# Planning for income to last a lifetime.

## Managing the five key risks to a financially secure retirement

If you are approaching retirement, or already there, you face an increasingly complex challenge – making your money last throughout your lifetime.

# A challenge for Canadians

Canada is about to experience a profound change, as the largest generation in our history – the 10 million baby boomers born between the years 1946 and 1965 – enters retirement. At the same time, those close to retirement face many uncertainties and risks.

The five key risks to achieving a secure income for your entire lifetime are:

- Longevity
- Inflation
- Asset allocation
- Excess withdrawal
- Health care expenses

In retirement, you have to rely on your pensions and savings to cover your expenses – and you can't know for sure how long you will need those savings to last. If they are not wisely invested or you withdraw too much money, those mistakes can be difficult to fix.

## What's your plan?

Where do you fit into the retirement picture?

Chances are, you already have at least some retirement savings.

- You may have an RRSP.
- You may be enrolled in a pension or other retirement plan provided by your employer or professional association.
- You may plan to sell your home to provide part of your income in retirement.
- You may be entitled to receive benefits under the Canada/Quebec Pension Plan (CPP/QPP) and Old Age Security (OAS).

But did you know that once you reach retirement, your financial goals and strategies undergo a major change?

Here are just a few facts you may need to think about:

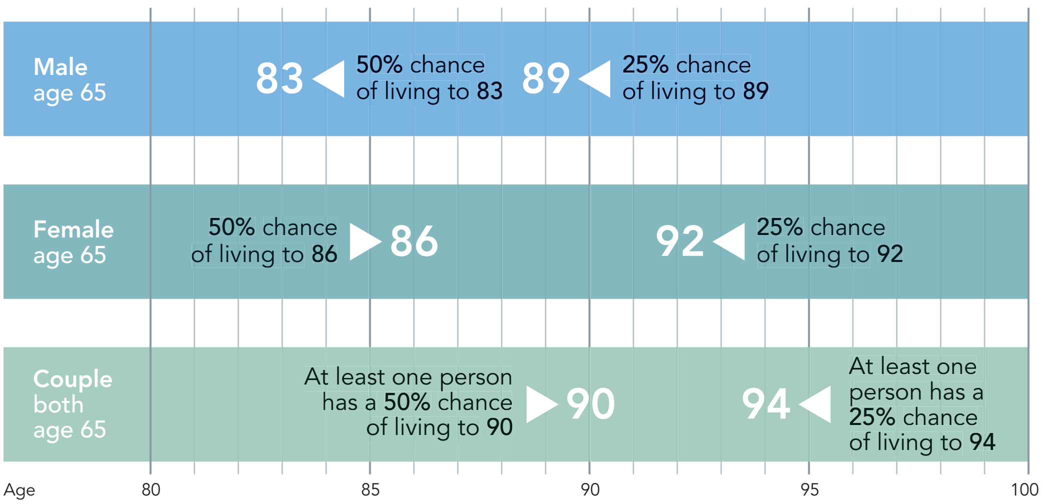
- Lifespans are increasing, so retirees need to plan for 20, 30 or even 40 years of retirement.
- A lower percentage of Canadians are covered by pension plans.
- More people will likely be relying on their own savings to fund their retirement.
- Individuals already cover some of their own health care costs, and these expenses may increase in the future.

# Longevity

A SUCCESSFUL RETIREMENT INCOME PLAN HELPS YOU ENSURE THAT YOUR ASSETS WILL last throughout your lifetime. That, of course, is predicated on estimating how long you are going to live. Based on today's higher average life expectancies, plus the possibility that an individual may live well past the average, investors need to plan for 20, 30, or even 40 years of retirement. If they do not, they run the risk of outliving their savings.

As the table below shows, a man who has reached 65 has a 50% chance of living to 83 and a 25% chance of living to 89. For a 65-year-old woman, those odds rise to a 50% chance of reaching 86 and a 25% chance of living to 92. The odds that at least one member of a 65-year-old couple will live to 90 are 50%. And there is one chance in four that one member of that couple will live to 94.

### Retirees need to plan for possible longer life expectancies



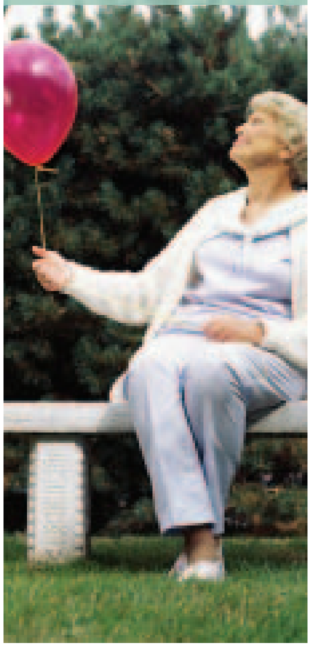

Source: Canadian Institute of Actuaries, UP-94 Projected to 2015.

### Challenge:

Many people underestimate how long they could live. As a result, they risk outliving their assets.

### What you can do:

When setting up your retirement income plan, allow for the possibility that you'll live longer than you expect.



# Inflation

INFLATION IS THE LONG-TERM TENDENCY OF MONEY TO LOSE PURCHASING POWER.
It impacts retirement income planning in two ways:

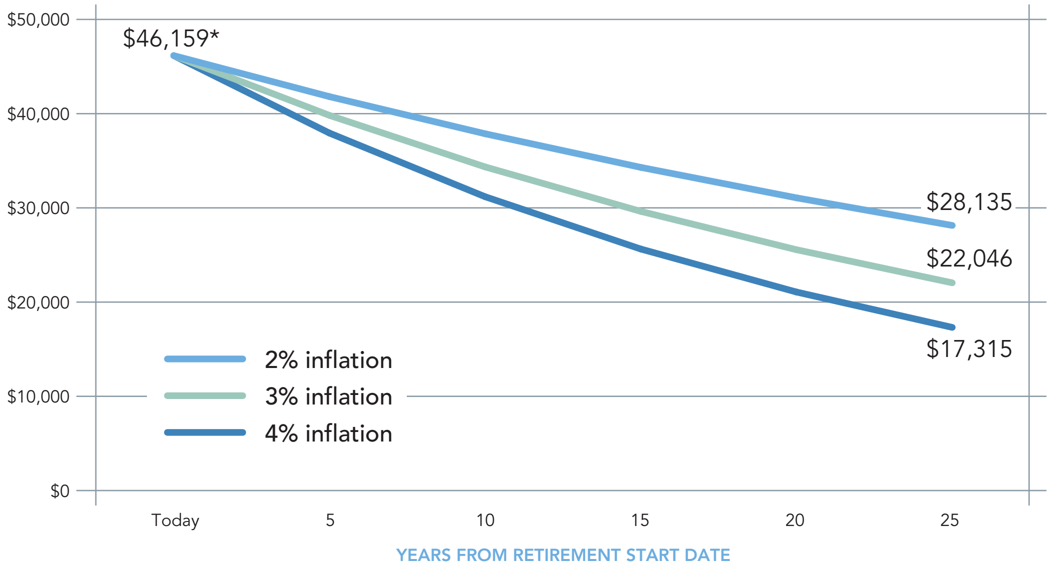
- Increases the future cost of goods and services
- Potentially erodes the value of assets set aside to meet those costs

Don't let recent low rates of inflation fool you. Even in the 1990s, overall costs rose more than 20%. In the last half of the 20th century, inflation eroded Canadians' purchasing power by about 90% – reducing a 1950 dollar to the equivalent of about 12 cents today.

Inflation, in other words, is the norm rather than the exception. As costs go up, the value of savings goes down.

As the graph below shows, even a relatively low inflation rate of 2% can have a significant impact on your savings and its purchasing power. If you started with about $46,000, 25 years later it would be worth approximately $28,000, a decline in purchasing power of 39%.

## Even low inflation can damage purchasing power




Source: Fidelity Investments

*$46,159 was the annual average expenditure for a household headed by an individual age 65+ from the Statistics Canada Survey of Household Spending in 2003 report. All other numbers were calculated based on hypothetical 2, 3, and 4% rates of inflation to show the effects of inflation over time; actual inflation rates may be more or less.

### Challenge:

Inflation increases future costs of goods and services and erodes the value of assets set aside to meet those costs.

### What you can do:

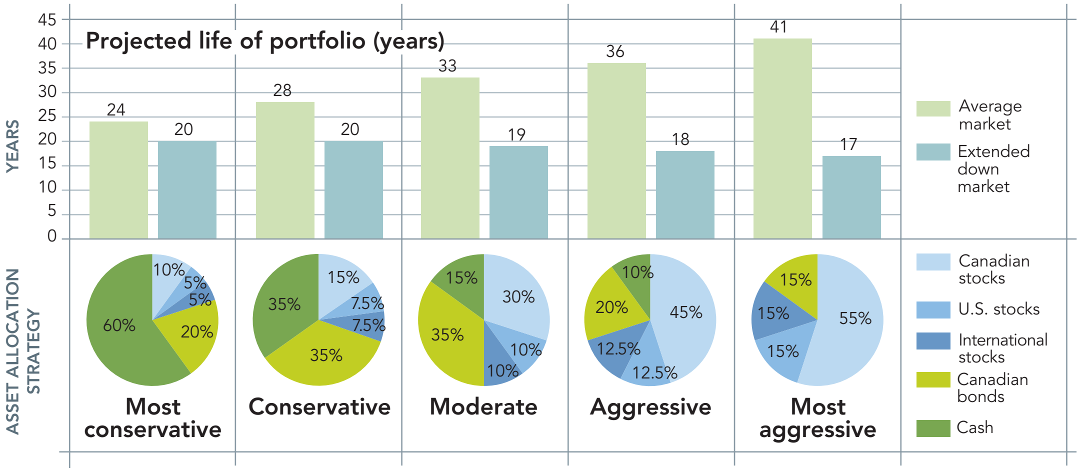
Include investments with the potential to outpace inflation in your long-term portfolio and investment plan.

# Asset allocation

WHILE THE STOCK MARKET CAN GO UP AND DOWN, OVER THE LONG TERM, STOCKS have tended to produce higher returns than fixed-income investments such as bonds and GICs. That's why people saving for retirement are usually advised to put a portion of those savings into stocks.

Even in retirement, you'll probably do best with a portfolio where your assets are allocated to a variety of different types of investments — neither all stocks, which can be volatile, nor all bonds, which mitigate some risk but may not produce the growth you need.

### The trade-offs of different allocation strategies at a 5% withdrawal rate




Source: Fidelity Investments.

Hypothetical value of assets held in an untaxed account invested in portfolios with asset mixes as indicated. A 5% inflation-adjusted withdrawal rate was applied. Average rates of return on Canadian stocks, U.S. stocks, International stocks, Canadian bonds and short-term investments are based on the risk premium approach. Actual rates of return may be more or less. A constant inflation rate of 2.25% is assumed; actual inflation rates may be more or less. This chart is for illustrative purposes only and is not indicative of any investment. Past performance is no guarantee of future results.

The graph above depicts how long a portfolio is likely to last, at a 5% inflation-adjusted annual withdrawal rate, given five different asset allocation strategies. It projects how long an investment portfolio will last under two different market conditions, an average market and a prolonged market decline.

For example, the most aggressive of the portfolios illustrated, composed of 85% stocks, may only last 17 years in a down market scenario, versus 20 years for a conservative portfolio. However, being too conservative may not allow a portfolio to grow enough to last for a lifetime. Under average market conditions, a conservative portfolio may only last 28 years, versus a projected 41 years for the most aggressive portfolio. A moderate portfolio appears to strike a balance between preserving capital during down markets and providing potential for continued growth during retirement. You should weigh all the risks together with your personal circumstances to help determine which asset allocation strategy you're most comfortable with and that best supports your objectives.

## Challenge:

Retirees need investments they can rely on to produce regular income. But these "safe" investments may not grow enough to keep up with inflation and provide income over the long term.

## What you can do:

Even in retirement, your best strategy may be to build a balanced portfolio that combines stock market investments with bonds and money market investments. The exact mix will depend on your individual circumstances.

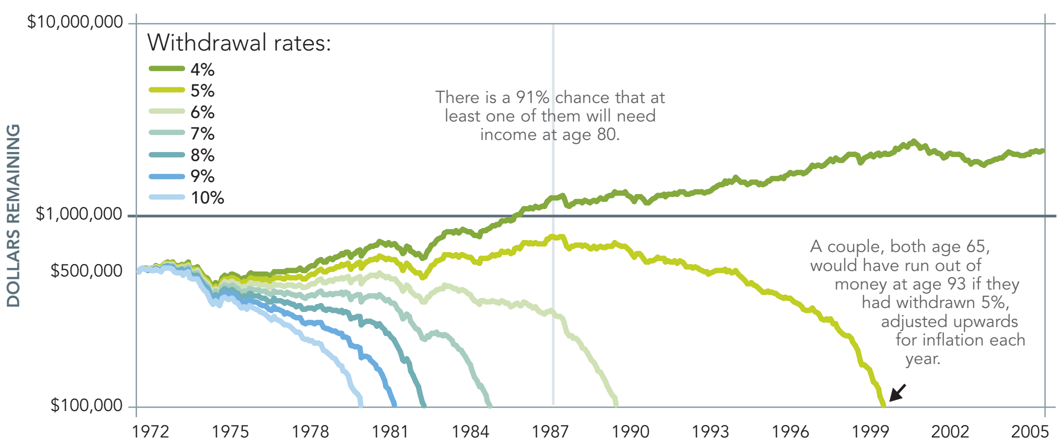
# Excess withdrawal

HOW MUCH YOU WITHDRAW OR SPEND FROM YOUR SAVINGS ON A REGULAR BASIS WILL dramatically affect how long those savings will last. The withdrawal rate you decide on can significantly shorten or lengthen the productive life of your assets. Until recently, many people in early retirement assumed they could afford to withdraw 7%, 8% or even more per year because of the high equity returns between 1982 and 2000. In fact, a more conservative inflation-adjusted withdrawal rate appears to be more sustainable.

The graph below shows how different withdrawal rates can affect how long a portfolio will last. In this example, a 65-year-old couple retired in 1972 with $500,000, which they divided up into a hypothetical portfolio of 50% stocks, 35% bonds and 15% short-term investments. If they took out 6% or $30,000 in the first year, and then adjusted upwards annually for actual inflation, the portfolio would have been depleted by 1990, when there was a good chance – 83% – that at least one of them would still be alive. But at a 4% withdrawal rate, the portfolio would have lasted and even have had room to grow, providing financial security for both spouses for the rest of their lives.

## Prudent withdrawal rates can extend the life of a portfolio

If you had retired in 1972 with $500,000




Source: Fidelity Investments.

Hypothetical value of assets held in an untaxed account of $500,000 invested in a portfolio of 30% Canadian stocks, 10% U.S. stocks, 10% International stocks, 35% Canadian bonds and 15% short-term investments with inflation-adjusted withdrawal rates as specified. This hypothetical illustration uses historical monthly performance from January 1972 through May 2005: Canadian stocks, U.S. stocks, International stocks and Canadian short-term investments are represented by S&P/TSX Composite Index, S&P 500 Index, MSCI EAFE Index, and the Scotia Capital 91-Day T-Bill Index, respectively. Canadian bonds are represented by Scotia Capital Universe Long Bond Overall Index prior to January 1980 and Scotia Capital Universe Overall Index from January 1980 forward. Probabilities of a couple surviving to various ages are based on UP-94 Projected to 2015 from the Canadian Institute of Actuaries. This chart is for illustrative purposes only and is not indicative of any investment. Past performance is no guarantee of future results.

### Probability that one member of a 65-year-old couple would survive

| Year | 1972 | 1977 | 1982 | 1987 | 1992 | 1997 | 2002 |
|---|---|---|---|---|---|---|---|
| Probability of survival | 100% at age 65 | 99% at age 70 | 97% at age 75 | 91% at age 80 | 76% at age 85 | 50% at age 90 | 21% at age 95 |

Cutting back your discretionary living expenses, taking on part-time work, and investigating strategies that will provide greater growth for your investments are all possible ways to minimize the amount you need to withdraw from your savings. You may be better off if you withdraw as little as possible in your early retirement years. Then, if your portfolio does well, you can withdraw more later on, when there is less risk that you will run out of money.

### Challenge:

Withdrawal rates much over 4% begin to increase the likelihood that you will run out of savings.

### What you can do:

Use a conservative withdrawal rate, particularly in your early years of retirement.

# Health care expenses

WHILE CANADA'S HEALTH CARE SYSTEM PROVIDES GOOD BASIC COVERAGE, SOME OF the items or services you may need or want in the future may not be included.

For example, close to half of retirees now turning age 65 will be admitted to long term care facilities at some point in their lives. Nearly 25% will stay there one year or more, and about one in ten will stay five years or more. Since the government pays only a portion of these costs, this can be a major expense. Other health care expenses that are covered only partially or not at all include nursing care at home, private or semi-private hospital rooms, or home renovations to deal with a disability.

Meanwhile there are concerns about the rising cost of health care. No one is sure how the issue will be resolved. But you should consider the possibility that, in the future, individual Canadians may pay more of their own health care costs.

If you are concerned about health care issues, you can put aside additional savings.

## Challenge:

While our national health care system provides coverage for basic medical needs, it does not cover everything. Individuals may need or want additional items and services. There is also some concern that individuals may have to bear more of the burden of health care expenses in the future.

## What you can do:

While health care expenses in retirement are hard to determine, they should be included in retirement planning. Extra savings and/or insurance may give you more choice in the future as well as peace of mind.

# Steps to a workable retirement income plan

With the help of your advisor, develop a formal, written plan for building up retirement assets and drawing down retirement income.

If you already have a plan, bring it out, rethink it, and revise it as needed to incorporate your understanding of the risk factors discussed here.

- Envision the retirement lifestyle you want.
- Identify your retirement expenses, and analyze which are essential and which are discretionary.
- Review the income, accounts, and other assets available to fund your retirement.
- Compare expenses to income. Earmark known or predictable assets to cover essential expenses, and assign less-predictable assets to fund discretionary expenses.
- Allocate your investment portfolio appropriately for your timeframe, your willingness to take risk, and your overall financial situation.
- Make sure that your portfolio is set up to help minimize any foreseeable or likely risks.
- Monitor your plan regularly – at least annually – with your advisor. An out-of-date or unrealistic plan is of no practical use in helping you achieve income to last throughout your lifetime.

# Your advisor and Fidelity are here to help

Like a good road map, a well-thought-out retirement income strategy may provide peace of mind and the confidence of knowing you are heading in the right direction.

Your advisor is in a unique position to provide his or her financial planning expertise to help you with your personal income planning needs. Fidelity's reliable support – with a broad array of mutual funds and years of investment management experience through all market conditions – complements your advisor's know-how to help you achieve your goals.

For important information about the methodology used for the various charts, please refer to Fidelity's *Viewpoint* report, "Lifetime income planning."

## Talk to your advisor about retirement income planning.

Read a fund's prospectus and consult your investment professional before investing. Mutual funds are not guaranteed; their values change frequently and past performance may not be repeated. Investors will pay management fees and expenses, may pay commissions or trailing commissions, and may experience a gain or loss. Reproduction in whole or in part by any means without the prior written consent of Fidelity Investments is forbidden.



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