RBC retirement income planning

Fundamentally different than accumulation

The dream of a lifetime

What does retirement mean to you? Take a moment to picture how you'd like to fill your days. Your ability to live the lifestyle you envision will depend largely on your ability to achieve financial independence during your retirement years. Which is why you've worked hard, saved and invested.

When it comes to funding retirement, for many years Americans depended on what is described as a "three-legged stool" consisting of Social Security, an employer pension, and personal savings and investments. However, with fewer people covered by a pension, and uncertainties regarding the future of Social Security, the new retirement income analogy might be: "standing on your own two feet."

In fact, according to a recent study conducted by the Social Security Administration, the number one source of retirement income for more than 60% of individuals 55 or older and earning $55,889, or more, is from their own savings and investment accounts.[1]

What can you do?

With much of the responsibility for funding retirement shifting to your shoulders, generating a steady stream of income for the rest of your life may be a top priority. To feel more confident about your financial future, crafting a retirement income plan will help you prepare for success.

What is retirement income planning?

Retirement Income Planning is more than just doing a retirement plan. Retirement plans are done using projections based on averages. Average returns, average inflation, average expenses, average tax rates and average life-expectancy. However, we know that no one will live an average retirement.

Retirement Income Planning is a process to help create your retirement income that anticipates deviations from the "averages", helps build assurances for income and expects adjustments will be made along the way.

Plan to address retirement risks

When your objective becomes a predictable retirement income, protecting assets on the downside becomes more important than out-performing on the upside.

Therefore, when you are investing during retirement you may be challenged by a set of risks you may not have experienced during the years when you were saving for your retirement. These risks include:

Longevity

- A couple age 65 has a 47% chance that one will live to age 90 and 20% chance one will live to 95.[2]

Inflation

- A 3% inflation rate will reduce the purchasing power of $50,000 to $23,880 in 25 years.

Market

- **Sequence of returns —** Low or negative returns, especially early in retirement, can be detrimental to your portfolio.
- **Volatility —** Having to sell when markets are down can pre-maturely deplete your portfolio.

Health care

- On average, a 65-year-old couple will need $245,000 to pay for medical expenses throughout their retirement, not including nursing home or long-term care.[3]
- Health care costs have been rising faster than the rate of inflation, averaging 4% - 5% annually.
- For couples over age 65, there is a 70% chance one partner will need long-term care.[4]

Plan to address retirement choices

As you plan your retirement income, the choices you make play an important role in your financial security.

- **Social Security —** When should you and/or your spouse begin claiming benefits and what are some strategies you may use?
- **Medicare decisions —** What's right for your health care needs and financial circumstances?
- **Spending —** Which expenses are living (essential) and which are lifestyle (discretionary)? How much should you set aside for unexpected or emergency situations?
- **Portfolio —** Your portfolio needs to

go from just growing your assets to creating both income and growth while protecting from market risks.

- **Tax considerations —**
  Investment Selection: The types of stocks and bonds you choose will have an impact on the taxes you pay.

  Asset Placement: The type of account that you place certain investments can make a difference in how much you earn, after-tax.

  Managing Distributions: Which accounts should you take distributions from first?

  - Having guidelines to harvest income, sell assets with positive returns first, use cash next and try to avoid selling assets that are down, while maintaining the overall asset mix.
  - Best results come from withdrawing funds in a manner that produces the most favorable overall income tax consequences, not just for the current year, but over a lifetime.
- **Employer plans and pension —** Should you take a lump sum distribution, rollover your account to an Individual Retirement Account or receive pension payments?
- **Emotions —** Having strategies to avoid selling low and buying high.
- **Withdrawal rate —** Although there has been recent debate, academic studies have found a 4% initial withdrawal rate has been sustainable over 30-year rolling periods through the worst markets we've experienced since 1926. *e.g. $100,000 x 4% = $4,000/year*

Plan to seek professional assistance

If you are near retirement — or have already retired — you have many considerations to balance. Your financial advisor can help you create a retirement income plan that is customized for your unique needs and is periodically measured, thoughtfully evaluated and methodically revised as your life changes.

Now is the time to prepare

Gain confidence in your financial future. Contact your financial advisor today. He or she can guide you through the retirement income planning process and help you put your plan into action — to produce a reliable, steady stream of income during retirement.

RBC Retirement Income Planning® Process

At RBC Wealth Management, we believe helping you manage your wealth to produce an income during your retirement is fundamentally different from helping you manage your wealth while accumulating assets for your retirement. So we have developed a retirement income planning process to efficiently manage the risks and choices you will face in retirement.

Step one: Analyze your retirement needs

- Determine retirement goals and identify income sources.
- Do you have sufficient income and assets to fund retirement?

Step two: Build a foundation

- Determine the gap between your assured income and living (essential) expenses.
- Do you want to create a "Personal Pension" that will continue as long as you live?

Step three: Establish a withdrawal strategy

- Have a strategy that creates your retirement income to cover your lifestyle or discretionary expenses.

Step four: implement products & solutions

- Design a portfolio that will balance the income needed today and throughout your lifetime, with the need to grow and protect your investments.

Step five: Review and monitor your progress

- Understand why you are ahead of plan or behind plan.
- Have strategies to adjust your spending and employ rules to harvest from your portfolio as needed.

[1] Source: Social Security Administration, "Income of the population 55 or older, 2008," April 2010, based on highest quintile of $55,889

[2] Social Security Administration, Period Life Table, 2011 (published in 2015), J.P. Morgan Asset Management

[3] Fidelity's Retirement Income Planning White Paper

[4] Longtermcare.gov, U.S. Department of Health & Human Services, 2017

RBC Wealth Management does not provide tax or legal advice. All decisions regarding the tax or legal implications of your investments should be made in connection with your independent tax or legal advisor.