and live comfortably after your working years does not end when retirement starts.

The quality of your lifestyle during retirement depends on:

- How much you have saved;
- What other income sources you can rely on;
- How long you are retired;
- How well and appropriately you invest during retirement.

YOU MUST CHOOSE ONE OR MORE INVESTMENT OPTIONS AT RETIREMENT SUCH AS:[17]

- Individual retirement accounts, often advised by Investment Advisors;
- Target-date funds (TDFs) that increase the fixed income allocation to lower portfolio risk as retirement progresses;
- Products that offer income guarantees such as annuities. While these products offer the comfort of a guaranteed income, they may impose significantly greater fees.[18]

You should compare your investment options taking into account your after-tax expected income from each and the expected income uncertainty. You may want to consider more than one retirement vehicle.

YOU MUST RE-EVALUATE YOUR FINANCIAL SITUATION PERIODICALLY IN ORDER TO HAVE A LOW PROBABILITY OF EXHAUSTING ALL YOUR FINANCIAL ASSETS DURING RETIREMENT:

- You must ensure your lifestyle is coherent with your financial capabilities;
- One way to help this process is to find a post-retirement calculator.

Sixty-five-year-old men and women in Canada have a life expectancy of respectively 19.1 and 21.7 years. Many retirees will live past the age of 90.

Most investors save during a period of 30 to 35 years to prepare for a retirement that will likely last 20 to 30 years. This may be the most important project you will ever undertake.

A CREDENTIALED FINANCIAL ADVISER CAN HELP YOU CHOOSE APPROPRIATE RETIREMENT PRODUCTS AND HELP ENSURE A SUSTAINABLE LIFESTYLE.

17 economist.com/news/finance-and-economics/21606894-many-retired-people-dont-have-proper-pensions-any-more-financial-services
18 cfainstitute.org/learning/investor/Documents/variable_annuities.pdf

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