

On the hunt for a sure bet

Baby boomers seek the holy grail: a guaranteed payout with no risks

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Emilie Synott has always been an adventurous investor.

Putting money into RRSPs through her company's group retirement plan over the past 30 years, she tended to "live dangerously," with a mix of high-yielding investments in her nest egg that, while balanced, come with some risk.

The results have been good. "I've got a nice little sum in there," says the office manager of a Calgary country club. Now 65 and planning to retire and start drawing on the funds in 18 months, Ms. Synott is looking to maximize her portfolio.

At the same time, she wants to make sure she isn't exposed to serious slumps in the market that could eat into principal.

"I've done really well, I just hope it's not going to go really bad - and in a year and a half I don't want to have any risk at all," she explains.

Ms. Synott is like many people looking for safe-yet-profitable investments as they approach or begin retirement.

Chastened by downturns in the early part of the decade that knocked the stuffing out of some retirement savings, they nonetheless want to get decent returns to counter inflation or even see their savings grow.

"Everyone is looking for that perfect investment with the high rate of return that is perfectly guaranteed," says Sterling Rempel, a certified financial planner at Quadrus Investment Services Ltd. in Calgary.

As an increasing number of investors -- especially aging baby boomers -- graduate from accumulating to drawing on retirement income, they are particularly looking to protect their capital. From GICs and high-interest money market funds to Manulife Investment's new guaranteed minimum-withdrawal benefit plan, the first of its kind in Canada, such products also raise the issue of how investors can tap into assets so they don't run out of money too soon.

Manulife's Income Plus, introduced in October, provides a guaranteed income stream through the retirement years, with potential for capital appreciation and the benefits and returns of a segregated fund.

Investors in Income Plus receive their principal back through regular payments over a 20-year period, and capture the upside potential of investments in a range of segregated funds through a mechanism that locks in a "guaranteed withdrawal balance," with a reset every three years.

Investors who delay their regular withdrawals receive a 5-per-cent increase each year, to a maximum of 10 years, for a minimum income bonus of up to 50 per cent, regardless of how the market performs.

Mr. Rempel says the growing interest in such products points to a shift in thinking toward "retirement income planning."

He says many people want "guaranteed investment alternatives" but warns that those looking for sure bets may be taking on a risk they are not aware of.

The lower rate of return that comes with the peace of mind of certainty like that will reduce their buying power over time, he points out. "Your money may not purchase what it needs to purchase in the future."

An investment product should be examined to see whether it provides value to the investor, how much it costs, how complex and flexible it is, and what the inherent risks are.

It is equally important to consider the investor's longevity, required income and risk tolerance.

"If you fail to plan, you plan to fail," says Graeme McPhaden, a certified financial planner in Toronto. His clients approaching or just starting retirement are "concerned about preserving their capital and having enough income to do what they want to do."

Through professional advice, investors can "make sure they are on track and stay on track," Mr. McPhaden says. "Once you retire, what you've got is what you've got."

He suggests that investors looking for security consider regional or specialized guaranteed investment certificates and principal-protected notes.

Other possibilities include guaranteed bonds such as those issued by governments, although they require high minimum investments.

Variable annuity products such as Manulife's Income Plus come with limitations -- such as their specified accumulation and payout phases -- and can often come at a premium.

Clarington's Target Click mutual funds provide the returns of a balanced portfolio while guaranteeing (at the scheduled maturity date) the highest month-end price achieved over the entire lifespan of the fund.

The key is diversification, Mr. McPhaden adds, "to hedge your bets against what might happen."

A balanced portfolio for investors looking toward retirement should include about 40 per cent fixed-income products and 60 per cent equities, Mr. Rempel says, diversified by asset class, geography, management style and company size.

In the fixed category, one possibility is a "laddered GIC," where investors stagger their deposits in a series of GICs so that a portion comes due each year, with the principal and accumulated interest in each reinvested as it matures.

A prudent approach immediately before retirement is to maintain one to two years' worth of income in money market funds or high daily-interest accounts, a "safe harbour" that can offset the impact of a market decline, Mr. Rempel suggests. "If the rest of your capital is subject to a drop you have a better chance of weathering a storm."

Dan Richards, a Toronto marketing consultant to the financial industry, says investor attitudes toward risk have been shaped by the dramatic downturn in the stock market at the start of the decade.

"People are still talking about how they were burned by Nortel and tech mania and so on," he says. "That's stayed."

Many people are grappling with the realization that accomplishing their goals in retirement means investing in products that are "relatively volatile," Mr. Richards says. This "contrast in impulse" is leading to new types of investments that have "upside return with cushioning of risk on the downside."

Manulife's Income Plus adds a new possibility for those transitioning into retirement, says Roy Firth, executive vice-president of Manulife Investments.

The insurance product represents "the best possible solution and investment protection when it's needed the most," he says. "There's substantial upside potential."

A study commissioned by Manulife by Moshe Milevsky at York University's Schulich School of Business and Thomas Salisbury of York's department of mathematics and statistics found that the five to 10 years before and immediately following retirement - the "retirement risk zone" - are critical.

Product allocation in this period determines investors' success in the payout phase so they don't outlive their investment portfolio, the study found.

A product such as Income Plus offers protection from the sequence of returns by providing guaranteed monthly payments regardless of at what point an investor decides to retire in the market cycle.

It also provides the potential for increasing income while allowing for flexibility and control.

But the product is not necessarily right for more aggressive investors who are going to require more than 5 per cent of their total invested capital each year.

Investments in the fund tend to be generally more conservative; the required minimum investment is \$50,000 and management fees associated with such guarantees are higher than with other products.

Manulife expects that more such products, which are selling briskly in the United States, will come forward in Canada.

Mr. Firth suggests that investors approaching retirement consider putting 25 to 50 per cent of their savings into Income Plus, as "one more tool" in their portfolio.

Safe savings options

Here's a look at some of the many guaranteed-income products and investment alternatives on the market:

Short-term deposits

High daily-interest savings accounts

Guaranteed investment certificates

Guaranteed investment options through insurance companies

Money market funds

Premium money market funds (for higher amounts)

Segregated funds with maturity and death-benefit guarantees

Principal-protected notes

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