Richard Rand's

Random Views

"Simplifying All The Financial Needs of Busy Families"

Wealth Management
Dominion Securities

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Rand Wealth Management

RBC Dominion Securities Inc.

Richard Rand
Investment Advisor
richard.rand@rbc.com
604.665.8117

Pearl Lui
Associate
pearl.lui@rbc.com
604.718.3881

401-5811 Cooney Road
South Tower
Richmond, BC
V6X 3M1
Reception: 604.718.3000
Fax: 604.718.3050

Rand Wealth Management – May 2018

For the past 17 or so years, we have been wealth planning using a variety of means which have included our "Family Snapshot" and "Compass Financial Plan". We are pleased to now introduce myGPS™ as the foundation to the advice and support that we provide for our clients. The myGPS™ report is a financial projection providing an overview of your current net worth and cash flow situation. It uses your current situation to project your financial retirement and estate planning needs, while identifying wealth opportunities and proposing solutions on how to pursue them.

We have found over the years that with having this foundation of a Wealth Plan, that both our clients and ourselves are reading from the same page and even though it is hard to live with the ups and downs of the markets and with what life brings, the journey is less stressful and more manageable with a Wealth Plan in place. Also, we have the benefit of having in house experts to draw upon for their help and advice while the plan is being constructed and implemented, as well as when we are reviewing and making changes to the overall plan. But as with any good long term document (such as your Will, Power of Attorney, mortgage), the Wealth Plan should be updated with any major life or financial events and reviewed annually to make sure that your goals and current situations are still relevant and attainable.

If you have not already taken advantage of this planning service with us, we would love to hear from you and setup a meeting to explore this in more detail. Or if you have already have a Wealth Plan in place and would like to set up a time to review yours, please call or email us soon to setup a convenient time to meet.

Please visit us at our new website: http://ca.rbcwealthmanagement.com/richard.rand

Today's Chuckle:

An Investment in knowledge always pays the best interest

Benjamin Franklin (1706-1790)

Why do retirees fear taking CPP late?

FREDERICK VETTESE
SPECIAL TO THE GLOBE AND MAIL
PUBLISHED APRIL 17, 2018

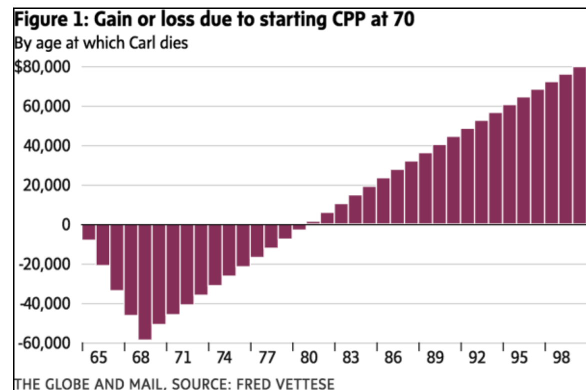
Most retirees say their biggest fear is outliving their money. One wouldn't know it, though, from the way they convert their savings into income. Retirees are loath to take advantage of certain strategies that would guarantee substantial income for life. In particular, few people like the idea of buying an annuity and fewer still wait until 70 to begin collecting their Canada Pension Plan benefits.

So what is going on? Of all the possible explanations for why people don't act in their best interests, the most likely perhaps is that an even greater fear lurks beneath the surface: the fear that they will leave money on the table in the event of early death.

Unfortunately, acting on that second fear doesn't always lead to the best outcome. Consider Carl and Hanna, who are both turning 65. Like most new retirees, they want to scoop up as much government money as they can in case one of them dies early. Their goal is to maximize the value of Carl's CPP entitlement. That value is the sum of all the CPP pension cheques Carl actually gets during his lifetime plus the value of the survivor pension that CPP would pay to Hanna. (For the sake of simplicity, I'm assuming Hanna will outlive Carl.) Let's say Carl's CPP pension starting at 65 is $1,000 a month and Hanna's is $700. If Carl dies a year after retiring, he will have received 12 CPP cheques for a total of $12,000. In addition, he is passing along a survivor pension to Hanna equal to 60 per cent of his CPP pension or $600 a month (plus inflation).

The trouble is that this survivor pension plus Hanna's own CPP pension exceeds the maximum annual amount that CPP will pay to any individual. Some complicated CPP combination rules come into play that end up reducing Hanna's overall pension entitlement. In spite of that, we still find that the value of Carl's entitlement is greater if CPP starts at 65 rather than 70 assuming Carl dies a year after retirement. In fact, starting CPP early is the better choice if Carl dies at any time up to age 80.

This of course is exactly why people don't like to start their CPP late, but we're not finished yet. If Carl dies after 80, then the better strategy is to have started CPP at 70 instead of 65 and the gain from doing so grows with every succeeding year. The gain or loss due to starting CPP at 70 rather than 65 is shown in Figure 1.



Based on Figure 1, the question of whether to take CPP early or late seems to be practically a tossup. We can expect that if this chart were the only information to go on, then people who are predisposed to take CPP early will do so.

Figure 1, however, is incomplete. The gain or loss at any age is useful information only if one knows the probability of that gain or loss materializing. We therefore have to weigh each gain or loss by the probability of it happening.

To understand this concept, consider a simple example. Let's say you win $100 if you can correctly name the winner of the Stanley Cup. You can choose the Maple Leafs who have maybe a 10-per-cent chance of winning it or you can choose the Nashville Predators whose chances of winning are closer to 30 per cent. The prize is the same $100 in each case but as much as you might like the Leafs, the Predators are the smarter choice. In mathematical terms, the expected value of your Leafs bet is $10 (10 per cent of $100) whereas the bet on the Predators has an expected value of $30.

We can do the same thing with choosing whether to start CPP early or late. We can multiply the possible gain or loss at each age by the probability of death at that age. When we do that, we see the expected losses due to starting CPP at 70 are much smaller than the expected gains. This is shown in Figure 2.

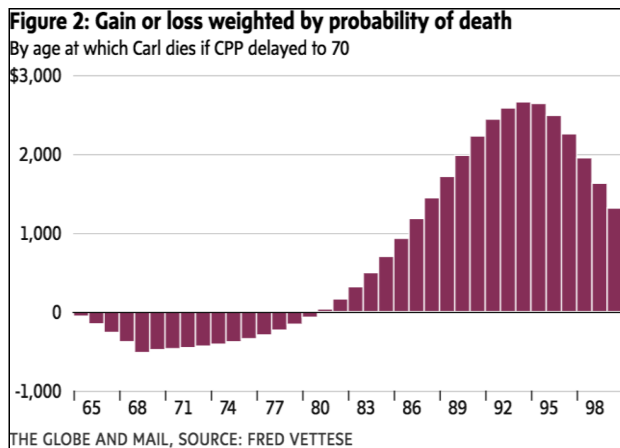


Figure 2 also tells us is that there is always the possibility of leaving money on the table no matter what you do. It can happen if you delay CPP until 70 and die young and it can also happen if you take CPP early and die much later on. Just remember that the odds of dying young could be smaller than you might think. The probability that a man age 65 will die by 80 is just about one in five. For a woman, it is even lower.

Of course, Carl might have had a heart condition, which would have increased his chances of dying before 80. But this is not the typical situation. Studies have shown that people routinely overestimate the probability of dying young, which is why they tend to favour starting CPP early. This is probably owing to the power of anecdotes versus statistics. Knowing one person close to you who has died young is more compelling than some dry statistics based on thousands of deaths.

Unless you have very good reason to think your own situation is special, it is probably better to start your CPP at 70. If you start CPP early and live an average lifetime, you're leaving more money on the table than you think.

FREDERICK VETTESE IS A PARTNER AT MORNEAU SHEPELL. HE IS ALSO THE AUTHOR OF RETIREMENT INCOME FOR LIFE: GETTING MORE WITHOUT SAVING MORE.

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Richard's Corner
Upcoming Community Events

Around Town:

Vancouver International Children's Festival	May 28 to June 3 Granville Island
Playland at the PNE	May 5 to September 16 Pacific National Exhibition
Bard on the Beach Shakespeare Festival	June 6 to September 22 at Vanier Park
Vancouver Italian Day on the Drive	June 10 from noon till 8 pm

Something Local:

Richmond Night Market	May 11 to October 8 8351 River Road
Steveston Farmers & Artisans Market	May 6 &20th 10:30 am to 3:30 pm

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