



FINANCIAL PLANNING SERVICES

Jane Smith Financial Plan
November 2015

Table of Contents

BACKGROUND	1
INTRODUCTION	2
DISCLAIMER	2
BUILDING THE PLAN: INCOME, INVESTMENTS, AND EXPENSES	3
Your Income	3
Your Investments	3
Your Expenses	4
Putting It Together	4
STARTING POSITION	4
INSURANCE	5
ASSUMPTIONS	5
Assumption 1: Investment Returns	5
Assumption 2: Liquid Asset Distribution	6
Assumption 3: TFSA.....	6
Assumption 4: Inflation	6
Assumption 5: RRSP/RRIF	7
Assumption 6: CPP and OAS	7
Assumption 7: Pension Plan	7
Assumption 8: Employment Income	7
Assumption 9: Taxes	7
Assumption 10: Expense Budgets	8
Assumption 11: One-Time Expenditures (Not-Indexed)	8
Assumption 12: One-Time Expenditures (Indexed).....	9
Assumption 13: Ongoing Expenses Not Indexed	9
Assumption 14: New Car Purchases	9
Assumption 15: Use of Funds.....	9
USING YOUR FINANCIAL MODEL	10
Summary and Assumptions Sheet	10
Detailed Financial Model Sheets	11
FINANCIAL SCENARIOS	11
Scenario 1 – “Staying Put”	12
Scenario 2 – “Renting”	15
Scenario 3 – “Condo Life”	17
PORTFOLIO ANALYSIS	19
RECOMMENDATIONS	20
NEXT STEPS	21

BACKGROUND

This document is an example of the final report that you will receive as a Lifestages Financial Planning Services client. While the client in this instance is “fictional”, the accompanying report and spreadsheet contain real data that is quite typical and should give you an idea of what we actually produce for you.

We do not use a template. Each plan is unique and crafted to your individual circumstances. All elements that are relevant to your financial life will be included, and we will develop as many scenarios as are necessary for your particular needs.

Our client, Jane Smith, is 50 years of age and lives in Toronto. She is a single mother with one adult daughter who has moved out of the house. Jane is currently working at a salary of \$65,000 per year. She has a portfolio of \$1 million, and owns her house, valued at \$750,000, mortgage free.

She wants to know when she can afford to retire. As well, she would like to explore the different options of remaining in her house, selling her house and renting, or selling her house and downsizing to a smaller condominium.

We have prepared the following report for Jane, along with the accompanying Excel spreadsheet.

INTRODUCTION

Lifestages Financial Planning Services has developed a comprehensive financial plan for your next forty-five years. This life-long plan explores the best allocation of your income and financial assets. It also sets forth several spending plans (your budgets), which should allow you to maintain your desired standard of living for the rest of your life.

Based on the information you provided, you should be able to:

1. Retire from work within the next ten to fifteen years
2. Maintain your desired standard of living
3. Provide some assistance to your daughter
4. Have an estate to pass onto your heirs

In order to achieve the above-mentioned goals, you will likely have to:

1. Work until you are at least 60, depending on which scenario you follow
2. Move into rental accommodations or downsize to a smaller house/condo when you are in your 70s

However, the need to sell your house is dependent on how long you choose to work, your actual spending, and the performance of your investment portfolio. Nevertheless, selling your house is likely to be a scenario that you would follow in any case.

We have developed three possible plans (“scenarios”) for you, each with varying assumptions. Over the next year, we will confirm the assumptions used and will verify your annual spending patterns. Following this yearlong evaluation, we suggest monitoring the various scenarios and modifying them as necessary, and moving towards a selected scenario as you approach your retirement age.

DISCLAIMER

This financial plan was developed using information provided by you and government sources (in the case of social assistance and taxes). Estimates of future returns, using past history and reliable sources, play a significant part in the plan.

While the information is presented in a detailed spreadsheet with exact numbers, **PLEASE BE AWARE THAT ALL FUTURE PROJECTIONS ARE ESTIMATES ONLY.** As the time period between the current date and projection date increases, so does the possible margin of error. This plan should be viewed as a “road map”, and it should be reviewed every year and adjusted as more current or accurate information becomes available.

This plan is not designed as a substitute for your own judgment, nor is it meant to eliminate the necessity of your personal review and analysis. This plan is designed to supplement your own planning and analysis to help you fulfill your financial objectives.

BUILDING THE PLAN: INCOME, INVESTMENTS, AND EXPENSES

Your financial “life” is composed of three main factors: your income, your investments, and your expenses. Therefore, these three factors form the building blocks of your long-term financial plan.

Your Income

- Ongoing employment income stream
- Canada Pension Plan (CPP)
- Old Age Security (OAS)

Your primary income stream comes from your continued employment at \$65,000 annually, supplemented by CPP and OAS when you are 65 or older. Your main income decisions will be what age to work until, and the age to start CPP and OAS.

Your Investments

- Asset allocation
- Investment income
- Portfolio performance

Your investment portfolio asset allocation is one of the two most significant variables in your financial plan. Asset allocation refers to the percent of your investment portfolio allotted to each of the major asset classes. The four main asset classes are shown below in order of increasing risk, but also increasing return:

- Cash
- Certificate of Deposits (CDs) and Guaranteed Investment Certificates (GICs)
- Bonds
- Stocks

There are, of course, more detailed categories within each type of asset (such as government or corporate bonds, domestic and foreign stocks, and more). You have complete control over the allocation of your assets. However, you have little direct control over the returns that will be generated from each of the asset classes. We can only go on historical averages. It is generally accepted that determining an appropriate asset allocation and sticking with it is the most important determinant of your investment performance (even more so than individual bond or stock selections within the asset class).

Appendix 1 has an overview of the asset allocation process (NOT INCLUDED IN THE SAMPLE REPORT).

Your Expenses

- Annual spending
- One-time expenditures

The single most important factor affecting your financial health (and therefore your financial plan) is how much you spend. Your expenses are completely under your control. More importantly, as is demonstrated in the completed plan, your spending has, BY FAR, the greatest influence over your eventual financial success (or failure). You are most likely to achieve your financial goals if you stick to a budget that this plan shows to be successful over your lifetime.

Consideration is also given to tax planning, although this has much less of an effect than your investment returns and spending.

Putting It Together

We have developed this plan starting in 2015 with your age at 50. We have planned for a 45-year life span to age 95. As you take control of your financial future, you must remember the following:

1. It is critical to evaluate this plan on a yearly basis and make adjustments as necessary
2. If the plan adopted in 2015 is not monitored or adjusted, there is a strong likelihood that you will not meet your goals
3. An annual review and adjustment (if necessary) will avoid any surprises and keep you on target

We have developed three different scenarios to evaluate. You can modify any or all of them on your own, or with our assistance. You should familiarize yourself with the process and the various scenarios. Then, together we should adopt one of the scenarios, modify it if desired, and monitor it annually.

STARTING POSITION

Your date of birth is January 1, 1965. Your starting assets were derived from your most recent investment statements. You or Service Canada provided the various pension amounts. You provided the estimated value of your house.

Non-registered cash account	\$700,000
RRSP	\$250,000
TFSA	\$50,000

The overall asset allocation was:

Cash and equivalents	5.0%
Fixed income securities and funds	60.0%
Equities and equity funds	35.0%
Other assets (REITs)	0.0%

CPP pension at age 65 (monthly)	\$988
OAS payment at age 65 (monthly)	\$570
Full-time employment (annually)	\$65,000
Estimated value of residence	\$750,000

Personal belongings (except for automobiles) are not factored into the plan.

You have no outstanding liabilities.

INSURANCE

You had a term life insurance policy that you recently let lapse. This decision was made because your daughter is on her own and well employed. While this policy had reasonable premiums in the past, they would accelerate dramatically as you aged. If your spending follows the budgets laid out in the plan, you should still be able to leave a decent sized estate for your heirs.

ASSUMPTIONS

Any financial plan is only as good as its input data and its assumptions. Based on a comprehensive review, we charted your current financial starting position. We then developed your long-term financial model based on fifteen categories of assumptions, from investment returns to taxes and new car purchases. These assumptions are reasonable, and represent financial planning standards, where applicable. Reviewing these assumptions thoroughly will ensure that you understand the variable factors that shape your financial plan over the next four plus decades.

Assumption 1: Investment Returns

We use the Financial Planning Standards Council (FPSC) Projection Assumption Guidelines (April 2015) to model your anticipated investment returns. The entire document is attached as Appendix 2 (NOT INCLUDED IN THE SAMPLE REPORT), and a “layman’s” analysis is provided courtesy of The Globe and Mail as Appendix 3 (NOT INCLUDED IN THE SAMPLE REPORT).

. The returns are:

Cash	1.0%
CDs and GICs	2.9%
Bonds	3.9%
Common Stocks (including REITs)	6.3%

For common stocks and REITs, the overall return is broken down into an income component (dividends), and a capital return component.

Separate assumptions are used for your RRSP and your TFSA, because your asset allocation here is likely to be different from your overall asset allocation. For your plan, we have assumed that the returns generated from your RRSP and your TFSA will be the same as the bond returns, in that you are likely to maintain a fixed income portfolio in these accounts. The returns can be changed, though, to reflect the actual account composition.

Your cash, CD, and bond return assumptions are higher than those achieved in recent years, but lower than the previous 30-year average. The stock returns are reasonable for today's environment, but are also lower than the previous 30-year average. We use the same returns for Real Estate Investment Trusts (REITs) as for common stocks. We do not recommend using investment returns that are higher than the FPSC Guidelines under any circumstances, but lower ones can be used should you want a more conservative projection.

We provide more detailed commentary on your portfolio and asset allocation in the section titled "Portfolio Analysis".

Assumption 2: Liquid Asset Distribution

Your liquid asset distribution is currently:

Cash and equivalents	5.0%
Fixed income securities and funds	60.0%
Equities and equity funds	35.0%
Other assets (REITs)	0.0%

We recommend a slightly more aggressive asset allocation for all the financial scenarios (see "Portfolio Analysis"). As you review your financial model, you can (and should) make changes to your liquid asset distribution in order to see the effect on your overall plan.

Assumption 3: TFSA

Based on the recent election, the annual TFSA contribution limit has been set to \$5,500, and has not been indexed. It is likely to be indexed, and we will adjust the plan once the Government announces its new regulation for TFSAs. We assume a continuing contribution to your TFSA until such time as you have to start making withdrawals to maintain a positive balance in your non-registered account.

Assumption 4: Inflation

The FPSC guidelines use 2% for inflation, which we have used in all scenarios.

A 2% annual increase in real estate values has been applied to the value of your principal residence in all scenarios, which is likely conservative.

Assumption 5: RRSP/RRIF

We have assumed that you will not make any further contributions to your RRSP, although this may change if you continue to work. Your RRSP will be converted to an RRIF when you are 71, and throughout the plan we have assumed that you will withdraw the minimum required on an annual basis. In general, this is the most tax efficient approach, in that you can continue to build your RRIF assets tax-free and minimize your withdrawals that are fully taxed. However, there are circumstances where it might make sense to withdraw funds from your RRIF earlier (due to your being in a lower tax bracket). Alternatively, you could choose to convert your RRSP to an annuity, and we can explore this possibility at a later date.

Assumption 6: CPP and OAS

Your current CPP, if you were 65 years of age, would be \$988/month.

Your current OAS, if you were 65 years of age, would be \$570/month.

The current OAS claw back minimum is \$72,809.

In all three scenarios developed, we have deferred your CPP and OAS until age 70, as this always leaves you in a better position at age 95. As you get closer to retirement age, we can re-evaluate this recommendation based on your circumstances at the time.

Assumption 7: Pension Plan

You do not have a private pension plan.

Assumption 8: Employment Income

Your current full time income is \$65,000/year. We have assumed a 2% increase annually in your salary.

Assumption 9: Taxes

Calculating exact taxes payable is well beyond the scope of this plan. Taxes are particularly complex because so many factors are involved and they change almost every year. However, an annual estimate is calculated. Current tax tables are used for the Province of Ontario. The basic personal tax credit is included. Additional tax credits of \$2,000 have been used for all scenarios to reflect the pension credit and possible medical expenses and charitable donations. This is a conservative assumption, as actual tax credits are likely to be higher. The only deductions from income are your annual portfolio management fees.

To more accurately model your annual taxes, we created a variable called “% investment income eligible dividends”. This variable accounts for the favourable tax treatment of eligible Canadian dividends. It estimates how much of your total interest/dividend income is comprised of eligible dividends. In 2014, eligible dividends appear to have made up 60% of your total investment income. However, our model uses a conservative assumption of 50% investment income eligible dividends across all three scenarios. This results in a conservative model where the taxes shown are likely HIGHER than what you will actually pay.

We also assume that you will realize 25% of your total (unrealized) capital gains annually. You can change this variable, but it really does not have much of an effect on your overall plan.

Assumption 10: Expense Budgets

Of the three building blocks – income, investments, and expenses – that make up your financial “life” and thus financial plan, **your expense budgets are the single most important factor. It is critical that they are accurate.**

Your original numbers showed current annual expenses of \$58,440 (budgets shown in Appendix 4 - NOT INCLUDED IN THE SAMPLE REPORT).

Your financial model separates regular expenses (those that you incur every year) from one-time expenditures (such as home renovations, major life events, and gifts). Only regular expenses should be included in the expense budget. One-time expenditures are accounted for separately.

Three other budgets have been developed to account for your eventual retirement (“Retirement”), and the possible sale of your house with your moving into a rental unit (“Rental”) or downsizing to a purchased condominium (“Condo”).

All budgets are shown in current dollars, and they are automatically indexed to inflation if and when they are implemented.

Because your expenses are the single most important factor in ensuring your desired long-term financial outcome, **it is critical that we assess your actual annual expenses over the next twelve months to confirm our expense budget assumptions**

Assumption 11: One-Time Expenditures (Not-Indexed)

One-time expenditures (not-indexed) are excluded from your annual expense budget. They are modeled separately, and are not indexed to inflation. The amount shown is the actual amount to be spent in the year indicated. This category should be used for expenses up-coming in the near future and that are not subject to inflation.

One-time expenditures as you requested are included in all scenarios:

- Renovation of your house for \$50,000, age 55
- \$2,000 annually to your daughter for the next 10 years

Assumption 12: One-Time Expenditures (Indexed)

One-time expenditures that are indexed are excluded from your annual expense budget. They are modeled separately, and are indexed to inflation. The amount entered should be in current dollars, and the inflated value will be applied when the expense is incurred. This category should be used for future expenses that are subject to inflation.

One-time expenditures indexed, as you requested, are included in all scenarios:

- A proposed round-the-world cruise when you are 65 for \$15,000 current dollars
- A family party when you are 75 for \$15,000 current dollars

Assumption 13: Ongoing Expenses Not Indexed

Most of your expenses, pensions, tax credits, etc. are indexed to inflation. In addition to your one-time expenditures, one additional item is included in the plan and is not indexed:

- Investment fees in the amount of 0.75% of your total liquid assets: these are reflected in all scenarios.

Assumption 14: New Car Purchases

We have assumed the purchase of a new car, valued at approximately \$40,000 in today's dollars, every 10 years starting in 2025. To change the parameters in the model, you can simply enter the retail amount of the new car (in current dollars) and your age. The model automatically accounts for inflation and the remaining value of your existing car (trade-in value).

Assumption 15: Use of Funds

In all scenarios, we always use your non-registered funds first. This allows funds in your RRSP/RRIF and TFSA to accumulate tax-free. After your non-registered funds are exhausted (if this happens), we withdraw funds from your TFSA. Lastly, except for the minimum required withdrawal, we utilize your RRSP/RRIF. While funds build up tax free in your RRSP/RRIF, when withdrawn, these funds attract the highest tax with no preferred tax treatment for either dividends or capital gains.

USING YOUR FINANCIAL MODEL

DISCLAIMER: the sample Excel workbook (if included with this report), while a working financial model, is for example purposes only. It is not meant to be used for the reader's personal financial plan. The plan is not necessarily up to date and contains some intentional inaccuracies. Any attempts to reverse engineer the workbook is a violation of our copyright.

The Excel workbook that accompanies this report presents your financial plan. It is comprised of a comprehensive, year-by-year model for each of the three scenarios, along with a summary table that shows key outcomes for all scenarios.

- You can make changes to all cells that are light green
- The box highlighted in light blue shows the key results for each scenario and set of assumptions
- Any cell with a small, red triangle in the corner indicates a comment is part of that cell. Move your cursor over that cell and the comment will appear in a separate window
- All age variables are your age at the respective point in time

Summary and Assumptions Sheet

Most of the information you need is contained on the sheet labeled "Summary and Assumptions". All the variables that you can enter and change are on this sheet, except for your individual budget categories. This sheet contains the various starting positions and assumptions going forward for three different scenarios.

The single most important result is the variable:

Liquid assets at age 95

This is displayed in line 29 of the spreadsheet and also shown in the top header for each scenario. *You want this to be greater than \$0.* Otherwise, you will run out of liquid assets (but not necessarily total assets, which include your house) prior to age 95.

The value of your house/condo at age 95, if not sold, is also shown in the blue results box (lines 33 and 34).

Because both your liquid assets and house value will undergo 45 years of inflation, the present value of both your liquid assets and house/condo are also shown (lines 30 and 34). This reflects the values in today's dollars, which may be easier for you to relate to. The present value of ALL your assets, at age 95, is shown in line 36.

Any numbers in **red** are warnings. If your liquid assets show up in red, you have run out of money! As well, if your asset allocation for investments does not equal 100%, the total will show up in red.

Detailed Financial Model Sheets

Your financial model details every variable within your three main financial building blocks (income, investments, expenses). While the “Summary and Assumptions” sheet provides you an overview of your financial health and allows you to adjust our assumptions, your model contains a number of other sheets. For each of the three scenarios, you can use the detailed annual cash flow sheets to understand your financial situation for every year to age 95, based on assumptions outlined in this report. An outline of all sheets available follows:

- **Budgets:** your original budget and budgets for retirement, renting, and downsizing to a condo are shown here
 - You can make changes to most of the cells in this sheet
 - Any changes to the Initial Budget column will be reflected in the Calculated budgets (lines 14,16,19, and 22) on the Summary and Assumptions sheet. *However, you must also manually type in your Initial expense budget numbers in line 15, 17, 20, and 23 (which should be equal to or greater than the Calculated budget lines).* We have done this so that you can change your overall budget to see how it affects your plan without having to actually change the individual budget categories. We suggest using a number somewhat higher than the calculated budget in order to be conservative and allow room for “overspending”.
- **Annual Cash Flow_1 through Annual Cash Flow_3:** your summary and assumptions sheet automatically creates a detailed year by year balance sheet and cash flow statement for each of the three proposed scenarios
 - You can refer to these for details, but you are not able to make any changes directly to these sheets
 - As you make changes to the Summary and Assumptions, these changes are automatically reflected in the Annual Cash Flow sheets
- **Taxes:** these are the Ontario tax tables as of 2015
- **RRIF:** these are the mandated minimum amounts that have to be taken from your RRIF annually starting at age 65
- **Car Depreciation:** these are the cumulative depreciation percentages of the original car value that have been incurred based on years of ownership. These are average estimates from a number of automotive sources

FINANCIAL SCENARIOS

Your comprehensive financial plan should ultimately use one scenario. Once selected, we will implement it and then monitor on an annual basis. Your selected scenario will be adjusted annually as needed.

We have presented three different financial scenarios: “Staying Put”, “Renting”, and “Condo Life”. Why three? We want to ensure you understand how various assumptions

affect your overall plan, and give you future accommodation choices that let you best meet your financial goals.

You can (and should) make modifications to the three scenarios using the instructions in the previous section. This will let you get a feel for how the assumptions affect your final financial outcome.

A summary table of each scenario is shown below, followed by a description and overview. You can also hover over each scenario title in the Summary and Assumptions sheet in your Excel for a brief description.

Summary of Variables and Results for All Scenarios

	Staying Put Scenario 1	Renting Scenario 2	Condo Life Scenario 3
Annual Budget in Current Dollars	\$62,640	\$72,060	\$53,340
Retirement Age	70	65	60
Sell House at Age		75	75
Purchase Condo at Age			75
Liquid Assets at 75	\$1,393,232	982,947	\$506,945
Liquid Assets at 85	\$891,069	1,775,067	\$739,156
Liquid Assets at 95	\$89,676	\$1,068,381	\$112,271
Present Value (PV) Liquid Assets at 95	\$36,785	\$438,247	\$46,053
Present Value (PV) Real Estate at 95	\$750,000		\$350,000
Present Value (PV) Total Assets at 95	\$786,785	\$438,247	\$396,053

Scenario 1 – “Staying Put”

Description: Based on your original budget, and modified to increase your spending upon retirement to accommodate travel. House is not sold.

Spending: \$58,440 initially, \$62,640 upon retirement.

Retirement: 70

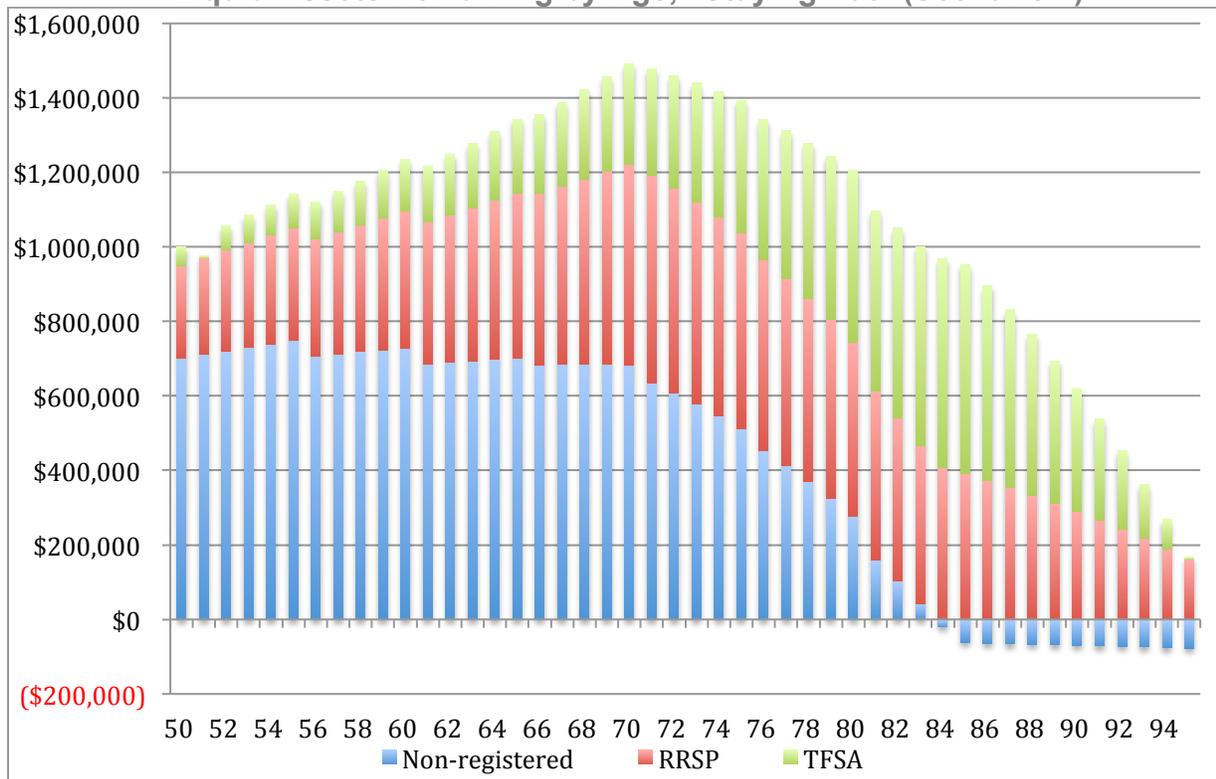
L.A. at 95: \$89,676

Highlights:

- Starts with original budget of \$58,440
- Retirement at age 70
- Retirement budget is \$62,640
- If retirement is prior to 70, liquid assets will be depleted before age 95
- Retiring at age 65 depletes liquid assets at age 89
- Even retiring at 70, liquid assets almost depleted at age 95, but you still own your house so significant flexibility as you age
- You end up with highest present value of total assets at age 95, but mainly a function of working until age 70 (which may not even be an option)
- Likely not a viable scenario due to requirement to continue work until age 70 and no margin of error for over spending or lower investment performance

Your liquid assets, by year, are shown in the chart below for this scenario.

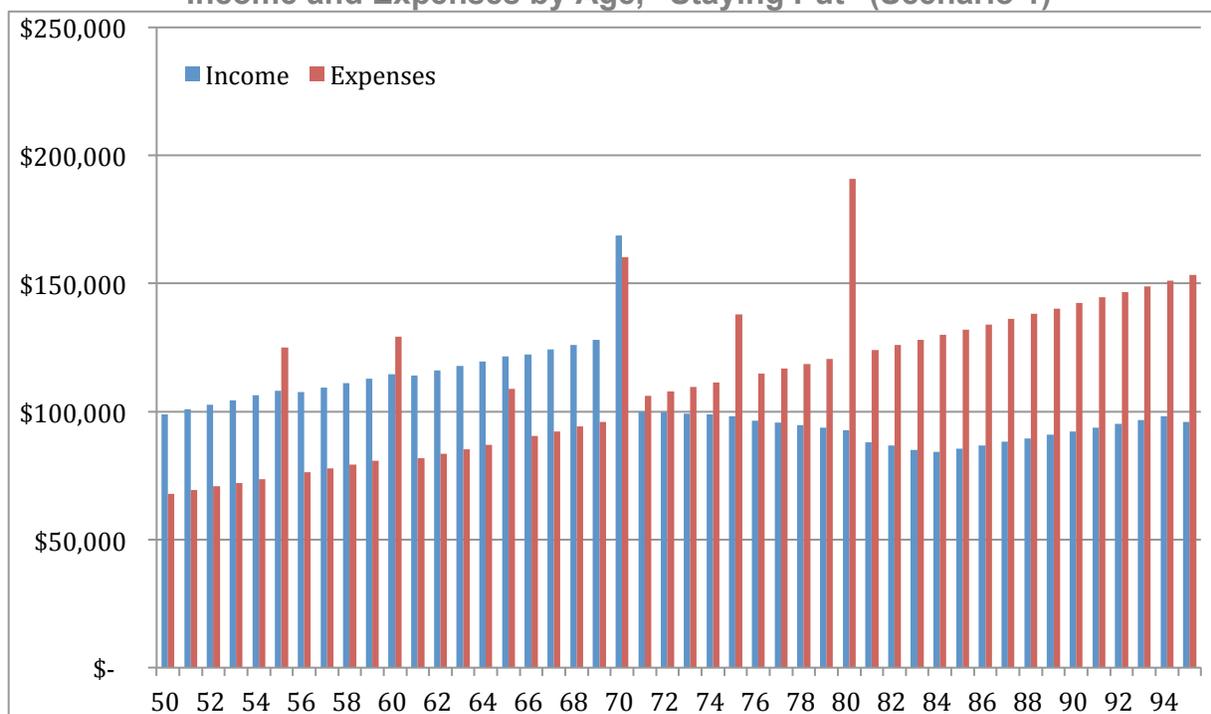
Liquid Assets Remaining by Age, "Staying Put" (Scenario 1)



Your non-registered and total assets continue to grow until you stop working at age 70. At that stage, you start drawing down on your non-registered assets until they are depleted when you are around 83. Your TFSA and RRSP sustain you until age 95, at which time your liquid assets are almost totally depleted. However, you have not sold your house, and it is worth more than \$1.8 million, so you of course still have options to sell your house in your later years and adopt the renter or condo scenario.

The next chart shows the corresponding income and expenses by year. The effects of retirement are clear in that your income exceeds your expenses (except for a few one-time expenditures) until you reach your retirement age, at which time there is a steady increase of expenses in relation to income.

Income and Expenses by Age, “Staying Put” (Scenario 1)



Scenario 2 – “Renting”

Description: Based on your original budget, modified to increase your spending upon retirement to accommodate travel, and modified again when you are 75 and sell your house.

Spending: \$58,440 initially, \$62,640 upon retirement, and \$72,060 when you move into a rental unit (rent assumed to be \$2,200/month in current dollars).

Retirement 65

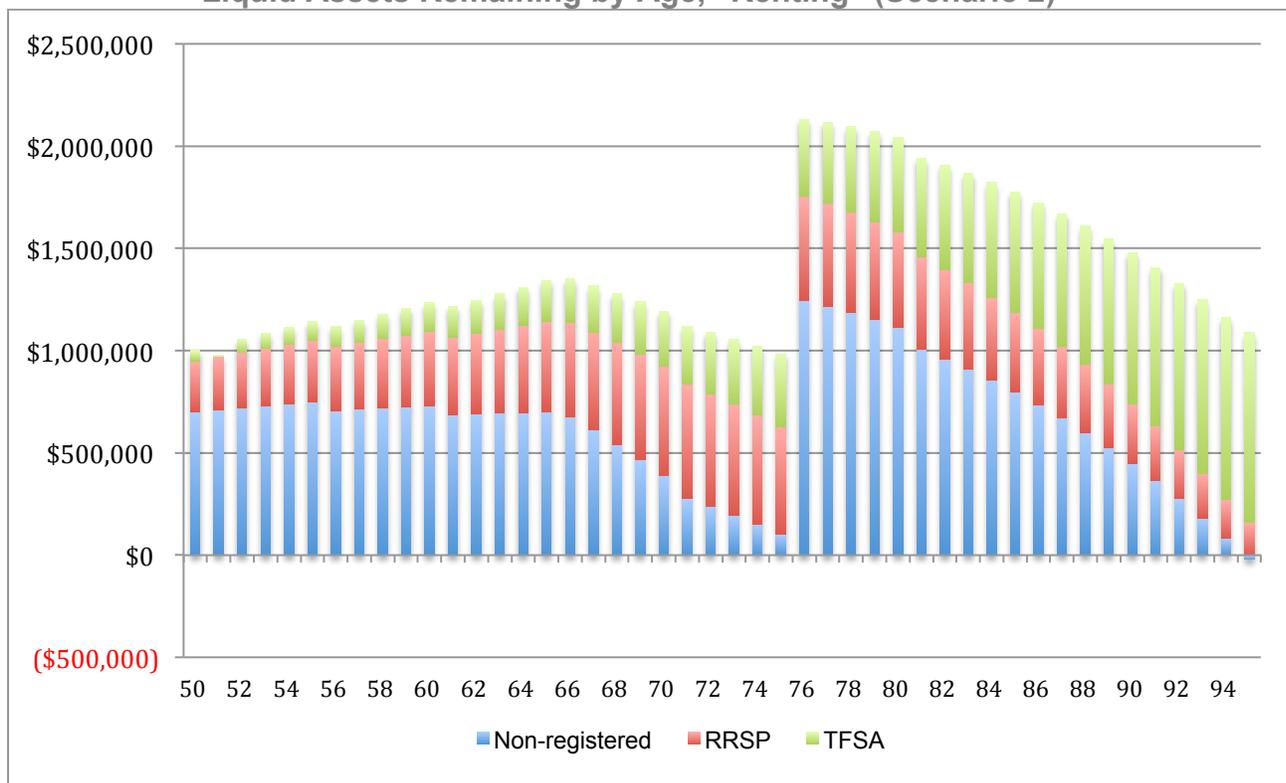
L.A. at 95: \$1,068,381

Highlights:

- Starts with original budget of \$58,440
- Retirement at age 65
- Retirement budget is \$62,640
- Sell house at age 75 and utilize rental budget (\$72,060/year, rent of \$2,200/month)
- End up with highest value of liquid assets at age 95 (over \$1 million), but will need to monitor investment returns and expenses as there is no owned residence as backup

Your liquid assets, by year, are shown in the chart below for this scenario.

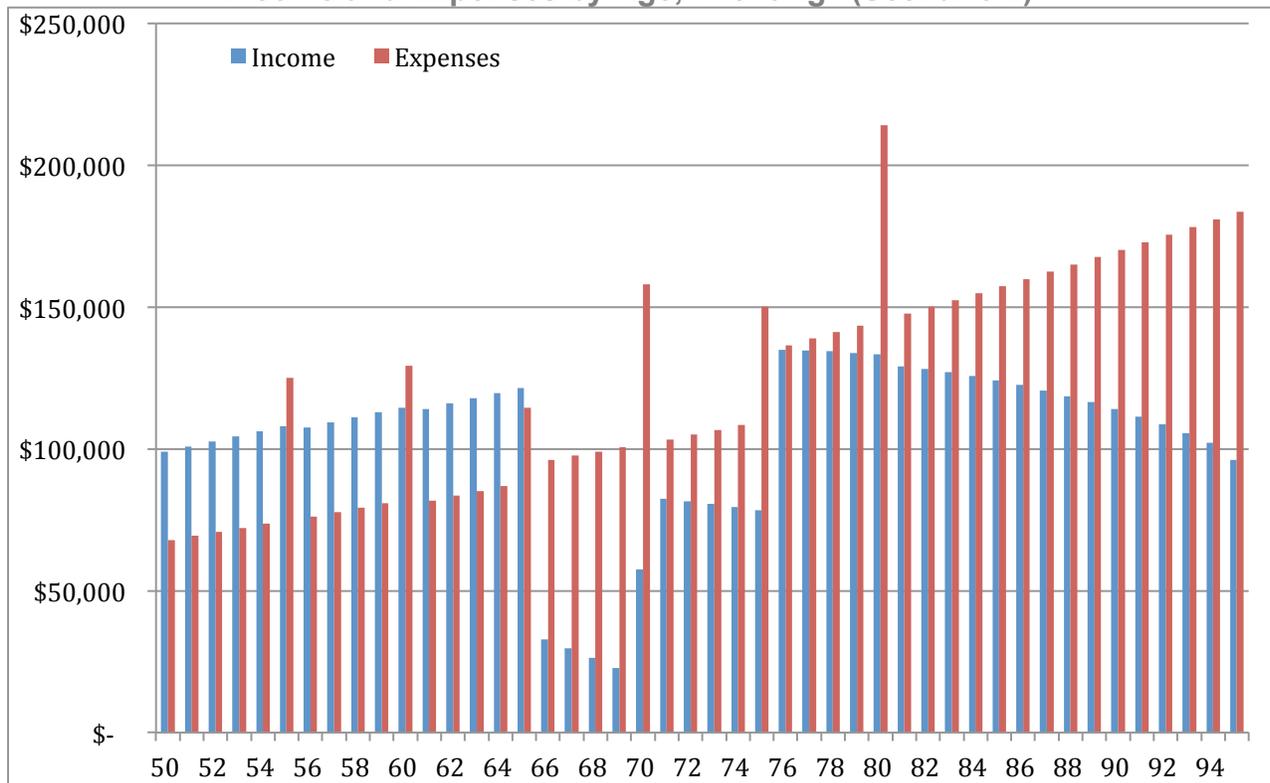
Liquid Assets Remaining by Age, "Renting" (Scenario 2)



Your liquid assets grow until you retire at age 65, at which point they start to decrease. Your non-registered liquid assets are almost depleted at age 75, but assuming you sell your house then you can see that at age 75 you have more than \$2 million available. Under this scenario, you have over \$1 million in liquid assets when you are 95 years of age.

The next chart shows the corresponding income and expenses by year. The effects of retirement are clear in that your income exceeds your expenses (except for a few one-time expenditures) until you reach your retirement age at 65, at which time there is a steady increase of expenses in relation to income until you sell your house at age 75. With the increase in liquid assets from the sale of your house, there is more of a balance between your income and expenses.

Income and Expenses by Age, "Renting" (Scenario 2)



Scenario 3 – "Condo Life"

Description: Based on your original budget, modified to increase your spending upon retirement to accommodate travel, and modified again when you are 75, sell your house, and purchase a smaller condominium.

Spending: \$58,440 initially, \$62,640 upon retirement, and \$53,340 when you move into a condominium. Assumptions were made regarding property tax and strata fees, and these would have to be confirmed.

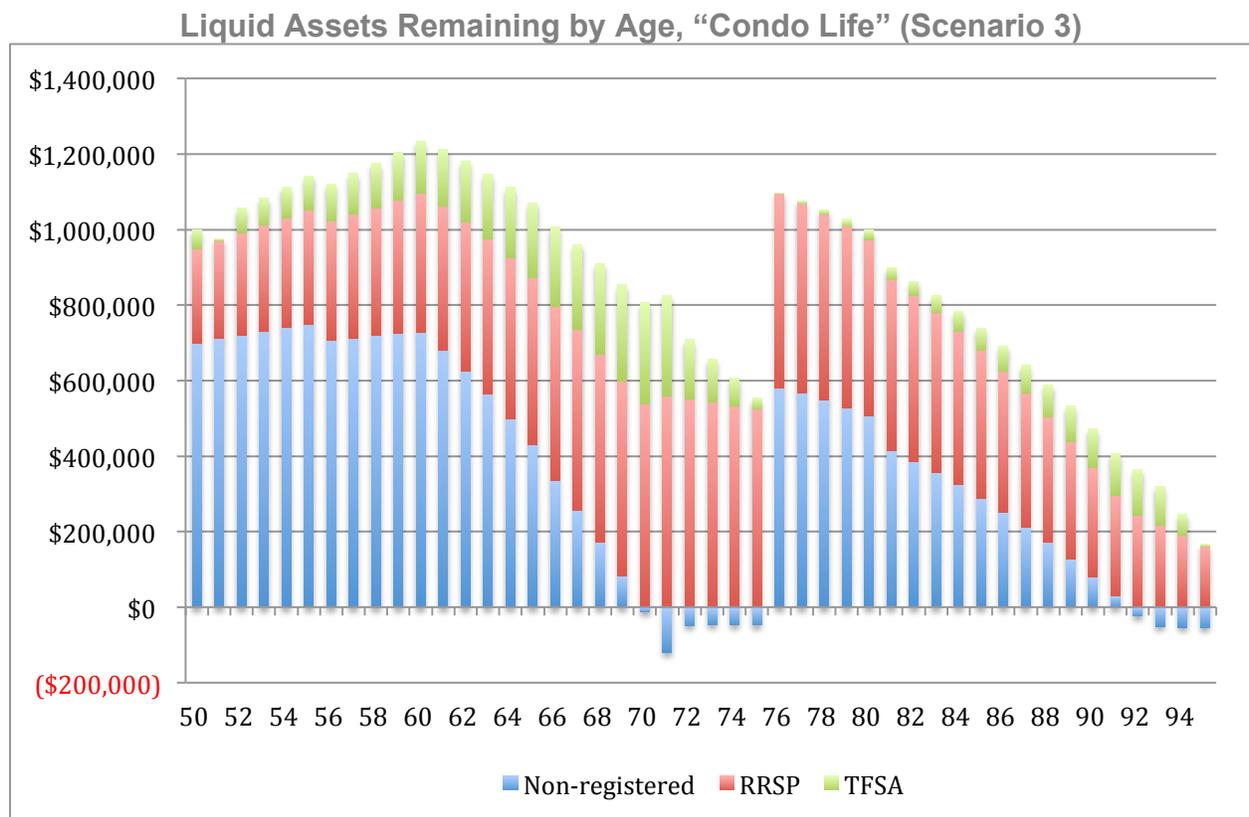
Retirement 60

L.A. at 95: \$112,271

Highlights:

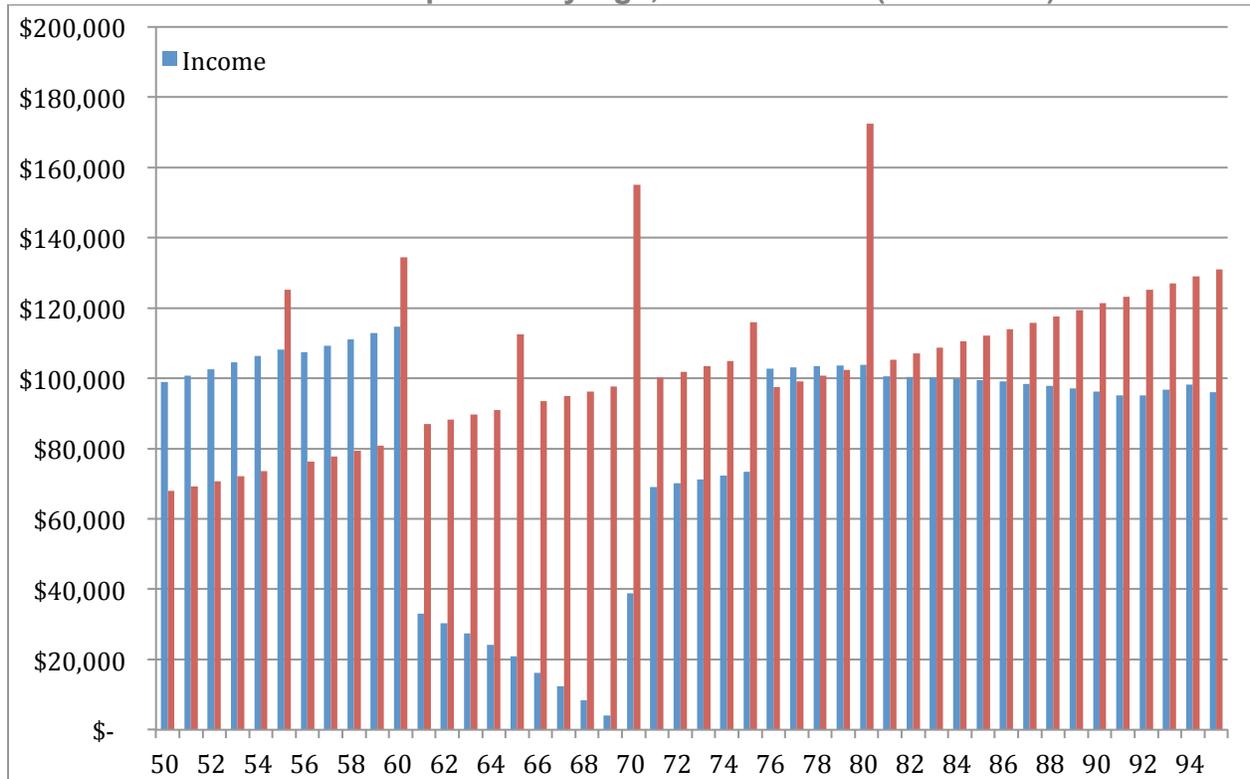
- Starts with original budget of \$58,440
- Retirement at age 60
- Retirement budget is \$62,640
- Sell house at age 75 and purchase a condominium for \$350,000. Condo budget is \$53,340, assuming property taxes of \$3,000/annually, and strata fees of \$250/month
- End up with lowest value of total assets at age 95 of the three scenarios BUT this is due to retirement at age 60, which can be deferred.

Your liquid assets, by year, are shown in the chart below for this scenario. They grow and peak at age 60 when you retire and then decrease until age 75 when you sell your house and purchase a condo. They then steadily decrease until you are 95.



The next chart shows the corresponding income and expenses by year. The effects of retirement are clear in that your income exceeds your expenses (except for a few one-time expenditures) until you reach your retirement age at 60, at which time there is a steady increase of expenses in relation to income until you sell your house at age 75. With increased liquid assets from the sale of your house (even with the purchase of a condo) and decreased expenses (in current dollars) living in a smaller condo, there is a reasonable balance between your income and expenses until you are 95.

Income and Expenses by Age, "Condo Life" (Scenario 3)



PORTFOLIO ANALYSIS

The makeup of your investment portfolio plays an important role in your ability to meet your financial goals. We strongly believe that the single most important portfolio decision you can make is your asset allocation. Once you choose an asset allocation that is suitable to the level of risk that you are willing to take and your income needs, it is important to stick with that allocation and re-balance to meet your selected allocation at least annually. Research has shown that overall asset allocation is responsible for upwards of 80% of your investment performance. Your individual stock or bond selection might only account for 20% of your performance.

We've recommended a 50% equity/50% fixed income split for your portfolio. However, if you are willing to take on a bit more risk, you could go as high as 60% equities. We don't have a problem with this, given your age. As well, the slightly higher returns that might be earned would possibly allow you to retire earlier.

Once you have determined your overall asset allocation, you will need to decide how to select individual equities and fixed income instruments. We believe the most important decision here is actually your fees. We don't believe you should incur annual fees for portfolio management that are in excess of 1% of the value of your portfolio, and ideally

they should be closer to 0.50-0.75%. Many mutual funds already have “hidden” fees of upwards of 2% built in. So, in a low interest environment, if you are paying fees of 2% and incurring inflation of 2%, you are actually losing money on a lot of investments.

Your three choices for specific asset selection are:

1. Individual stocks and bonds – this takes the most research, and should only be done if you either have the personal experience or a reputable and trusted investment manager.
2. Index ETFs or mutual funds – research has shown that a portfolio made up of various index based Exchange Traded Funds (ETFs) or mutual funds perform as well (or better) than individual stocks in many cases, and the fees are often much lower.
3. The recent introduction of “robo-advisors” combine strict asset allocation models with low cost ETFs and can provide a “no-worry” method of portfolio management.

RECOMMENDATIONS

Our recommendations are founded on your desires to maintain your current standard of living to age 95, provide financial assistance to your daughter, and have an estate to pass on to your heirs. While our recommendations are sound, we strongly encourage you to review all three scenarios and experiment with the different variables in the Excel model. Doing so will ensure you end up with a long-term financial model that you understand and to which you can adhere.

Based on a review of your current financial situation, your expressed financial desires, and our expertise, we recommend the following:

1. **You select a scenario where your house is sold in your 70s.** This may be a necessity due to aging, but it also allows you a higher standard of living while still leaving a decent-sized estate. While you could technically remain in your house, you would have to work until you were at least 70, and there is little margin for error in this scenario.
2. **You move into a rental dwelling or downsize to a condominium.** This would occur once your house is sold. You don't need to make the rent/own decision at this stage in your life, but you can comfortably make the decision to retire when you are 60-65 knowing that you have some flexibility in your housing decision.
3. **You take your CPP and OAS at age 70 to maximize the amount received.** This recommendation assumes a long life span; while you end up with a higher amount at younger ages (75) if you take your CPP and OAS earlier, as long as you don't need the income to live on we believe it makes sense to delay. Alternatively, we can consider taking CPP and OAS earlier with the possibility of purchasing an annuity to guarantee income based on a long life span.
4. **You finalize your annual spending before committing to any major one-time expenditures.** This should hopefully happen in the next year.

5. **You consider whether leaving a much larger estate is of paramount importance.** To do so, sacrifices will have to be made either on the annual budget or one-time expenditures.

NEXT STEPS

This is just the start of your financial planning process. Developing and maintaining a comprehensive and accurate long-term financial plan is a malleable process. Consider your Excel model a “living document”; it is something to be refined and finalized over the coming years. As we fine-tune the various scenarios, we will initialize your selected plan. As we gain more accurate information on the outside financial environment over the coming years, we will monitor and continually refine your plan on at least an annual basis. Within this framework, your next steps follow:

1. **Read and familiarize:** thoroughly read this report and work with the financial plan and various scenarios. It is important that you at least have a general understanding of the mechanics of the plan and how various factors ultimately influence the overall plan.
2. **Verify your annual spending:** this is your *most* important task for the next twelve months. There are a number of methods available to insure that we have an accurate figure for your annual budget (see Appendix 6 - NOT INCLUDED IN THE SAMPLE REPORT - for details). We should be confident of your annual budget by the end of December 2016.
3. **Verify your portfolio returns:** after your spending budget, your portfolio returns are the most important factor in your long-term financial health. While we can only estimate future returns, we will review your portfolio returns for the past few years to make sure that you have been achieving returns that we believe can be replicated going forward.
4. **Set an asset allocation:** to ensure your plan is successful, we must select an asset allocation, communicate that to your investment broker, and make certain that the proper distribution is maintained by re-balancing on no less than an annual basis, but possibly more frequently.
5. **Review scenarios:** at this time, you don't have to finalize any of the three scenarios. It is not likely that you'll adopt Scenario 1, but over the next few years you can monitor your spending, investment performance, and start to make some more specific decisions.
6. **Monitor:** your plan should be updated on no less than an annual basis. The following should be addressed:
 - a. Verify annual spending and modify all budgets as appropriate
 - b. Verify portfolio returns
 - c. Update current CPP and OAS amounts
 - d. Update inflation if necessary
 - e. Update portfolio returns if necessary
 - f. Add or remove any one-time expenditures based on current situation
 - g. Add additional scenarios as necessary (such as changes to health and/or living arrangements)