RBC retirement income planning process

Create income for your retirement

Wealth Management

At RBC Wealth Management, we believe managing your wealth to produce an income during retirement is fundamentally different from managing your wealth while accumulating assets for retirement. This is why we have developed a clear and disciplined process to efficiently manage those distributions for a long and prosperous retirement.

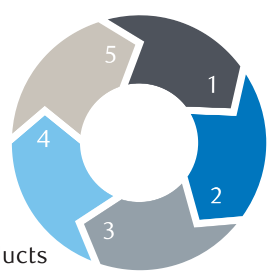
What to consider

If you are near retirement—or have already retired—many complex issues may be on your mind, including:

- Decisions relating to managing distributions from your retirement savings, Social Security and managing health care expenses
- Understanding the effects market performance may have on your assets—as well as the impact inflation has on your spending power
- Balancing your current income needs with the risk of running out of money tomorrow

What you can expect

Your financial advisor will guide you through our five-step process designed exclusively for retirement income planning and help you through the risks and choices all retirees face. Together, you can implement strategies customized for your specific financial objectives—using our broad range of world-class investment and cash management products and solutions.



Step 1
Retirement analysis

Step 2
Build a foundation

Step 3
Withdrawal strategy

Step 4
Implement products and solutions

Step 5
Periodic review

Investment and insurance products offered through RBC Wealth Management are not insured by the FDIC or any other federal government agency, are not deposits or other obligations of, or guaranteed by, a bank or any bank affiliate, and are subject to investment risks, including possible loss of the principal amount invested.

Step 1: Analyze your retirement needs

One of the biggest challenges of retirement income planning may be simply getting started. There is much to think about. What are your income sources? How much income do you need? When should you take Social Security? The list goes on and on. We will help you answer these questions and gather the necessary information to create your retirement income plan. This includes helping you to identify the expenses you see as living (essential) and those expenses that are lifestyle (discretionary).

Step 2: Build a foundation

In retirement, your investment goals shift from maximizing wealth for some far-off retirement date to having an income that you cannot outlive. Your financial advisor will first help you determine the gap between your living expenses and your assured income. Then they will help you decide how much of that gap you want to cover. Think of this as similar to creating your own personal pension.

Step 3: Establish a withdrawal strategy

Your financial advisor will help you choose a withdrawal strategy for your assets not allocated to your foundation. This portfolio can be used to cover lifestyle expenses, wealth transfer goals and unexpected expenses that may arise. There are numerous strategies that can be used, some with more assurances than others. You may only need a strategy that distributes the income your portfolio generates or you may need one that distributes income plus a return of principal. Your financial advisor will implement a strategy that is suitable for your retirement income and wealth transfer goals and feelings about risk and return.

Step 4: Implement products and solutions

Once the best approach is determined, your financial advisor will design a portfolio around your situation that incorporates results from the first three steps. The portfolio will take into consideration market conditions now to create an approach that will balance immediate and long-term income needs with investment growth and protection.

Step 5: Review your progress

Life is constantly evolving, therefore your income needs and goals will change over time. Also, it is unlikely your spending and portfolio returns will be exactly as projected. The good news is your retirement income plan can change right along with you. Your financial advisor will review your retirement income plan to address your changing needs and make any necessary adjustments along the way.

Take steps toward the retirement you want

Your financial advisor has the expertise, tools and resources to help you create a plan for your retirement—and how you want to live it. Together you can evaluate the sensitivities of your plan, and determine retirement strategies and solutions that are appropriate for your unique dreams, investment philosophy and financial circumstances. Your retirement is too important to be left to chance. Contact your financial advisor for assistance with planning your retirement income today.

Step 1: Analyze your retirement needs

The purpose of the first step is gaining a thorough understanding of what makes your retirement and financial life unique. And the pay-off is having the information necessary to plan effectively.

Identify what you envision

Retirement may mean many things to you: time for favorite hobbies, leisure pursuits, travel and personal enrichment; time to support causes important to you; and time to spend with the people you care about and to create the legacy by which you will someday be remembered.

Your financial advisor will help you prioritize your personal lifestyle goals and set realistic expectations about how you may achieve them financially.

Determine the parameters of your retirement

While your financial advisor must explore a variety of important questions related to your ability to create income in retirement, they can help make finding the relevant answers a manageable experience for you.

They will work with you to document your resources:

- What investments do you currently have?
- How much will your Social Security benefit be and when is the best time to begin taking it?
- Do you have other sources of income (pension, rental income, inheritance, reverse mortgage, etc.)?

They also will help you identify your retirement income needs by categorizing your expenses into:

- **Living expenses** — Basic living expenses that must be covered such as food, clothing, shelter, health care and utilities.
- **Lifestyle expenses** — Expenses

that may be considered above and beyond your basic living expenses. Perhaps these are the "wants" of your retirement years, such as travel and entertainment.

In addition you should plan for unexpected expenses that may arise and for wealth transfer goals.

A key consideration: sustainability

An important factor in determining your success in retirement is your withdrawal rate, which is the percentage of income withdrawn from your portfolio. For example, if you have a $1 million portfolio, and you withdraw $40,000, your withdrawal rate is 4% ($40,000 divided by $1 million.)

In retirement, you want to increase the probability of not running out of money or more importantly, income. So, it is critical to choose a sustainable withdrawal rate. You will need to determine what length of time you want to plan for: 15, 20, 30, 35, 40 years and what probability of success you are comfortable with.

There have been numerous studies done on this subject using either Monte Carlo simulation or historical returns. They generally point to a 4% initial withdrawal rate if you are planning for a 30-year retirement and want a 90%+ chance of success. Shorter horizons and lower probabilities can increase the initial withdrawal rate.

The following table summarizes the results of an influential paper written by professors at Trinity University. Full results can be found in the RBC Wealth Management fact sheet and white paper, "Choosing a sustainable withdrawal rate."

Probability of maintaining a positive portfolio balance

Planning horizon	Withdrawal rates | Success rates 4%	5%	6%
40	86%	42%	16%
35	96%	56%	31%
30	100%	68%	43%
25	100%	85%	58%
20	100%	99%	79%
15	100%	100%	100%

Portfolio consisting of 50% stocks and 50% bonds

Source: The "Retirement Savings: Choosing a Withdrawal Rate that is Sustainable"("The Trinity Study"), February 1998. The Trinity Study uses historical returns of stocks (S&P 500) and 20-year U.S. government bonds compiled by Ibbotson Associates, covering the period from 1926 to 1995 (subsequently updated by Wade Pfau through 2014). Historical inflation was based on the CPI Index. Wade Pfau updated data to include 35 and 40 year horizons. Past performance does not guarantee future results.

Part of determining a sustainable withdrawal rate is striking a balance between short-term and long-term needs. Drawing too heavily—especially in the early years, during periods of market volatility or when investments have lost value—could put you at risk of running out too soon. Take too little, and you run the risk of needlessly denying yourself the ability to enjoy your money. Which is why your financial advisor minimizes these risks by making yearly adjustments based on inflation and your portfolio.

Retirement needs analyzed

By listening to you and answering your questions, your financial advisor can help you gather the information required to make prudent and practical recommendations about the choices available. This includes helping you evaluate the retirement planning concerns, as well as defining the expenses you see as living and those expenses that are more lifestyle.

Together, you will use the information from your personal retirement analysis to understand your income needs during retirement. From there your financial advisor can calculate a withdrawal rate to illustrate your probability of success.

Step 2: Build a foundation

The purpose of the second step is creating an assured income base. The payoff is having a dependable income stream to cover some or all of your living expenses, no matter how long you live.

Build your foundation

Think of this as creating your own personal pension—an assured income to fund your unique retirement needs, no matter how long you may live. The goal is to complement your existing assured income sources like Social Security and perhaps a pension or annuity. This can help protect against longevity risk, market risk and, depending on the product you use, inflation risk.

Your financial advisor will help you determine the gap, if any, between your living expenses, determined in step one, and your assured income sources. They will then determine how much of this gap you want to cover—all, a portion or none of it, balancing your desire for assured income versus the potential of creating more income through higher returns or higher yields. With the understanding that taking additional risk may also increase the chance of losses in your portfolio.

Some factors to consider in determining the amount of assets you want to dedicate to a foundation:

- **Withdrawal rate** — The lower your withdrawal rate, the smaller the foundation you may need.
- **Risk tolerance** — Conservative investors prefer certainty and products that offer downside protection and assured income. The more conservative you are, the larger the foundation you may want.
- **Life expectancy** — The longer you think you will live past the averages, the more assured income you should consider.

When building a foundation you will want to use investment solutions that are insured or risk-free, such as:

- High quality fixed-income instruments such as treasuries, certificates of deposit, zero coupon bonds and treasury inflation-protected securities.
- Insured products, including single premium immediate annuities, variable annuities, fixed index annuities and deferred income annuities. These products can assure a predictable lifetime income.

Your financial advisor can discuss the cost of these options along with the advantages and disadvantages based on the current market environment.

Consider a hypothetical example

Let's say it's determined you need $100,000 a year in retirement and of that $60,000 is needed to cover your living expenses. And you will receive $30,000 a year in Social Security and $10,000 from a pension indicating a gap of $20,000. If your retirement assets were to be depleted, you would still have these assured income streams, but would that be enough? Your financial advisor will determine how much of the $20,000 gap you want to cover and what type of investment solution fits best based on your individual circumstances.

The outcome: a solid financial foundation for your retirement

The goal is to create a foundation you are comfortable with and that will continue as long as you live, regardless of what happens in the market.

Your financial advisor can help you gain greater confidence knowing you have created a foundation for your financial independence while guarding against the financial risks commonly faced by retirees.

Step 3: Establish a withdrawal strategy

The purpose of the third step is to determine how you will create your retirement income from your lifestyle portfolio that will supplement the assured income from your foundation. The payoff is having a source of income for your lifestyle and unexpected expenses, as well as protecting assets for your wealth transfer goals.

Four facts to keep in mind

1. The first two steps of this retirement income planning process helped analyze your income needs and build a foundation of assured income for your living expenses.
2. For your assets not allocated to your foundation, your financial advisor will help you choose a withdrawal strategy for distributions from your "lifestyle portfolio."
3. There are numerous withdrawal strategies that can be used, some with more assurances than others.
4. It is important to use a withdrawal strategy that is suitable for your goals, feelings about risk, time horizon, current market conditions and your retirement income and wealth transfer goals.

Choosing a withdrawal strategy for your lifestyle portfolio requires careful decision-making. No two investors are alike, and the strategy and portfolio allocation that works for your relatives, friends, and colleagues may not be appropriate for your unique needs.

Strategies to explore

While enjoying retirement, timing can be critical because you are liquidating assets to support expenses and not reinvesting. A key goal with your withdrawal strategy is how to prevent being in a position of having to sell your retirement assets when they are down. You and your financial advisor may want to compare the relative merits of several withdrawal strategies before choosing the one that is most suitable for your goals and circumstances:

- **Income only** — Withdrawing only interest and dividends from investments and leaving principal alone
- **"Bucket" approach** — Setting aside cash or bonds for a few years of income to creating specific portfolios dedicated to short, intermediate and long-term needs
- **Systematic withdrawal** — Taking a predetermined percentage or dollar amount during each time period from a diversified portfolio

Just like you did in step two, you should consider the following factors when evaluating which withdrawal strategy best fits your needs:

- **Withdrawal rate** — The lower your withdrawal rate, the more options you have (e.g. in a low interest rate environment, it's difficult to use an income-only strategy if your withdrawal rate is too high).
- **Risk tolerance** — If you are an aggressive investor, the income-only strategy may not appeal to you.
- **Life expectancy** — The shorter your time horizon, the more options you have available.

Harvesting strategies

In a paper published in the Journal of Financial Planning (March 2006), Jonathon Guyton describes guidelines he developed on how best to harvest assets from a portfolio to generate retirement income. In general he found that it's important to try to avoid selling assets that are down in value and when possible to harvest in the following order:

1. Income from interest and dividends distributed first
2. Asset classes with positive returns
   - Begin with equities
   - Then fixed income
3. Cash holdings
4. Assets with negative returns
   - Begin with fixed income
   - Then equities

Rebalancing

Along with the decision rules to avoid selling assets when they are down, it's also important to maintain the overall asset allocation through rebalancing. As you are generating income through the sale of assets with positive returns (selling high), you will also want to consider purchasing those assets with negative returns (buying low) to maintain the original asset mix.

Guyton's work did not take into account the affect of taxes, so in some cases it may make sense to sell assets at a loss to help offset gains. Every situation is different, so in some cases harvesting from one or several accounts in this particular order may not be the most efficient way of generating the income needed. For more information on managing tax liabilities in retirement, ask your financial advisor for a copy of "Tax considerations for retirement income planning."

Step 4: Implement products and solutions

The purpose of the fourth step is to build a portfolio that creates the income you need for today and the growth you desire in the future. There are fundamental differences between constructing a portfolio to help grow your wealth (accumulation) as compared to building a portfolio that will help create your retirement income (distribution).

The major differences are sequence of returns and volatility. Having to create income by selling assets that have experienced loses can prematurely deplete a portfolio.

The withdrawal strategy you chose in Step 3 will help determine how your portfolio should be structured. By building a portfolio that generates most or all of the income needed, it can help minimize the effects of having to sell assets, but it will also need to balance the growth needed to offset inflation.

Your portfolio, and the investments within your portfolio, will need to change over time as you age and as markets shift from low interest rates to high and bear markets to bull. Your financial advisor can help make recommendations that are most suitable for your circumstances in all market environments.

Based on the strategy you select, your financial advisor can recommend a wide variety of asset allocations and investment products and solutions such as:

Individual solutions:

- Stocks/dividend paying investments
- Fixed income
- Cash
- Alternative investments

Diversified products:

- Mutual funds
- ETFs
- Closed-end funds
- Professional money managers
- Annuities
- Insurance

The outcome: a well-diversified source of retirement income

By supplementing your assured income with income from your lifestyle portfolio, you will enjoy the flexibility of allocating money toward lifestyle and unexpected expenses, as well as your wealth transfer goals.

This process can help you gain greater confidence knowing you have the opportunity to create both assured income that you cannot outlive and lifestyle income that helps you guard against the effects of inflation and other risks commonly faced by retirees.

Step 5: Review your progress

The final step in the process is to make adjustments to help preserve your portfolio throughout your retirement. The payoff is having the ability to correct your retirement income plan when it gets off track, as well as to adapt to new income needs you may encounter in retirement.

Flexibility for strength

As your retirement income plan is reviewed, you will know that you will either be ahead of plan or behind plan. Your financial advisor will review where you are today then illustrate where the plan estimates you will be a year from now based on the assumptions made:

- **Retirement goals and expectations** — Has there been a change in your retirement goals and expectations?
- **Assets** — Are your assets higher or lower than the projection?
- **Income** — Were your income estimates correct? Did you receive any unexpected cash inflows?
- **Spending** — Is your spending, including taxes, what you anticipated?
- **Portfolio** — Was the return on the portfolio higher or lower than we estimated? Does your portfolio need adjusting based on the current market environment?

- **Withdrawal rate** — Does your actual withdrawal rate fall in a level of success you are comfortable with based on your time horizon? (Use Trinity Study)
- **Inflation** — Do you need to increase your spending for inflation (CPI)?
- **Foundation** — Is your foundation covering the expenses you need it to?
- **Withdrawal strategy** — Does your strategy still fit your situation and the current market?

Spending strategies

Your spending needs may change from year to year due to factors like lifestyle changes and inflation. To help balance your changing needs with the importance of preserving your portfolio, your financial advisor will incorporate two spending rules developed and back-tested by Jonathon Guyton:

1. If the return on your portfolio is positive, increase your income based on inflation (CPI) from the previous year, with a maximum increase of 6%
2. If your portfolio return is negative, your income for the upcoming year will not be increased

Spending and harvesting rules — study results

By utilizing the two spending rules along with the harvesting strategies, Jonathon Guyton found that over 40-year rolling periods (1928-2004), a retiree could increase his or her initial withdrawal rate by 1% to 1.3%, with a 95% confidence level.

The outcome: a retirement income plan offering a greater sense of control

"Some people make things happen. Some people let things happen. And some people wonder what happened." There may be some truth to this popular adage. While some things are beyond the control of individuals, if you see yourself as a "make things happen" kind of person when it comes to your retirement, you may appreciate the ability to both identify what you can control and take appropriate action that is offered by this step of this retirement income planning process.

The process helps you gain greater confidence knowing you have defined your retirement income goals, implemented an appropriate plan to achieve them and are taking a systematic approach to periodically review your progress.

Take steps toward financial freedom during retirement

While you are enjoying a long, happy retirement, your financial advisor will repeat the review steps on a periodic basis. If they determine that changes may help you be even more successful at building, preserving, enjoying and sharing your wealth, it will be relatively easy to repeat other steps of the retirement income planning process, as required.

Your retirement is too important to prepare for only once in a lifetime. It is worthy of a customized retirement income plan, periodically measured, thoughtfully evaluated and methodically revised as your life and your needs evolve, grow and mature. Contact your financial advisor today for help creating the financial future you want.

Wealth Management

Asset allocation and diversification do not assure a profit or protect against loss.

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