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2019

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RETIREMENT READY

THE ULTIMATE RETIREMENT GUIDE MAGAZINE FOR BRITISH COLUMBIANS

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BEYOND BONDS

COLLIN ZWICKEL | Rising interest rates are lowering the value of existing bonds, which have been a traditionally conservative strategy for wealth preservation

If you're a buyer of bonds in your portfolio, it is important to look at the maturity term of bonds as the Bank of Canada has signalled there will be more interest rate hikes beyond 2019

This timely advice is for individuals retiring soon and those who are already enjoying the golden years: having a proper plan in place leading up to retirement allows the mind to rest easy and, hopefully, benefit from some tax savings along the way.

As we live longer and the investment landscape has become more challenging, it is increasingly important to understand where you and your wealth tie into the equation.

While it's a blessing for most of us, a longer life also presents challenges. Outliving retirement savings is one – and it's the greatest fear of pre-retirees. Health problems are another: out-of-pocket medical costs are estimated at $5,400 annually after age 65 – and are likely to keep rising. This means that aging Canadians require their investment portfolios to support longer life spans while generating cash flow to cover potentially increasingly higher living costs.

For many years, a key investment-planning question was, "When do you plan on retiring?" Towards the end of your time horizon, you would gradually ratchet down risk, eventually transferring to assets with little to no risk, such as guaranteed income certificates and bonds. The presumption being that, once you hit retirement, you couldn't afford to take any risk, as you would need your savings to fund your retirement.

This strategy made more sense when the average Canadian retired at 65 and was likely to live for only another five to eight years. But a new approach is required with Canadians today retiring on average at 63 and living into their 80s and 90s – and an increasing number to age 100 and beyond.

Fortunately, longer lifespans mean longer investment time horizons, allowing today's retirees to take advantage of the long-term growth of equities to meet their wealth preservation and income needs. Whether or not you live to 100, considering the odds and planning ahead can help ensure that your golden years are just that.

FLOW AND FOCUS ■ Today, your retirement portfolio should ideally focus on two things:

- a tax-efficient cash flow for a well-funded retirement lifestyle; and
- a prudent combination of capital preservation and growth to maintain the long-term value of your portfolio through your golden years, while also offsetting the ravages of inflation.

Remember the early 1980s when interest rates were 18 per cent? Over the past 30-plus years, interest rates have been trending lower until bottoming in the last decade. It's only in the last few years we've really seen rates start to trend higher in a real way.

So why does this matter to retired individuals? It's simple – as interest rates rise, the prices of existing bonds tend to go down. So that conservative portfolio of 70 per cent bonds that has worked so well over the last several decades has got hit the hardest over the past few years. If you're a buyer of bonds in your portfolio, it is important to look at the maturity term (or length) of bonds as the Bank of Canada has signalled there will be more interest rate hikes beyond 2019.

TRUSTS AND SUCCESSION ■ According to the National Association of Corporate Directors, fewer than one in four private company boards says it has a formal succession plan in place.

Trust structures, however, are popular planning vehicles and can be implemented during your lifetime or under the terms of your final will and testament. Different trusts can allow control over assets while passing on the beneficial ownership. If you're over 65 years of age, "alter ego" trusts can be a great way to shift ownership without potentially being hit with a tax bill. If you're looking to sell your business, using the lifetime small-business capital gains exemptions, tying in family members, may be of benefit.

With the federal tax changes, business owners are increasingly looking for corporate tax deductions. Individual pension plans allow business owners to transfer cash from the company to a personal pension plan, which can defer tax.

Having a financial plan that ties into a portfolio with purpose and direction is key. The term "wealth management" gets thrown around a lot these days: it is important to understand what this actually means and how this relates to your specific plan.

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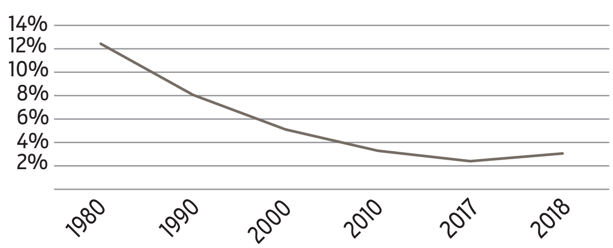
AVERAGE BOND YIELDS

U.S. 10-year yield



The bond rate, based on the 10-year U.S. Treasury rate, increased marginally from a year earlier in 2018 for the first time in more than 30 years.

SOURCE: RBC DOMINION SECURITIES