

RETIREMENT GUIDE

My retirement
I'm making it happen.



*Understand
Plan
Act*
The freedom to choose!



NATIONAL
BANK
FINANCIAL GROUP

A panel of experts for a successful retirement experience!

Our retirement advisory committee consists of a group of experts from different fields mandated to validate, influence and inspire our team in designing retirement planning tools. This initiative allows us to look at retirement from a different perspective and elaborate on it in order to offer worthwhile planning tools that are easy to use.

- Greater objectivity
- Expertise
- A winning combination



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The freedom to choose!



Retirement... who hasn't thought about it? To finally be free to take on all the projects you have always dreamed about? To leave behind the busy schedules, rush-hour traffic, constant stress and running around all day? However, in order to enjoy the perfect retirement you will first need to come up with a well-thought-out plan... But exactly where should you begin? For many people, retirement can seem such a long way away, or even impossible to achieve financially, yet there exists a multitude of solutions designed to help you piece together the retirement of your dreams.

There are three simple dimensions to coming up with a well-defined retirement plan:

Understand, Plan, Act

The first dimension, **“Understand”** is critical and constitutes the foundation of an effective retirement plan. The more knowledgeable you are, the more you will have the ability to precisely define your personal retirement objectives. Getting to know yourself, your values and your priorities is also extremely important: it will enable you to narrow down and outline the projects you will eventually want to undertake. For example: try to imagine all the dreams you could finally realize now that you have all the time in the world...

Who hasn't thought about retirement? To finally be free to take on all the projects you have always dreamed about?

Up next, **“Plan”** will help you to make all those dreams come to fruition. These days, most retirements tend to last even longer than the sum total of your working years! Your advisor will then be an invaluable ally during this important stage. Indeed, he possesses all the tools necessary to help you come up with a retirement strategy that takes into account your very own realities.

Finally, once your plan has been formulated, comes the time to **“Act”**: here you will find the solutions that can help you realize the plan you

have set up based on your requirements and your dreams.

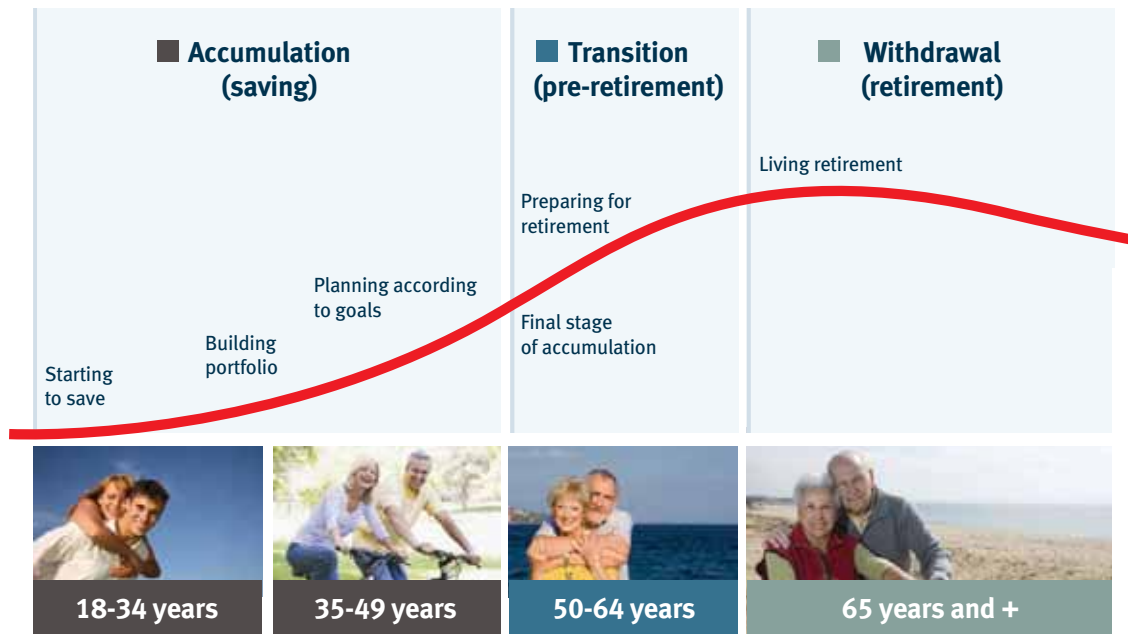
We sincerely hope this guide will help inform you as well as allow you to come up with a retirement plan tailored to your reality. If you are already retired, the information contained herein will help you reassess your current plan and adjust your income accordingly. No matter what your current situation may be, our dedicated advisors are always ready to offer their support. National Bank Financial Group is a vast multidisciplinary team, dedicated to answering all your financial requirements, no matter your experience or life cycle phase. Whether you are simply starting out on the road to retirement or already possess a vast knowledge of all the different solutions at your disposal, we can offer you the guidance you need.

You can have the retirement you want. Let National Bank Financial Group show you how.

The choice is yours

Taking control of your retirement can be more difficult than it sounds. Not only are there a great number of variables to simultaneously take into account, but you must also learn to plan ahead for future events.

Of course, each situation is unique. No two people have the exact same saving habits, goals or generate the same income; yet, some phases of our life cycle remain identical for everyone, as shown in the following graph. These phases each have a profound impact on our future development and should be an essential part of every good retirement strategy.



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Did you know that...

Look for the “Did you know that...” icon in this guide to discover the key findings of a study of 1,046 respondents in Québec and 525 respondents outside Québec conducted by National Bank Financial Group in the summer of 2010.

The first part, presented in the form of a survey, was conducted to identify the public’s main concerns regarding retirement. The second part, presented in the form of an index, is a tool that allows you to measure your level of confidence regarding retirement from a financial and human perspective.

Known as the **National Bank Retirement Index**, this tool introduced in 2009 and exclusive to National Bank Financial Group, allows you to measure your level of confidence in terms of quality of life and achieving retirement objectives in relation to the average population in your age group. Based on your results, it also offers valuable information on the resources available to help you reach your objectives.

Are you confident about retirement?

Discover your index now by completing the online questionnaire at www.nbc.ca/retirement!

The three dimensions to retirement planning



UNDERSTAND

Taking a step back and learning about retirement will allow you to assess your own situation, identify your priorities and gain valuable insight on the various factors that can affect your objectives. This step will teach you how to set up realistic goals.

PLAN

This dimension will focus on retirement planning through four simple steps, but will also take into account your current life cycle phase:

- 1 Identifying your goals: planned retirement age, required income at retirement
- 2 Taking your current situation and projecting it in the future
- 3 Analyzing the income gap: compare required income to available income
- 4 Identifying the solutions that best suit your situation

ACT

This third dimension comes to full circle. Here you will be able to hand-pick the solutions best suited to your specific situation. There exists a multitude of ways you can “Act” in order to build your dream retirement, depending on your life cycle phase.

For example:

- setting up a savings plan
- efficiently managing your debt and taking advantage of various tax strategies
- reviewing your budget
- reassessing your insurance needs
- insuring the transfer of your wealth.

In theory, all three dimensions should be initiated before the age of 30. However, things are much different in practice, and most people only begin to formulate a strategy 10 to 15 years before their actual retirement.



Understand

When asked “Why do you think you might not have enough money at retirement?”¹, our respondents replied:

- outliving their savings (43%)
- inflation (58%)
- higher than expected medical costs (35%)
- higher than anticipated expenses (57%)
- underperforming investments/market volatility (39%)

Possessing the knowledge to form a winning strategy

Getting to understand the various issues surrounding retirement can be considered the basis of any successful plan. Taking into consideration current and future retirement realities will help you to determine and define your own needs regarding all aspects of retired life. Naturally, a strong investment strategy should provide for any and all things which could eventually impede your retirement goals. Accordingly, the findings from our survey have allowed us to determine the “five key risks during retirement”. They are:



Time



Inflation



Healthcare



Withdrawal rate



Asset allocation

Understanding these different factors will allow you to mitigate their influence. Here is a breakdown of each of these risks.

Did you know that... Most Canadians are aware of the major issues regarding retirement?²

- 65% fear outliving their capital.
- 60% foresee health problems.

The five key risks during retirement



Time

The life expectancy of Canadians continues to increase over time. As a result, their retirement often lasts much longer than it used to. The inherent risk is that some people could end up underestimating their own life expectancy and therefore run the risk of outliving their capital.

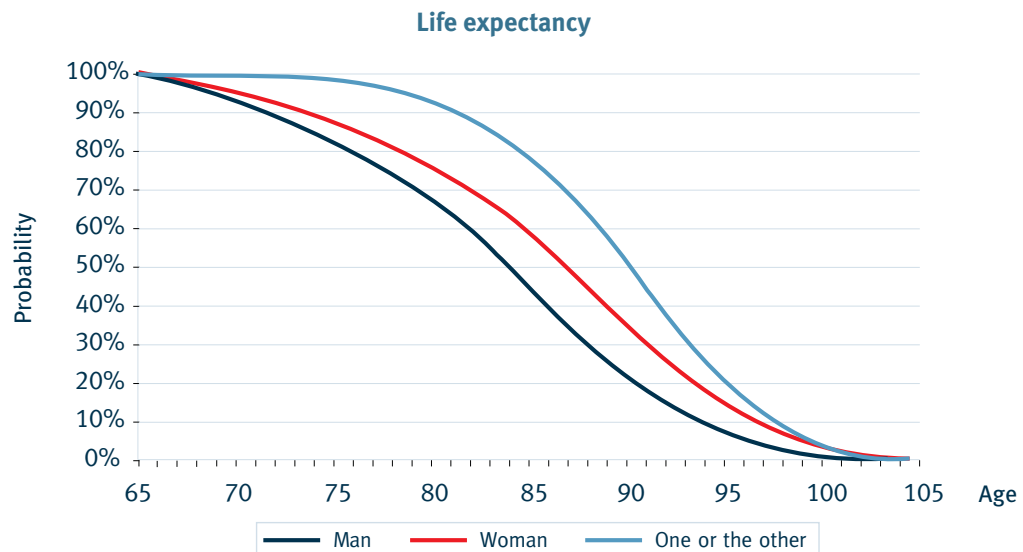
Planning a retirement based on life expectancy at birth is somewhat misleading. Indeed, as we get older, our chances of living longer generally increase.

Did you know that... You or your spouse has a 50% chance of reaching the age of 90?³

Understand



Even more telling is the fact that almost half of the Canadian population will probably live longer than their average life expectancy at birth, as this data is merely based on averages. Also, with the remarkable advances in modern medicine, combined with the fact that more and more Canadians are paying closer attention to their health, the average life expectancy should continue to reach new heights. In other words, we are no longer talking about a 10 or 15-year retirement, but one that may even last as long as 40 years! The following chart illustrates this probability.



Source: CANADIAN INSTITUTE OF ACTUARIES. Mortality table UP-94 projected up to 2015.



Inflation

Simply put, inflation represents the increase in the price of goods and services over the years which ends up affecting your purchasing power. Indeed, from 1989 to 2009, the average rate of inflation has been 2.17% per year in Canada⁴. In the long run, however, even a modest inflation rate can wind up significantly eating away at your purchasing power. For those who are already retired, inflation runs the risk of seriously compromising the life of their capital.

Did you know that... Roughly 46% of respondents look forward to traveling during their retirement years? However, men and women do not share the same retirement dreams. Only 7% of men, but 23% of women want to spend more time with family. Also, 5% of men and 11% of women want to do volunteer work while 10% of men and 7% of women dream of freedom⁵.

Today, inflation remains as unavoidable as its rates, unpredictable... despite our governments' best efforts. To preserve your purchasing power, we recommend you make provisions to regularly increase your retirement income. The following picture shows you how inflation has affected the price of stamps over time. Today, a stamp costs almost four times as much as it did 30 years ago!

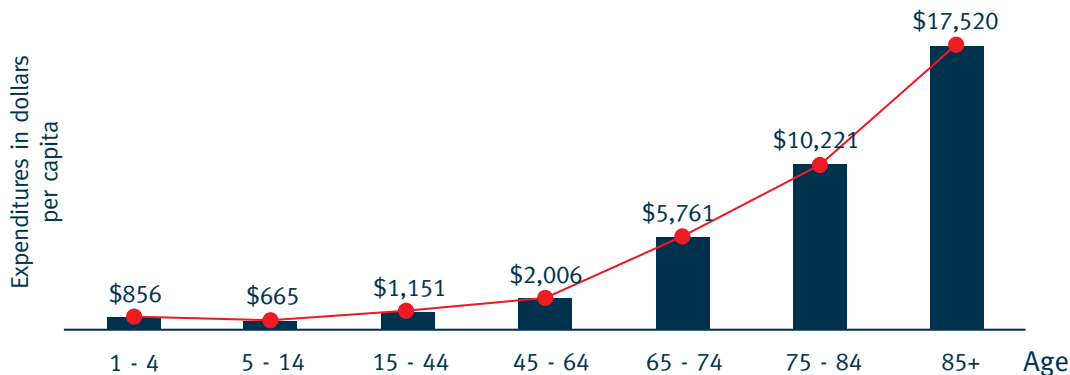


Healthcare

Accurately assessing your health-related financial requirements at retirement remains a very important part of your overall strategy, even if some of the factors remain somewhat difficult to narrow down.

Bear in mind, no one can predict the future with absolute certainty. The following chart, however, clearly indicates that government healthcare expenditures per capita tend to increase significantly with population age. When taking into account the aging of the Canadian population, can we really assume that government budgets in this area will remain adequate to ensure a healthy retirement for all? You do the math!

Government's healthcare expenditures broken down by population age



Source: TASK FORCE ON THE FUNDING OF THE HEALTH SYSTEM. "Expenditures on health, education and other portfolios, *Getting our money's worth, Accessible patient services, sustainable funding, a productive system, shared responsibility*, Quebec, 2008.

On the other hand, every situation remains unique. Your own circumstances may change with time. What can be done, then? First, try to predict your future healthcare costs by taking into account your current physical condition. However, keep in mind that your situation could end up changing on a dime. Providing for this possibility may help you avoid unwanted surprises down the road... surprises which could ultimately end up compromising the life of your capital.

However, there is some good news! Even though most of the elements present within the first three risks are beyond your ability to control, the next two risks remain much more manageable. In fact, this is where we can help you benefit to the fullest extent possible from our expertise.

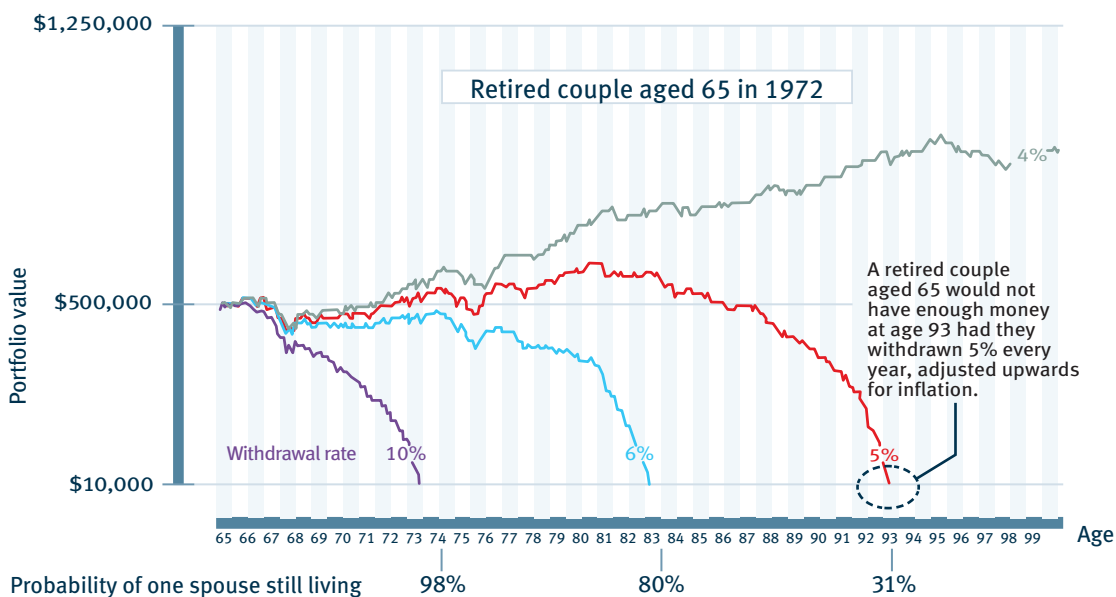


Withdrawal rate

Not having enough income at retirement is not an option! While it remains true that many factors, such as inflation, will have a significant impact on your savings during this period, so will your rate of withdrawals.

Too many withdrawals could end up seriously compromising the life of your capital. For example, a 1% decrease in your withdrawal rate could make all the difference in the world, as seen in the following chart. In this particular context, a lower withdrawal rate would not only prevent capital depletion, but would also allow for a considerable inheritance to be left behind.

Projection of different withdrawal rates on a 35-year period



Hypothetical value of assets held in a \$500,000 non-taxable portfolio made up of Canadian (30%), US (10%) and international (10%) equities, bonds (35%) and short-term investments (15%) with withdrawal rates adjusted for inflation. This hypothetical example uses historical monthly returns for the period from January 1972 to May 2005 inclusively. Canadian, US and international equities are represented by the S&P/TSX, S&P 500 and EAFE indices respectively and short-term investments by the Scotia Capital 91-day T-Bill Index. Bonds are represented by the Scotia Capital Universe Long-term Bond Index for the period before January 1980 and by the Scotia Capital Universe Bond Index thereafter. This graph is provided for illustration purposes only and does not represent any actual investments. Past performance is no guarantee of future returns. Source: Graph – Fidelity Investments Canada Limited; Probabilities - Canadian Institute of Actuaries.

Even so, it remains imperative to conduct periodic reviews of withdrawal targets. Indeed, modifications may be required from time to time, especially in the event of a prolonged market decline. Inversely, an investor with a lower rate of withdrawals could end up with more capital than initially projected, and could therefore turn the situation to his advantage. However, estimating the life of your capital based on inflation and withdrawals can be an arduous task. This is where your advisor can offer his support.



Asset allocation

Asset allocation is not a risk in itself, but poor allocation is. You have no doubt heard the saying “Don’t put all your eggs into one basket”. This is particularly true when it comes to investing; especially in situations where you are looking to preserve your capital.

Diversifying your assets requires some thought, however. Some investors prefer to focus exclusively on high-risk and potentially high-paying investments, while others will favor a more cautious approach and choose to accept lower returns in favor of security. Be careful! Balance is the key. Sound portfolio diversification will offset some of the risks inherent to your selected investments, such as market risk and capital depletion. This way, should one of your asset categories underperform the others, its knock-on effect on your portfolio would be lessened.

What is market risk?

This risk corresponds to market fluctuations. It is especially present in the short term, where market fluctuations can have a considerable impact on the value of your investments. However, it is important to note that the influence of market fluctuations becomes less significant over time.

What is capital depletion?

It represents the risk of outliving your capital. With the increase of life expectancy, it is particularly important to consider this risk. In fact, being too cautious with your investments can lead to lower returns; consequently, you may not have enough income to cover all your retirement expenses.

The importance of diversification

It is essential not to confuse “dispersing” with “diversification”. Dispersing means splitting up your holdings between many financial organizations, while diversification involves investing in a variety of asset categories within your portfolio, in order to achieve a good balance. Even a single fund can be very diversified. For example: a well-diversified portfolio may include a mix of bonds and equities (both from the Canadian market and abroad), cash and other assets.

Also, there exists a variety of factors which can affect the balance between risk and security, among them: age, marital status, financial situation, desired income and personal investment horizon. The key is to be able to ensure capital protection while still generating sufficient returns to counter the long-term effects of inflation. Using a detailed questionnaire, your advisor can help ensure that your asset allocation is in line with your risk tolerance level and your investment horizon. That way, he will identify your “investor profile” and help you to choose the right mix for your needs.

It is essential not to confuse *dispersing* with *diversification*.

In 2009, the *Institut québécois de planification financière (IQPF)* tabled its **projection assumption standards**, which can make it easier to analyze retirement needs. To prepare or update your retirement projections, your advisor will have to make certain assumptions, such as inflation and return. The more realistic the projection assumptions, the more closely the retirement projection will reflect your situation.



Plan

Creating a new plan or amending your current strategy to ensure all your retirement projects come to fruition

Now that you have taken the time to familiarize yourself with the key issues at retirement, you are ready to determine your personal goals and prepare your retirement strategy; or, if you are already retired, to reassess your existing plan. This will help you realize all the projects you have always dreamed about.

DEVELOPING AN EFFECTIVE RETIREMENT PLAN CAN BE BROKEN DOWN INTO FOUR ESSENTIAL STAGES:

- 1 Identifying your goals:** planned retirement age, required income at retirement
- 2 Taking your current situation and projecting it in the future**
- 3 Analyzing the income gap:** compare required income to available income
- 4 Identifying the solutions that best suit your situation.**

No matter the stage at which you are, our dedicated advisors are always ready to help you make the best possible choices.



Did you know that... The most common concerns covered in a retirement plan are:⁶

- amount of money required to retire (76%)
- age at retirement (64%)
- insurance coverage (47%)
- sources of income (75%)
- family or personal budget (60%)
- will or power of attorney (46%)

Plan

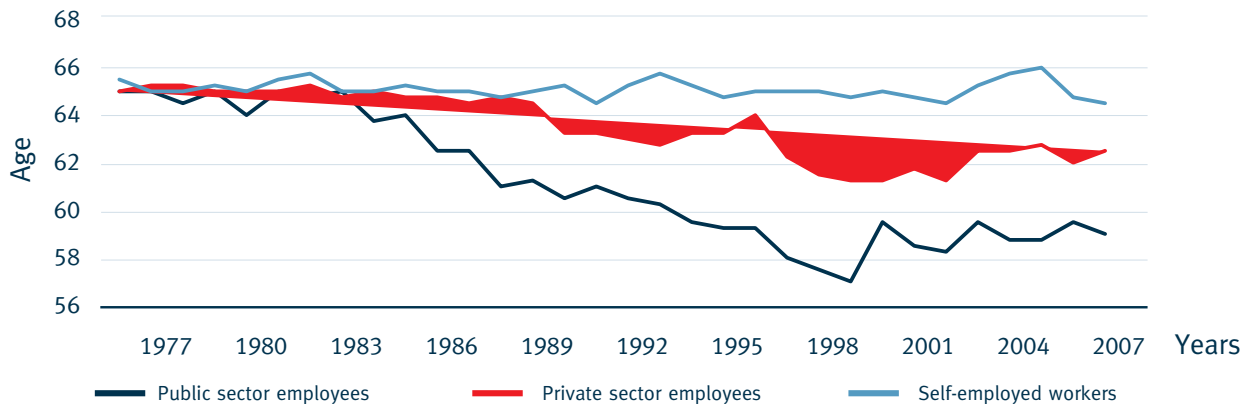


1 Identifying your goals

Planned retirement age

This important step will help you determine the amount of capital you will need in order to achieve your retirement goals. First, think about the age at which you would like to retire. With this figure in mind, how long do you expect your retirement to last? How you answer these questions will influence your financial situation. Your retirement income will therefore have to be adjusted accordingly.

Median age of retirement by category of worker from 1976 to 2007



Source: STATISTICS CANADA. Labour force survey, Statcan's CANSIM database, 1976-2007 census.

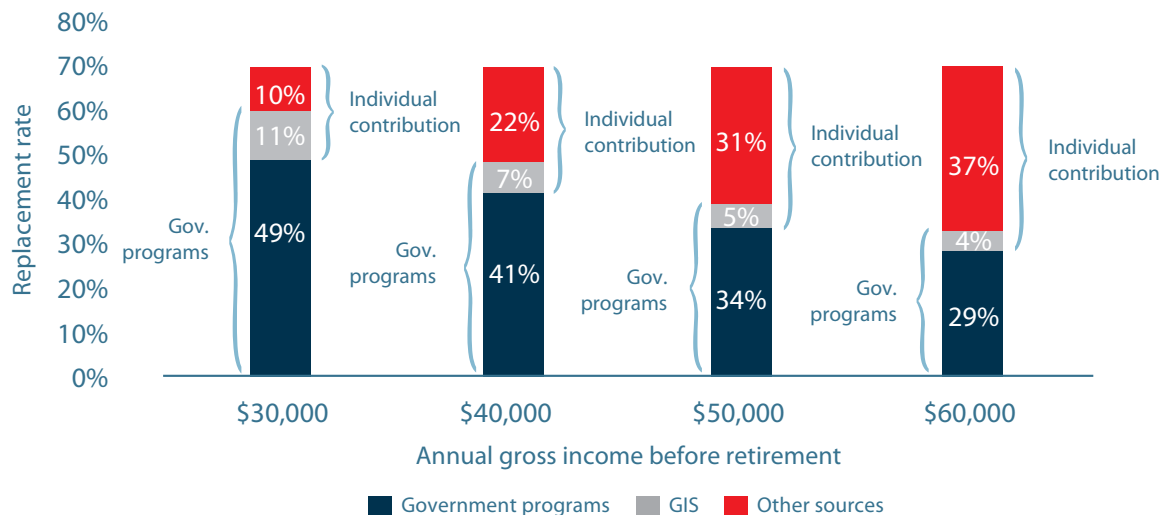
Get ready! You have to take today's reality into account. As illustrated in the previous table, retirement used to start at age 65. Today, retirement usually starts earlier, while life expectancy is constantly getting longer. However, there is no guarantee that this trend will continue in the future, particularly with the growing popularity of phased retirement. As life expectancy gets longer, however, retirement will probably occur later on in life. You can be sure about one thing: you can never go wrong by planning for the amount of capital you'll need for your future.

Required retirement income

Determining your required retirement income is an essential process that will allow you to accurately gauge your savings needs. If you are presently retired, you are already quite familiar with your expenses and can therefore integrate them into your budget. If not, try to imagine as accurately as possible just how much income you will need in order to cover your retirement expenses. Take into account as many variables as possible, such as: your projects, your health and your life expectancy. This way, it could be easier to maintain your standard of living throughout your retirement.

To help you in this regard, it is generally recommended that you set aside an amount corresponding to 70% of your three highest grossing work years, on average. Bear in mind, however, this recommendation does not apply to everyone. Individual requirements may vary based on the projected expenses at retirement and the income earned in the preceding years.

Average replacement rate at various preretirement income levels



Note: These situations are based on tax rates applicable in Québec for 2010.

The previous chart illustrates the different sources of income to consider in order to achieve an income replacement level of 70% for the purposes of this exercise. The blue and grey bars represent the total percentage of income replaced by government programs, i.e. the Canada/Quebec Pension Plan (CPP/QPP), Old Age Security (OAS) and the Guaranteed Income Supplement (GIS). In order to reach the 70% target, the retiree will have to draw additional income from other sources, such as RRSPs. The portion required from other sources is equal to the combined total of red and grey bars. The grey bar represents the portion from social programs, which may be clawed back depending on the amount of retirement income (loss of GIS). For example, if someone was earning \$50,000 before retirement, and is aiming for a retirement income of \$35,000 (70%), the social programs would cover 39%. To reach 70%, the retiree will have to supplement not 31%, but 35%, since the GIS will be lost because of his gross annual income before retirement.

Do not hesitate to consult your advisor!



Entrepreneurs and self- employed individuals

Entrepreneurs who do not have a supplemental pension plan (SPP) can nevertheless count on a major asset: the sale of their business. This could turn out to be a major source of income. In order to get the best return, it is important to pay close attention to ownership, just as with a house, and also to its balance sheet.

People who are self-employed also have a right to the Québec or Canada Pension Plan and they must contribute to one or the other of these plans. Unlike employees, self-employed individuals must also pay the portion normally paid by the employer.

When asked “What are your sources of retirement income?”⁷, our respondents answered:

- Personal savings, RRSPs and investments (77%)
- Government plans (78%)
- Employer’s pension plan (53%)
- Income from the sale of their home (21%)
- Part-time work (26%)

2 Taking your current situation and projecting it in the future

There are five major sources of income available to you at retirement. For all intents and purposes, we will refer to them as the “five pillars”. They consist of: **1** government plans **2** supplemental pension plans **3** personal savings **4** real estate and **5** casual employment.

1. Government plans

Depending on your province of residence, you may be, barring certain conditions, eligible to receive retirement pensions from the various levels of government. These pensions may vary depending on specific factors, such as: your income, your previous contributions and your projected retirement age.

The **Canada Pension Plan (CPP)** is a program for workers outside Québec. Presently, the program provides workers with benefits corresponding to 25% of their average monthly contributions, up to a maximum of \$934.17 per month or \$11,210.04 per year (in 2010). However, should you choose to retire at age 60, you would only be eligible to receive a maximum amount of \$7,847.04 for the entire year. Also note that these amounts remain taxable.

Afterwards, your retirement pension increases by 6% every year following your 65th birthday, provided you have never received pension payments prior to this age.

Pension payment:

From age 65

- no condition

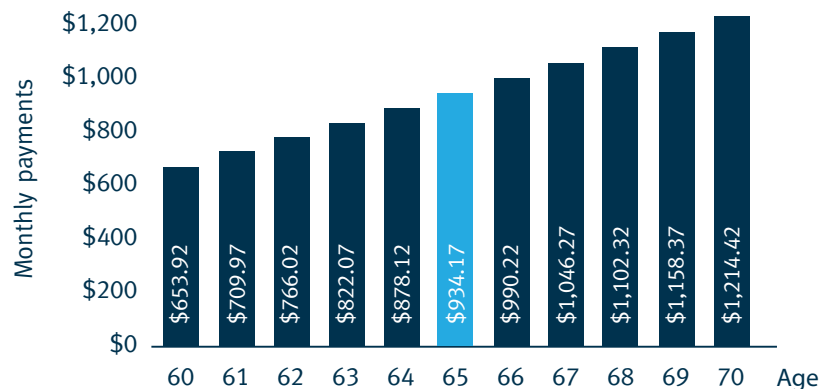
Between 60 and 65

- 0.5% reduction per month, provided the claimant has stopped working or is deemed to have stopped working

Over 65

- 0.5% increase per month, provided the claimant has never received any benefit payments before the age of 65

Maximum monthly CPP and QPP payments by claimant age



Source of data: Régie des rentes du Québec.

The **Québec Pension Plan (QPP)** allows you (under certain conditions, including having made contributions to the plan) to benefit from a retirement pension that is equivalent to the CPP. You are eligible to receive it as soon as you reach age 60. The maximum amounts allotted are similar to those provided by the CPP, and the benefits from the QPP are also taxable.

The **Old Age Security (OAS)** pension is available to most Canadian citizens aged 65 or older. Provided you have resided in Canada at least 40 years, you are eligible to receive OAS benefits, regardless of whether you are retired or not. Otherwise, you may qualify for a partial pension, provided you have lived in Canada at least 10 years. Benefit amounts of the OAS are taxable.

Seniors who qualify for the OAS but make less than \$15,720 annually may also benefit from the **Guaranteed Income Supplement (GIS)**.

Old Age Security (OAS)*

- Maximum monthly payments: \$518.51 (\$6,222.12 per year)
- Clawback: 15% of the excess of individual income over \$66,733 (full clawback at \$108,152)
- Taxable

Guaranteed Income Supplement (GIS)*

- Maximum monthly payments: \$654.47 (\$7,889.64 per year); \$432.19 (\$5,186.28 per year) for couples
- Clawback: 50% of the excess of combined income over \$500** (full clawback at \$15,720)
- Non-taxable

* As at July 1, 2010.

**\$3,500 for the employment income.

2. Supplemental pension plans (SPPs)

Also known as pension plans, private pension funds, or registered pension plans, supplemental pension plans (SPP) represent a source of revenue that complements the government plans. They are offered by some employers, who make payments for their employees' retirement. Employees may also have the possibility of paying certain amounts into the fund themselves. These funds are tax sheltered until withdrawn.

The amounts paid to retirees vary depending on the plan. Typical factors are salary and years of service for the employer. It should also be noted that these retirement benefits are often fixed (i.e. not adjusted for inflation).

Along with the retirement income they provide, SPPs have other advantages, such as paying a survivor benefit to a spouse in the event of the death of a participant.

Company owners and senior managers have the option of participating in an individual pension plan (IPP), a form of SPP. IPPs are individually tailored, with the intention of optimizing the retirement income of a participant. They have numerous advantages, including:

- the possibility of contributing in a larger amount than permitted with an RRSP;
- larger tax deductions than those permitted by an RRSP for a business owner.

3. Personal savings

This source of income includes registered retirement savings plans (RRSP), tax-free savings accounts (TFSA) and non-registered investments.

A **registered retirement savings plan (RRSP)** is an account in which an individual can accumulate investment income that is tax sheltered, with a view to retirement. This is commonly the most effective strategy for achieving objectives, particularly for workers who do not have access to a SPP, and for those with higher income. An RRSP is the element over which you have the greatest control, and it can be of capital importance for your retirement.

An RRSP account offers the possibility of accumulating interest, dividends, and capital gains from a wide range of financial products. Also, the contributions made into it normally give the right to receive a tax refund.

Payments into an RRSP are normally tax deductible up to the contribution limit established for the current year. If you go past this limit, you risk paying a penalty. The contribution limit was set at \$22,000 for 2010.

Finally, it is possible to contribute to the RRSP of your spouse and profit from income splitting between spouses, once it is converted to a registered retirement income fund (RRIF), a strategy which allows the reduction of income tax payable.

The tax-free savings account (TFSA) is in some ways similar to an RRSP. Its objective is to create non-taxable income for taxpayers.

A new arrival in the financial arena, the **tax-free savings account (TFSA)**, is in some ways similar to the RRSP. Its objective is to create non-taxable income for taxpayers.

Investments eligible for a TFSA are mainly the same as those eligible for an RRSP. However, the allowable contribution to a TFSA is limited to \$5,000 annually.

Unlike an RRSP, contributions to a TFSA are not deductible from income. However, withdrawals are not taxable, since they are not considered as income. They also have no effect on the benefits paid by the government programs. A TFSA can thus be particularly useful to workers

with lower income. It can also prove useful for those who have already fully contributed to their RRSPs.

As for **non-registered accounts**, there are strategies for reducing tax payable on investments: for example, by prioritizing the asset classes that generate income with more advantageous tax treatment. Ask your advisor for more information.

4. Real Estate

Owning property at retirement is a sizeable advantage. Once the mortgage is paid off, this expense category can be partly reallocated to another purpose: savings, for example.

The sale of a property on retirement can represent a financial advantage for some people. However, it is important to keep in mind that while the sale of a property may bring in a substantial amount, you still need to pay each month to move or buy another residence. Also, in case of serious financial difficulty, a reverse mortgage could be considered.

Regarding real estate investors, this sector has gone through prosperous periods over the past 40 years. However, even though this market has been notably hot between 2000 and 2007, its performance was not better than that of the Toronto Stock Exchange for the same period. It might be better to spread assets well, rather than speculate in this sector alone. By assuring a good diversification of your portfolio, you could profit from market opportunities, while accumulating sums that are enhanced by compound interest, when applicable.

Did you know that... Only 16% of respondents want to take advantage of retirement to start a new career? Many people (59%) prefer to have more time to spend with family⁸.

5. Casual Employment

Some people want to stay in the workforce when they retire. This can be an interesting source of income, as long as it is a choice and not an obligation. Unfortunately, nearly 30% of retirees have to work to make ends meet⁹. To retire without working, unless you wish to, be sure to plan ahead for adequate retirement income.

3 Analyzing the income gap

The penultimate step to planning your retirement is to compare the income you will need to what you will be receiving. Is there a gap between the two? Do your expectations seem realistic? The following step can help you explore these questions. It is a capital step to take, even when you retire.

4 Identifying the solutions that best suit your situation

No matter what stage you are in, you can consider various solutions for adjusting your retirement income. Among these, tax optimization of your investments, and the use of the full potential of your investor profile remain unquestionable elements.

Tax optimization of your investments could allow you to save money, by redistributing your investments in order to pay the least tax possible. As for your investor profile, ensure that your investment strategy brings you the best possible income while respecting your risk tolerance.

Slightly increasing your savings could also make a difference in the long term. However, greater sacrifices are sometimes necessary. Among other possibilities, you could choose to put off your retirement, opt for a less expensive lifestyle, or decide to seek casual employment after retirement. The next section presents a number of possible solutions, whether you are in the accumulation, transition or withdrawal phase.

Before making a definitive choice, which takes into account your current situation, and in order to really evaluate your options, we invite you to consult your advisor, or use the *Retirement Horizon* tool at nbc.ca/retirement



Did you know that... 65% of respondents do not have a written retirement plan¹⁰?

Retirement Horizon is an online tool that helps you prepare a summary retirement plan in only a few minutes. You will be able to visualize the gaps between your current situation and your retirement goals. You could also compare different scenarios and make the necessary adjustments to your plan, such as:

- Adjusting the percentage of income you want
- Reconsidering the age when you retire
- Re-assessing your periodic investment contributions for your retirement
- Reviewing investment solutions based on your investor profile

Did you know about the Retirement Horizon tool?

Visit nbc.ca/retirement or consult your advisor for a more detailed plan.





Early retirement

On April 2, 2008, the Québec government presented a bill to encourage early retirement. This possibility will be offered to workers between 55 and 64 years old who wish to gradually retire from the workforce. They will be able to receive up to 60% of their pension income while still receiving work income. This work income will also help to increase their retirement pensions.

Before taking advantage of this right, employees first need to make an agreement with their employers and accept a pay cut of at least 20%. Self-employed individuals are not eligible for this program.

Early retirement does not in any way affect the Old Age Security (OAS) and Guaranteed Income Supplement (GIS) benefits. As for SPPs, conditions vary from one plan to another. Get more details from your plan manager.



Act

Choosing the solutions that best suit your situation

You have gathered information about retirement. You have taken the time to evaluate your needs. You are now ready for an action plan! With the efforts you have made over the years, you will deserve to fully enjoy what life has to offer. To help you see things more clearly, we have divided this section into three parts: the **growth**, **protection**, and **transfer** of your wealth.

Growing your wealth

Manage your emotions

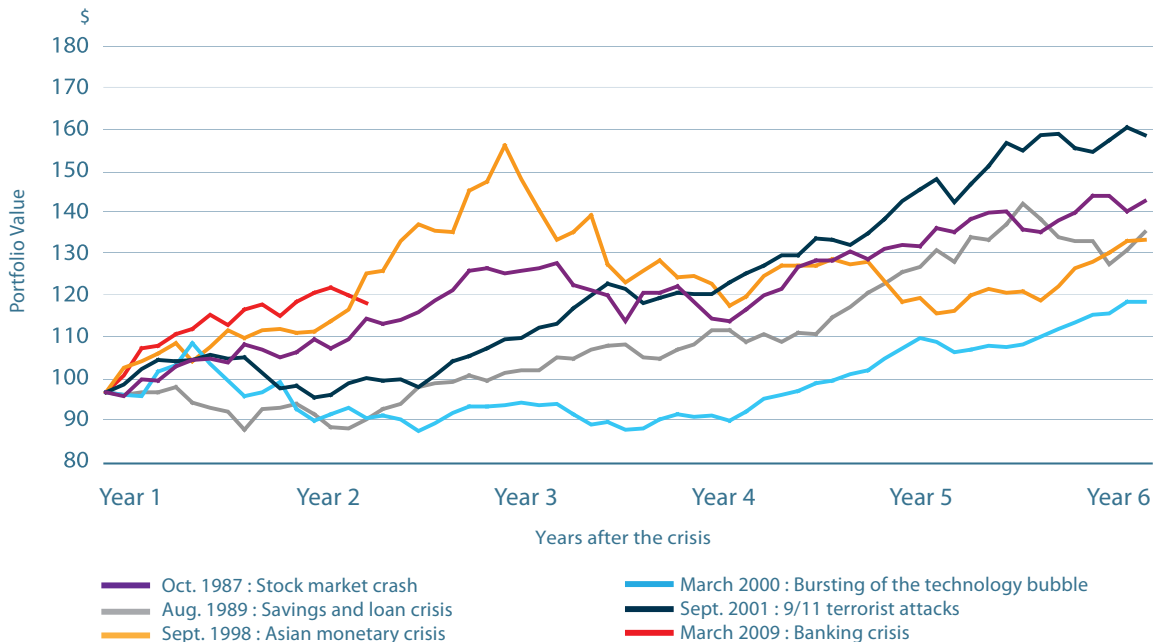
Several recent studies have shown that emotions can have a major impact on investor decision making. Fear, in particular, often clouds the judgment. This is absolutely normal.

However, individuals who choose to adopt a long-term investment strategy almost always obtain better returns than people who use the market timing strategy. The important thing is not when to invest in the market, but the duration of the investment and the respect of your investor profile, as shown by the following graph.



Advice for everyone!

Growth over 5 years after the financial crisis (Portfolio: 60% S&P/TSX Index, 40% DEX Universe Bond Index)



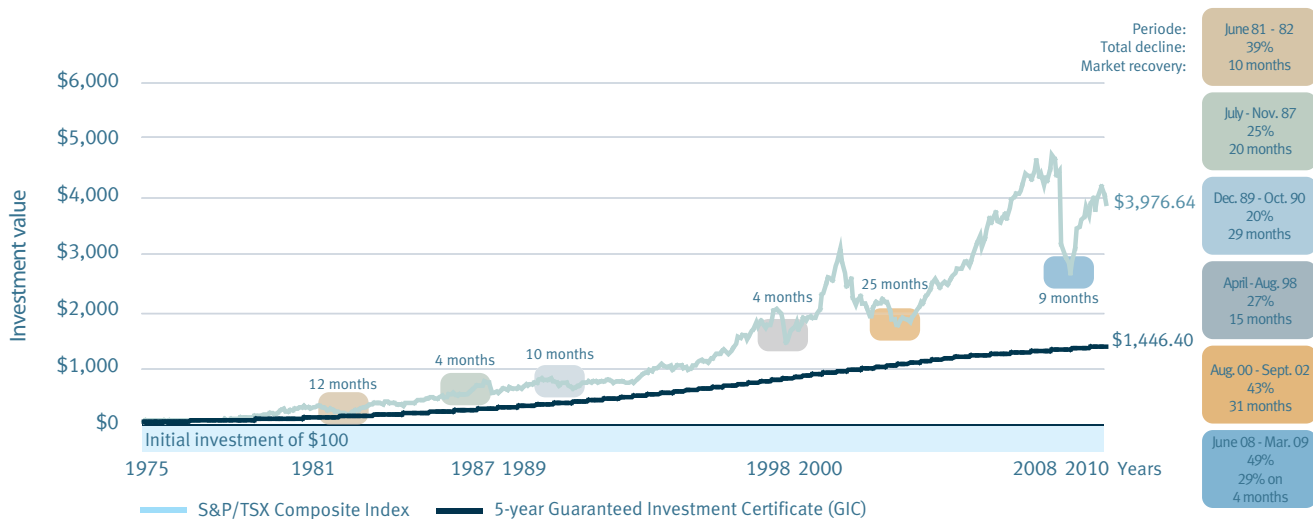
Source: Bloomberg

Act



The market volatility is a normal phenomenon. However, asset classes tend to evolve in a positive manner over the long term, despite market fluctuations. For example, the stock market has gone through major declines over the course of the last 30 years. Nevertheless, an investor who would have maintained his investments despite these crises would have enjoyed a considerable return from his portfolio. The secret? Adopt a long-term investment strategy and do not allow yourself to get upset over the ups and downs of the market.

Changes in the Canadian market 1975-2010



Source of data: Bloomberg. Total returns for the S&P/TSX Composite Index from January 1, 1975 to June 30, 2010.

Get to know the possible solutions

You have precise needs; we have the solutions! Turnkey investment solutions from National Bank Financial Group offer you diversification among different asset classes. These solutions are correlated with different investor profiles which respond to your investment horizon and your risk tolerance. They are ideal if you don't have the time to spend on your finances. We also offer an "à la carte" menu that includes a complete family of mutual funds, which make use of a wide variety of investment strategies.

Consult your advisor. He will be able to show you investment solutions that are uniquely adapted to your needs. This way, you can rest easy and not have to worry about the diversification of your portfolio.



18-34 years 35-49 years

Take control
of your retirement

Retirement requires a budget!

Making a budget can seem confining. However, this operation is one of the keys to a successful retirement.

Establishing a budget lets you know precisely where your money is going, and helps you identify the expenses which could be eliminated. This analysis can be quite helpful, as it will provide the information you need to achieve your savings objectives. Including savings in the budget avoids the situation of having to make contributions to your retirement plan at the last minute, or having to try and catch-up on unused contributions at the end of the year. In short, planning for savings in your budget is a profitable initiative!

In order to respect your budget and avoid unforeseen expenses, here are two golden rules. First: make a reserve fund for emergencies. This could avoid the need to unbalance your budget when unforeseen expenses arise. It is recommended to put aside the equivalent of 25% of your annual cost of living. Thus, if an unexpected situation comes up, your emergency fund could help you cover the expenses in your budget for about three months. The second golden rule: include in the budget an amount equal to about 10% of your total expenses. This amount serves as a cushion in the event you missed including certain costs in your budget.



Your investor profile

Your investment needs are influenced by a number of factors, such as your risk tolerance and investment horizon. However, finding the right financial product among all the possibilities, while at the same time maintaining the correct asset allocation within your portfolio, can be a very delicate task.

To help you make the right choice, there exists a variety of pre-determined investor profiles, all developed using the following criteria:

- your personal savings goals;
- your investment horizon;
- your risk tolerance level;
- your current knowledge of financial products.

To learn which profile is right for you, contact your advisor. He will provide you with a precise and simple questionnaire. Or, log on to nbc.ca and go to the *Investments/RRSP* section under *Tools* to find out by yourself. Knowing your investor profile will help you find the investments which correspond more accurately to your needs.

Time is on your side

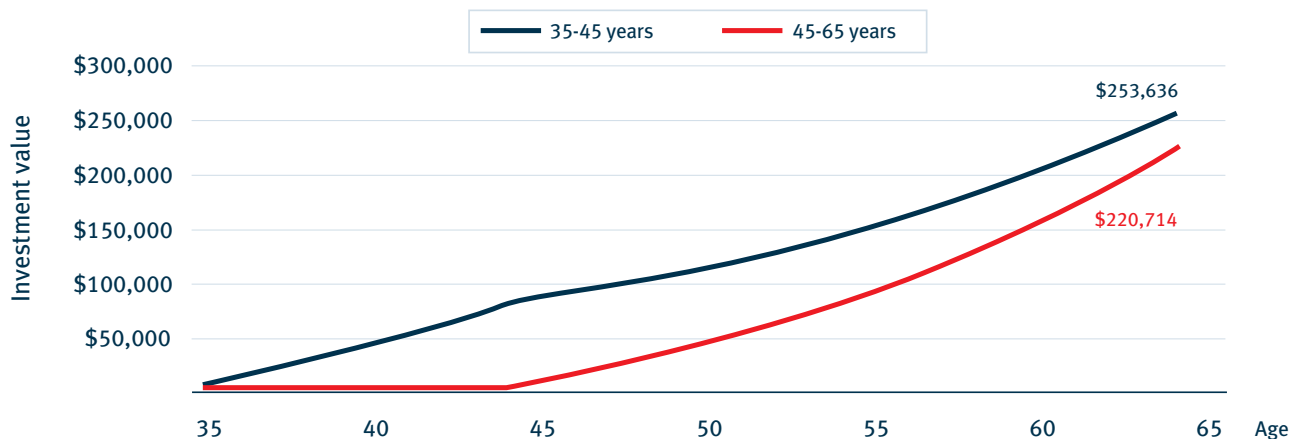
If we had just one piece of advice to give you, it would be this: start saving as soon as possible. Do you remember the fable of the tortoise and the hare? Which one do you think will achieve his retirement goals sooner?

The sooner you begin to save regularly, the less you will have to put in to achieve your retirement goals. If you wait, the amounts you need to invest to achieve the same goals will become ever larger.



Need proof? Look at the figure below. Julie invested \$6,000 per year over 10 years, from age 35 to 45. David invested twice as much, since he started with the same amount at age 45 and made his last contribution when he took his retirement at 65. At this point, even though Julie had saved over a shorter period, she would have \$32,922 more than David! The difference is due to compound interest, accumulating tax free over a long period of time.

**\$6,000 annual investment at the end of each year
from age 35 to 45 compared to age 45 to 65**



Hypothesis: \$6,000 investment every year in a registered account, with no withdrawals, at an annual interest rate of 6%.

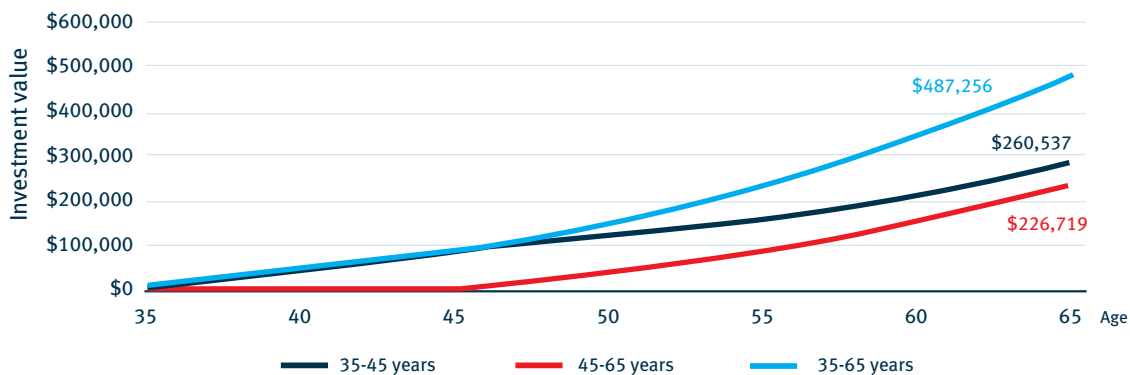
Save regularly

Accumulating funds for retirement sometimes seems impossible. Instead of making a lump-sum contribution at the end of the year, why not take smaller steps?

It is easier to put aside small amounts regularly in order to achieve your savings goals. Systematic investment can help you get there. This approach allows you to automatically take out of your account the amount you wish, on a schedule you choose. This way you can easily save the total RRSP contribution allowed, and in most cases, enjoy an interesting tax refund.

With systematic investment, you can take advantage of dollar-cost averaging. This way, when the unit price is low, your monthly investment buys more. Conversely, when the price is up, you get fewer units. In the long run, dollar-cost averaging can lower the average cost of your units compared to a single annual contribution.

\$500 investment at the end of every month at an annualized rate of return of 6%



Hypothesis: \$500 investment at the end of every month in a registered account, with no withdrawals, at an annual interest rate of 6%.

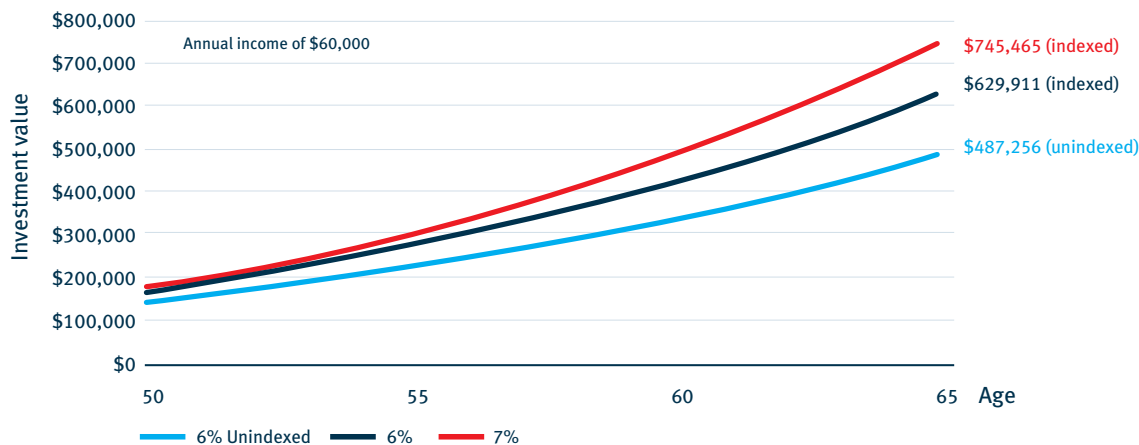
Your investor profile: an important consideration

Have you reviewed your investor profile recently? This is an excellent way to optimize the return on your investments.

Reevaluating your profile is necessary every year in order to ensure you get the best possible results. Your investor profile is directly related to your risk tolerance and to the asset allocation of your portfolio. Reevaluation will help you optimize the asset allocation of your portfolio so that you get the best possible return according to your risk tolerance. If you wish to change your profile in order to get better returns on investment, be sure to consider the additional risks involved in this change.

The figure on the following page shows that a difference of 1% in the expected return could generate thousands of additional dollars in the long term.

Accumulation of savings on a monthly basis for various expected returns



Hypothesis: based on a \$60,000 annual salary, a 2.25% annual indexing rate and a 10% annual savings rate (in a registered account), starting at the age of 35, with no withdrawals. Based on 6% and 7% annual returns.

Maximize your contributions



50-64 years

Your retirement
will be here
sooner than
you think

Have you been putting off your RRSP contributions for a long time? Now is the time to take your retirement in hand and remedy the situation! At this stage of your life, your expenses are probably lower and your income likely higher than when you entered the workforce. Take advantage of this! By using all of your allowable RRSP contribution room, you can benefit from an income tax refund, and possibly benefit from compound interest during the years that still remain before your retirement.

Pay down the balance of your mortgage?

At this stage in your planning, think about paying down your mortgage completely, to eliminate debts before retirement. The prepayment of your mortgage can save tens of thousands of dollars over the remaining period of your loan. And don't forget that by paying off your debts, you could save up for other projects.

Your investor profile: always in line with your reality

It is also important to review your investor profile when you change age groups since your needs and objectives can change. In fact, reviewing your profile once a year is just as important at this stage of your life and can make a difference in your ability to achieve your personal goals.



65 years and over

Effectively manage your income to follow your dreams

Maintain control of your budget

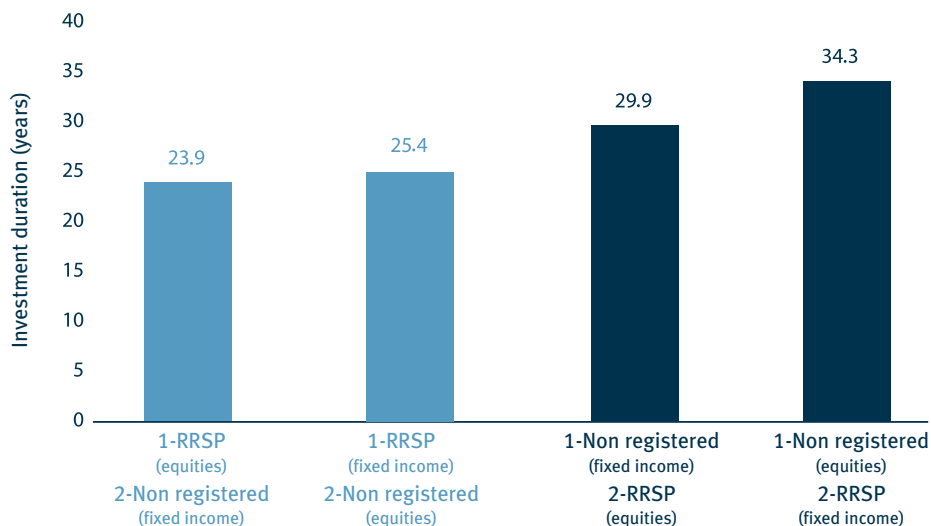
If you are already retired or near to it, it is in your best interest to establish your budget and review it when you consider this necessary. In this way, you can preserve your capital for several more years.

Which revenues should be used first?

The order of withdrawals is very important to the longevity of your capital. A structured planning helps to optimize the use of the funds you have accumulated. The figure below shows that you can conserve your capital for an extra 10 years by adopting a good withdrawal strategy.

For example, you should draw first on non-registered investments, and next, on amounts accumulated in your RRSP. Also, prioritizing solutions that are fiscally advantageous will increase the longevity of your capital by several years.

Depletion of capital according to order of withdrawals and location of fixed-income securities



Hypothesis: net after-tax withdrawal at an annualized rate of 5% (evened out). Initial capital consists of 50% in RRSPs and 50% in non-registered investments. The portfolio is constantly rebalanced to contain 50% equities (return of 8%; 80% in capital gains, and 20% in dividends) and 50% fixed income (return of 4%). The calculations are made at the margin, assuming the maximum tax rate of 48.22% and the special tax treatment for capital gains and dividends.

Take advantage of income splitting

Couples can reduce their tax burden by income splitting. The progressive nature of income tax rates makes it advantageous for two spouses to have similar incomes (e.g. 2 x \$40,000) rather than one larger income (e.g. 1 x \$80,000).

Several income splitting strategies exist, notably the spousal RRSP contribution, the division of the Canada or Québec pension, and the prescribed interest rate loan.

Several income splitting strategies exist, notably the spousal RRSP contribution, the division of the Canada or Québec pension, and the prescribed interest rate loan.

For people aged 65 years or over, income attributed to a spouse will be handled as pension income. This means that some couples could use the pension income credit twice (the same pension credit rules would apply to the spouse as well).

Magnitude of tax savings¹¹

Take the case of Patrick, earning \$83,796 in 2010 in pension income (RPP, RRSP and QPP/CPP) and who is already shares his public pension plan with his spouse Diane, so that each receives \$3,796 in QPP/CPP. They are both 65 years old and also receiving the OAS. However, Patrick does not receive the maximum OAS because his income exceeds the \$66,733 ceiling.

Therefore, they could benefit from an annual tax savings of about \$6,263 thanks to income splitting (a “fiscal” transfer of approximately \$40,000 to Diane), which amounts to an additional \$500 a month. The table below shows how it works. After tax splitting, Patrick will receive the maximum OAS.

Comparison of net income of a couple before and after income splitting

Without income splitting	Patrick	Diane
Total income (including QPP/CPP)	\$83,796	\$3,796
OAS	\$2,714	\$6,204
Tax	\$25,307	\$ -
Available	\$61,203	\$10,000
Total available	\$71,203	

After income splitting	Patrick	Diane
Total income (including QPP/CPP)	\$43,796	\$43,796
OAS	\$6,204	\$6,204
Tax	\$11,267	\$11,315
Available	\$38,733	\$38,685
Total available	\$77,466	

Tax savings: \$6,263

Note: This example is based on tax rates applicable in Québec for 2010, but the results would be similar in other provinces of Canada.

In some cases, income splitting can have adverse consequences. Consider this case of two spouses over 65, Michael and Lisa. Michael earns an income of \$150,000, of which \$90,000 is pension income, and Lisa has an income of \$60,000. Without splitting, Michael would lose his OAS, but Lisa would keep all of hers. If this couple decided to split income, Michael could transfer \$45,000 of pension income to his spouse. Therefore, the income of each member of the couple would be \$105,000 and a slight tax saving could be achieved. However, Lisa would lose her OAS with this strategy, a net loss of about \$1,250.

Splitting pension income is an interesting approach, but it is important to verify all of its impacts, including tax credits and government benefits.

Optimize your investor profile to make your capital last longer

You have made several calculations, either alone or with the help of your advisor, and your income will not be enough to cover your expenses for the duration of your retirement. What do you do? Certainly, you could choose to continue to work or save, but have you reevaluated your investor profile recently?

Be sure that your investor profile is in line with your objectives. Today, the duration of a retirement may even be longer than the duration of a career in the workforce. This implies a more distant investment horizon, counted in decades. So an asset allocation with more stocks than fixed-income securities could be advantageous.

Protecting your wealth

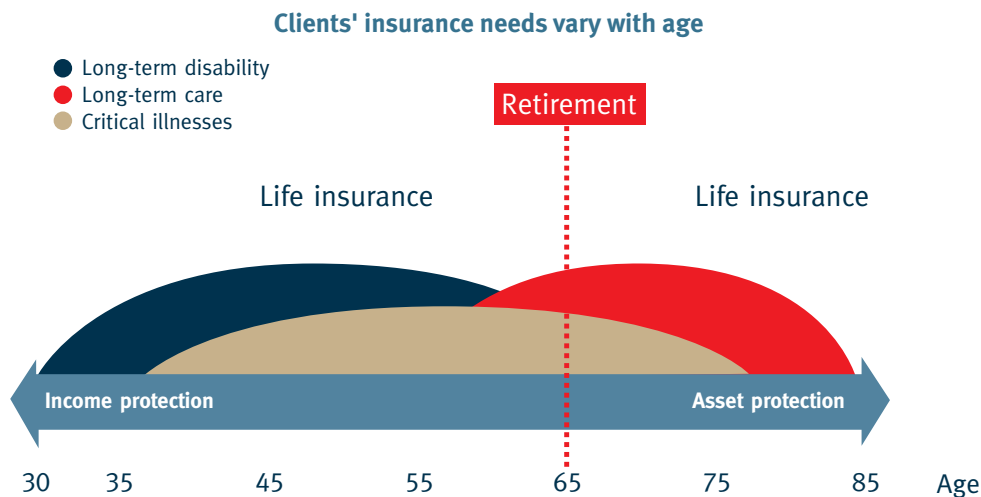
Bad things can happen to anyone, at any time. But, with insurance solutions, you can protect yourself and your family from the financial uncertainty they cause. Of course, your insurance needs will vary depending on your age and specific situation. The following section examines in more detail the various insurance solutions.

The question becomes: *“Do I have the means to maintain my current lifestyle and still be able to take care of my family if I am unable to work?”*

Did you know that according to statistics published by the Canadian Life and Health Insurance Association, a 35 year old woman is at least seven times more likely to become disabled than to pass away before age 65¹²? Moreover, the probability of suffering a critical illness increases with age. It is therefore possible you may someday find yourself in need of disability, critical illness or long-term care insurance benefits. The question becomes: “Do I have the means to maintain my

current lifestyle and still be able to take care of my family if I am unable to work?” If this question causes you a certain degree of insecurity, it is time to think about finding solutions!

The disability and critical illness insurances remain particularly useful during the accumulation and transition phases, when you are most likely to require additional income. Long-term care insurance is intended mostly for people in their fifties as well as retirees.



Disability insurance: especially important during the years preceding retirement

How will you go about replacing your employment income should you become injured or sick? The disability insurance option can help you in this regard. Indeed, had you applied for disability insurance, you would be entitled to receive benefits corresponding to about 70% of your employment income, depending on the benefit terms provided by your insurance company.

Critical illness insurance: for life after illness

It does not matter if you are 35 or 65... it is possible for anyone to one day fall victim to a critical disease. If such were the case, who would be left to care for your loved ones' financial security? Who would be able to pay down your mortgage or healthcare bills? These are all important questions you must ask yourself.

This type of protection, available in North America for just a few years, is quickly growing in popularity. Thanks to advancements in modern medicine and better living conditions, more and more people manage to bounce back from critical illnesses, but the road to recovery is often long and costly. However, this type of insurance is specially designed to handle the financial needs of people who have recovered from a critical illness and who now wish to resume a normal life.

If you meet all the requirements, the critical illness insurance would provide you with a lump-sum payment to do with as you see fit. For example, you could choose to use the payment to reimburse a loan or pay your medical bills. The benefits received vary depending on a number of factors, such as: age, medical history and the amount of the insurance coverage.

Long-term care insurance: for the more expensive healthcare costs

This complementary insurance is intended mostly for people in their fifties, who are just a couple of years away from their retirement. It offers protection against disability and chronic illness. The long-term care insurance allows claimants to cover the costs of in-home care services, or the charges for long-term care establishment accommodations, such as a hospital or nursing home.



Transferring your wealth

Your will: to ensure your wishes are respected

Why write a will? Obviously, to pass on property upon death but also to simplify the life for your heirs.

It is most important to value properly your estate's assets and liabilities. You should maintain an up-to-date statement of your assets, including your life insurance portfolio. In the absence of a will, your heirs will be determined by the Civil Code if you live in Québec, or by the Common Law in other provinces. This sometimes happens, but is rarely the best solution... our own choices for succession rarely resemble the ones selected by a legislator! It is therefore a great idea to write a will. It might also be a good idea to update your matrimonial will. Also, if you are not married, in Québec your common law spouse has no rights without a will.

There are many types of wills. Notarial wills have several benefits: they are easily traced using the Register of wills of the Chambre des notaires du Québec, they cannot be easily challenged, they are immediately executed upon death, they are comprehensive and confidential both before and after death, and are prepared by legal specialists.

These are all points worth considering. How about you, have you thought about your will?

Philanthropy: giving from the heart

You are retired and devoted to a good cause. Why not give a donation or start your own foundation? There is no shortage of hospitals, schools, charities, needs and causes to be supported.

With your advisor, you can determine if your capital is sufficient to contribute to them.

Leaving a legacy?

Once you are in your retirement, you can think about leaving an estate. You may also wish to consider donations while you are alive.

If it does not harm your retirement, it can be very gratifying to transfer part of your estate while you are still living. With prudent returns projections, and depending on capital longevity, your planning will indicate if part of your capital can remain intact until the end of your life. This surplus could therefore be donated.

You might wish to make small regular donations rather than a single major one. This offers the advantage of making adjustments if difficulties arise, as well as being able to help your loved ones when they are in need. You could also help your children make a down payment on a mortgage, or for an education savings plan.

What is the best moment to transfer part of your assets? Above all, your children's needs will let you know... but also your advisor!



Understand, Plan, Act

today for tomorrow

Whether you are at the dawn of your retirement, in your early thirties, or still a student, one thing remains certain: you should be thinking about retirement. You should also begin to Understand Plan, and Act. These three dimensions will allow you to look ahead to this enjoyable part of life in a structured way and take concrete steps to live your life as you choose. National Bank Financial Group wishes to be your ideal partner in achieving your retirement objectives. Remember that you can always count on the expertise of our advisors. Don't hesitate to set up a meeting with one of them. These are the people who can help you determine a retirement strategy that meets your needs. The choice is up to you!

National Bank Financial Group Internet site

www.nbc.ca/retirement

- **Retirement Horizon**

An interactive tool that shows you if you are on the right road to achieve your retirement goals.

- **National Bank Retirement Index**

An interactive tool that measures your level of confidence regarding retirement, compares it to the rest of the population and gives you some pointers on how you can increase it.

- **My Dream Retirement**

Practical guides, in the form of albums, that you can personalize to reflect your own dreams and projects to facilitate your retirement planning.

- **Momentum, Retirement at a glance**

The retirement newsletter that helps you keep up with the most recent trends and developments by providing you with up-to-date information about retirement. This quarterly publication is an example of National Bank Financial Group's commitment to helping you reach your retirement objectives.

Flash Retirement Québec

www.nbc.ca/flashretirementquebec

NOTES

1. Survey of 1,046 respondents in Québec and 525 respondents outside Québec conducted by Saine Marketing for National Bank Financial Group, from June 17th to July 28th, 2010.
2. *Ibid.*
3. CANADIAN INSTITUTE OF ACTUARIES. Mortality table UP-94 projected up to 2015.
4. Data : Statistics Canada.
5. Survey of 1,046 respondents in Québec and 525 respondents outside Québec conducted by Saine Marketing for National Bank Financial Group, from June 17th to July 28th, 2010.
- 6, 7, 8, 9, 10. *Ibid.*
11. We have evaluated the tax savings taking into account only the basic tax credits, for pension income and by age. We have considered the Québec tax table.
12. Data: Canadian Life and Health Insurance Association Inc.

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Our approach: *Teamwork.*

Our goal: *Help make your dreams a reality*



*"Someone's sitting in the shade today because
someone planted a tree a long time ago."
Warren Buffett*

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nbc.ca/retirement

MAKING IT HAPPEN

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