



Retirement is a much more dynamic process than it used to be.

We tend to work longer, live longer, and have considerably more complex investment and estate planning needs.

This issue of Exchange looks at three strategies that can help you make the most of the new retirement reality.

## Planning for the New Retirement Reality

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Perceptions about retirement have been changing. Longer life expectancies, greater wealth accumulation, and the relatively new concept of “semi-retirement” have all contributed to this change. As a result, perceptions about your planning strategies are no longer the same either.

The following are three key planning opportunities that should be considered by anyone who plans to retire within the next 10 to 15 years:

1. Retirement income strategies
2. Protection from the risk of health care costs
3. Estate maximization strategies

### OPTIMIZE YOUR RETIREMENT INCOME

Perhaps the biggest retirement question we face is, “Will I have enough?” Most of us want to know that we’ll have a steady base level of retirement income that won’t run out too soon, even if we live to see our hundredth birthday. A Life Annuity is one way to guarantee just that.

With a Life Annuity, you place an up-front deposit with an insurance company, and they pay you a series of regular, guaranteed payments for the rest of your life. You can decide how much of your capital to “annuitize” in order to achieve the base level of income you need, then invest the rest of your assets to generate as much supplemental income as possible.

Although a Life Annuity can significantly enhance the income you derive from your assets, it does not have any residual value when you pass away. However, you can still leave a legacy to your loved ones by adding life insurance to the mix. This strategy is called an Insured Annuity, and it’s popular because it allows you to enjoy guaranteed income for life, with a return of principal upon death. In fact, the tax efficiency of this strategy can enhance both your base level of income during retirement and the amount your beneficiaries ultimately receive.

### HOW THE INSURED ANNUITY STRATEGY WORKS

GIC at 4%	Monthly Income	Insured Annuity
\$500,000	Capital Investment*	\$500,000
\$1,667	Cash Flow	\$2,431
\$1,667	Taxable Income	\$948
\$667	Taxes Payable at 40% Rate	\$379
N/A	Insurance Premiums	\$446
<b>\$1,000</b>	<b>Net Income</b>	<b>\$1,606</b>

\* Annuity payments will not cover initial premium requirements. Assumes 60 year old couple, non-smoking. Rates will vary.

## PROTECT AGAINST HEALTH CARE COSTS

One of the great advantages of modern technology is that it's allowing more people to survive once-fatal medical conditions. However, the unfortunate reality is that many survivors must bear a heavy financial burden for things like medical treatment outside Canada, or ongoing care at home or in a facility.

A longer retirement increases the risk that, at some point, you'll require significant financial resources in order to maintain your health and quality of life. Fortunately, there are two insurance solutions that can help.

Critical Illness (CI) insurance can provide you with a tax-free lump sum if you are diagnosed with a covered medical condition, such as heart attack, stroke, or cancer, among others. Premiums are reasonable, and this type of coverage could prove invaluable if a serious illness strikes.

Long Term Care (LTC) insurance specifically addresses the costs associated with receiving care at home or in a facility. With facility costs that can run several thousands of dollars per month, this type of protection can ensure quality care without placing undue pressure on family members.

## COMPARING TWO ESTATES

The following illustrates how an estate reallocation strategy can help maximize the value of an estate (reallocation of \$50,000 per year for a 10 year period).

	GIC (4%)	Estate Reallocation Strategy
Base Insurance Death Benefit	\$0	\$1,000,000
Estate Value* at age 85	\$917,542	\$2,153,043
Internal Rate of Return	2.40%	5.84%

Assumes 55 year old couple, non-smoking at 40% tax rate. Rates and death benefit will vary based on personal situation.

\* Value payable at death.

## MAXIMIZE THE VALUE OF YOUR ESTATE

Once you're confident that your income and health care needs will be met in retirement, it's time to address the long-range issue of estate planning. Generally, this involves strategies that can help you minimize estate tax and maximize the amount of wealth that is transferred to the next generation.

Once again, life insurance offers a unique solution. When you invest in a Universal Life or Participating Whole Life policy, your investments are exempt from accrual taxation during your lifetime, and the death benefit that's paid to your beneficiaries is tax-free.

In essence, these insurance policies permit you to reallocate assets that are currently fully-taxable (such as

GICs, bonds or cash) into a more tax-efficient form. You benefit from continual insurance protection, a reduction in your ongoing tax liabilities, and potentially significant increase in the after-tax value of your estate.

## EMBRACE THE NEW REALITY

Chances are, your retirement will be longer and more dynamic than your parents' retirement. However, this new reality indicates an increased need for prudent financial planning. Your ScotiaMcLeod advisor works with teams of insurance experts who can help you experience all the joys of retirement, while managing the financial risks.

### Reflections

*"Change is the law of life. And those who look only to the past or present are certain to miss the future."*

- John F. Kennedy



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