



Retirement Decumulation Strategies

Next Generation

Bob Boyda

Global Head of Capital Markets and Strategy

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 **Manulife Asset Management™**

Agenda



- The Canadian Environment
- Current Approaches to Retirement Decumulation
- Next Generation of Decumulation Strategies



LIFESTYLE

HEALTH

What is the life you want to live in retirement?

Retirement solutions

What are your health needs to support your lifestyle?

What is the financial plan to surround your retirement dreams?

WEALTH

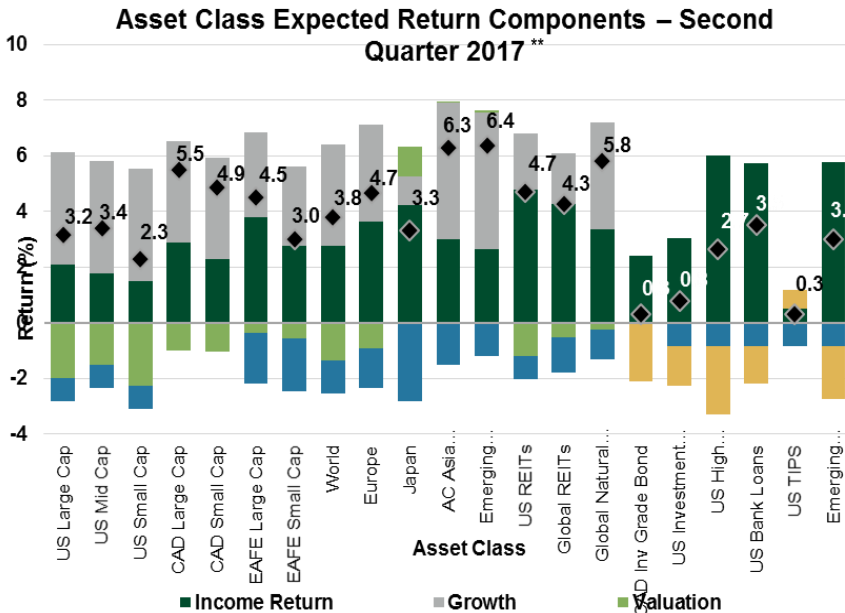
Investors Dilemma



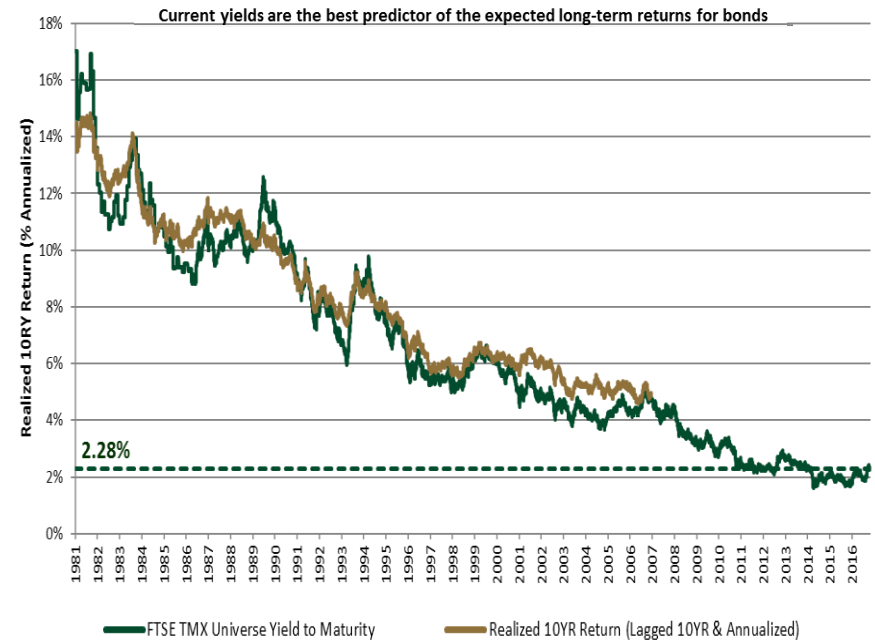
NOT SAVING ENOUGH!

*52% of households are “at risk” of not having enough to maintain their living standards in retirement

NOT EARNING ENOUGH!



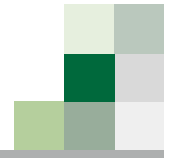
Canadian Bond Valuation (FTSE TMX Universe)**



*Source: <http://crr.bc.edu/special-projects/national-retirement-risk-index/>

** Source: PSG as of June 30, 2017

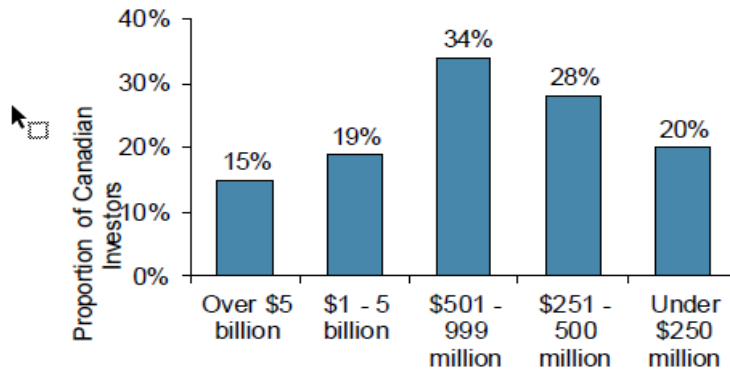
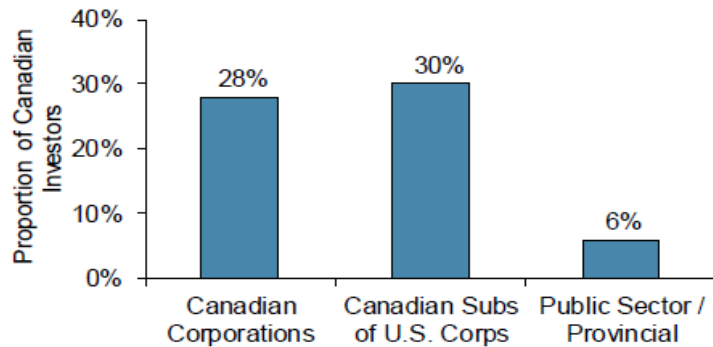
DC Plans Continue to Grow in Canada Though DB Plans Still Dominate the Market



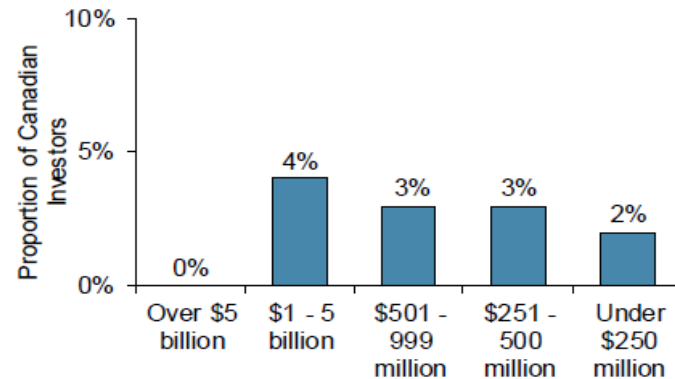
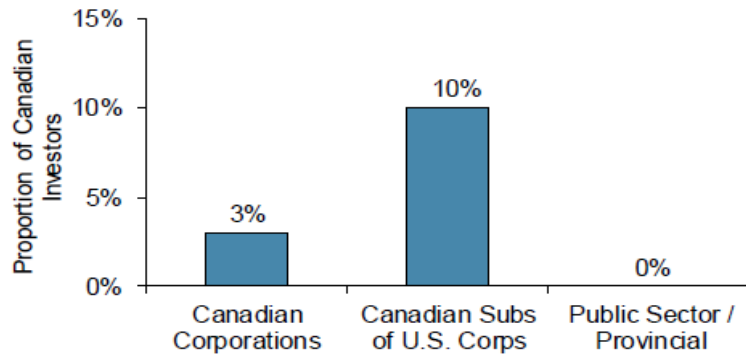
Defined Benefit Plan Closures

Less than a third of corporate DB plans are now closed and Canadian subs of U.S. corporations lead the way in terms of migrating to DC.

DB Plans Closed to New Employees



DB Plans Expected to Close in the Next 5 Years



Source: Greenwich Associates, Canadian Institutional Investors 2016.

Greenwich Associates

Current DC Investment Approaches

Investment Proposition

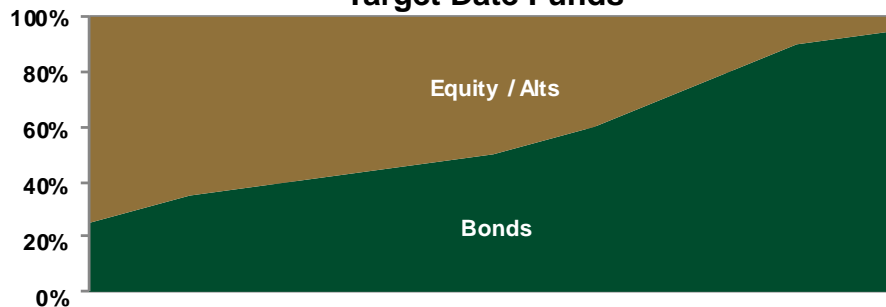
- **“A la carte”**
 - Choices of Equities / Bonds / Alternatives
 - Participants decide mix
- **“Do it for me”**
 - Diversified Funds
 - Target Date Funds (“to” or “through” retirement)
 - Target Risk Funds



Challenge

- Low investment literacy
 - Multiplications of funds offered
 - Complexity of alternatives
 - Irrational behavior
 - Short term performance focus
-
- Fiduciary responsibilities put on sponsor
 - Herd mentality (with industry standards)
 - Binary de-risking strategy (Equities vs bonds)
 - Lower participants flexibility

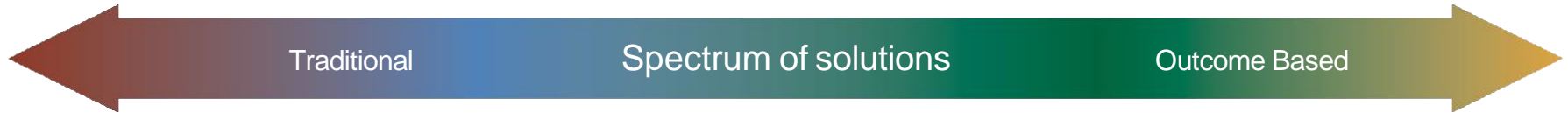
Target Date Funds



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In the current market conditions, could this be a “lose-lose” proposition for participants in terms of meeting retirement goals ?

RETIREMENT SOLUTIONS IN TODAY'S MARKETPLACE



Traditional mutual funds:

- Equity / bond funds
- Balanced funds
- Target date funds

Income funds:

- Mutual funds with regular dividend

Insurance Products:

- Annuity / Variable Annuity
- Endowment Spending
- Stable Value

Low predictability of income, particularly well into the future

Not enough money or no intention to leave a legacy

Do not purchase insurance products

Security of income is the top priority. Very risk averse

Have limited knowledge or time to manage own investments

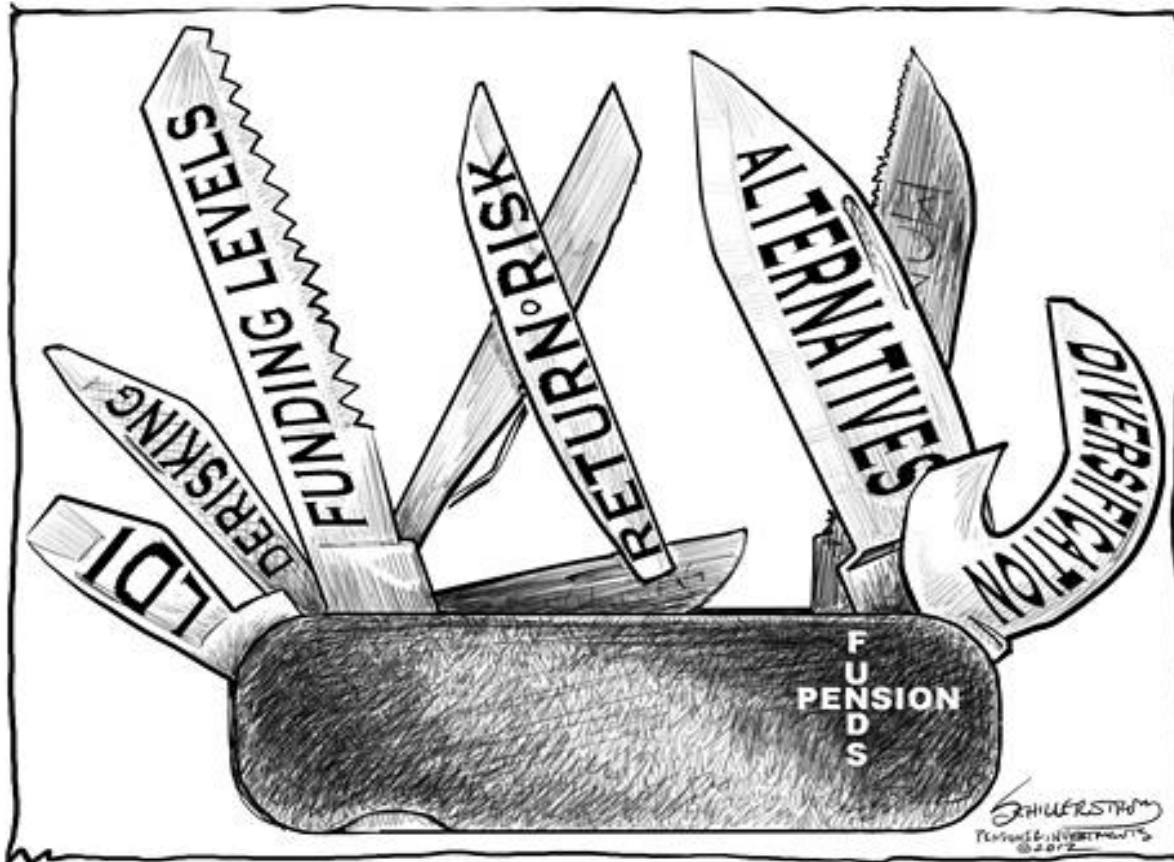
Vehicle doesn't automatically provide secure, sustainable income stream

Liquidity constrained; penalties to access assets

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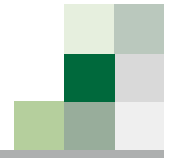
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What Can Plan Sponsors Do?

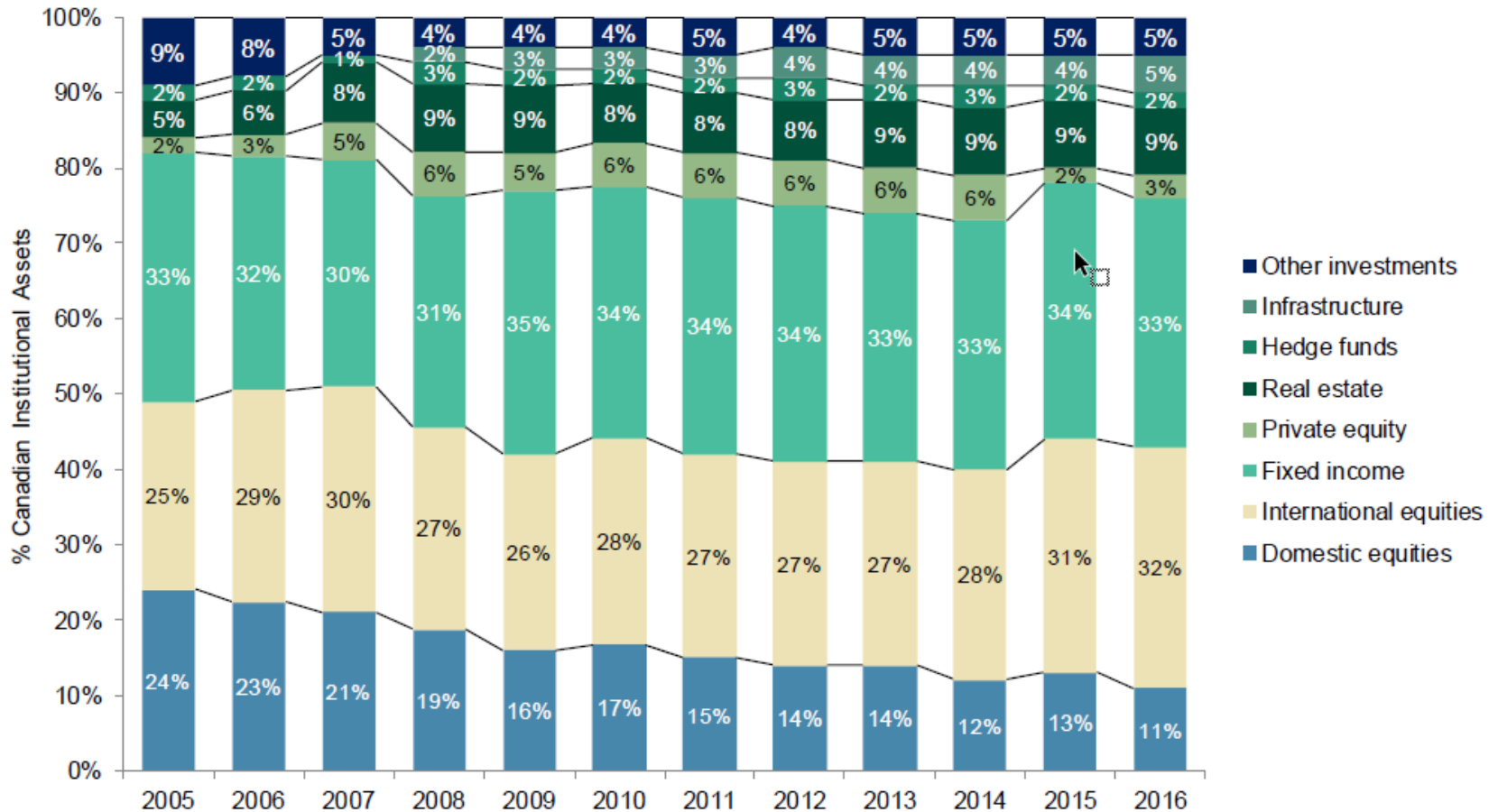


Credit/Source: Roger Schillerstrom

Canadian Plan Sponsors Decreasing Domestic Exposure



Canadian equity allocations continue their decline in portfolio allocations in favor of non-domestic equities and alternatives.



Source: Greenwich Associates, Canadian Institutional Investors 2016.

Note: Assets are projected to the Greenwich Associates universe of Canadian institutional investors.

"Other" includes Non-Canadian bonds, commodities, traditional guaranteed investment contracts, stable value investments, traditional balanced funds, target retirement funds, target risk fund, real estate investment trust, money market, cash and short-term investments, and other.

Greenwich Associates

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The Challenge



- By traditionally focussing on the accumulation phase, DC plans may not be meeting the participants desired post-retirement results
- In current volatile and low-rates market conditions Target Date Funds (TDFs) or Target Risk Funds (TRFs) may not be fulfilling participants expectations of savings for retirement

A possible revised approach:

- Move to an outcomes-oriented savings framework
- Where savings serve a clear purpose of building a post-retirement predictable decumulation experience

A Shift To More Objective Based Solutions



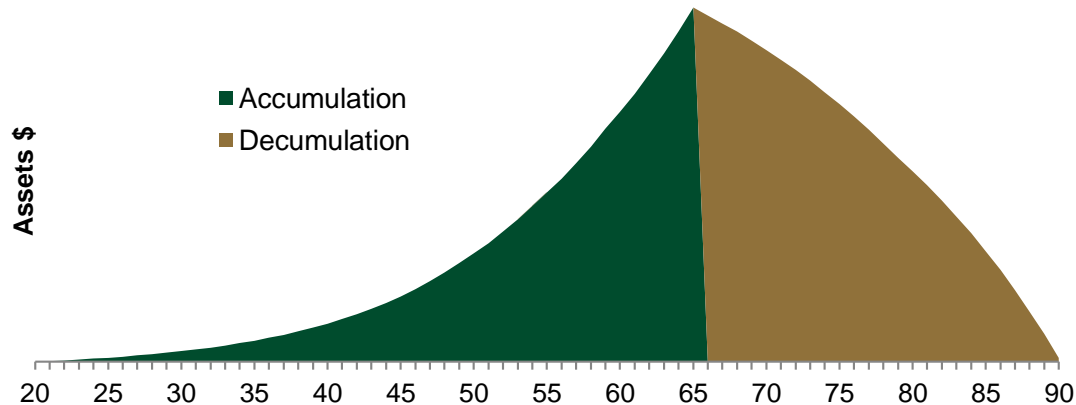
Maturity of market

- Growth of Target Date Funds / Life Cycle Funds
- Need an offering that goes beyond the accumulation mode

Growing demand for outcome-oriented solutions

- Loss of appeal of the traditional balanced funds
- Shift to income replacement strategies vs. risk/return targets

Retirement Wealth Accumulation Decumulation Curve



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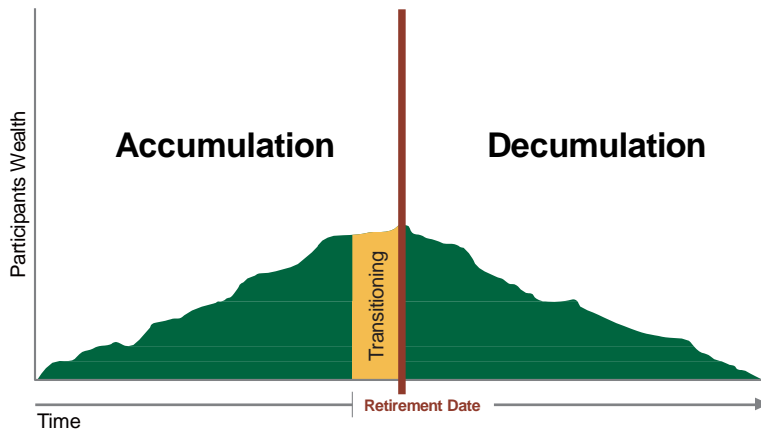
Focus on Addressing Retirement Goals



Retirement savings programs typically focus on the asset accumulation phase, are risk-based, which may not meet a participant's desired post-retirement outcomes



Retirement Wealth Accumulation Decumulation Curve



Challenges faced by retirees:

- How can I convert my saving assets into a personalized **retirement income**?
- Can my portfolio be managed to **secure** retirement income payout?
- Can I **improve** my retirement income by taking some investment risks?
- How will I effectively **de-risk** as my target outcome is reached?
- How do I address **longevity risk**?

Source: Manulife Asset Management, for illustrative purposes only

Next Generation Goals-Based Investing (“GBI”)



Rooted in Asset-Liability Management



- Focus on specifically addressing the goals of the investor, rather than risk tolerance
- Multiple “definitions” of risk
 - Annualized portfolio volatility
 - **Providing sufficient capital appreciation**
 - **Mitigating longevity risk**
 - **Maximizing withdrawals in retirement**
- Aligns investment approach with goals, time horizon and stage in life

GOALS-BASED

Liability Driven Investing is not Just for Institutions Anymore



Individual



- Tuition payment
- Mortgage
- Home equity loan
- Car payment



Institution



- Legal obligation
- Pension obligation
- Bond payment
- Corporate project

Distinct Need For Regular, Consistent Income

Liability-Driven Investing is an investment framework that is structured around modeling and meeting the payment of income to match an individual's or an institution's liability, while protecting against interest rate risk

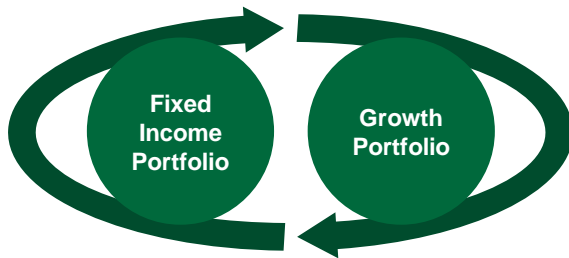
Dynamic Liability-Driven Investing



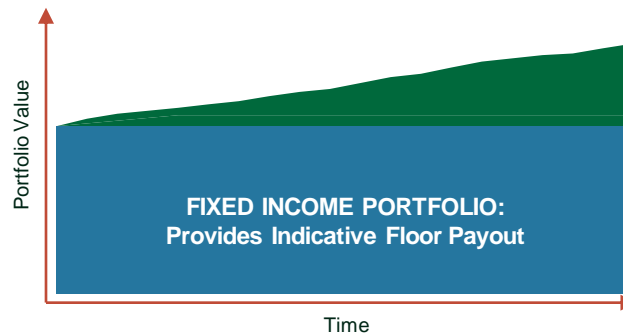
Dynamic Liability-Driven Investing is NOT a systematic, long-duration fixed income strategy



Dynamic asset allocation between portfolios



Payout expected to increase as growth assets get converted into fixed income assets



This strategy seeks to secure a minimum income stream and ensures continued growth over time as an investor moves from the accumulation phase to the decumulation phase

Source: Manulife Asset Management, for illustrative purposes only

Accumulation and Decumulation Growth Portfolio



Active Multi-Asset Framework Employed for the Growth Portfolio Throughout both Accumulation and Decumulation Phases

Growth

- Domestic equities
- Foreign equities
- Private equity
- Small cap
- ...

Income

- Bonds (gov'ts, credit, high yield, etc...)
- Dividend equities
- REITs
- Real assets (real estate, etc.)
- ...

Capital Protection

- Absolute return products
- Hedge funds
- Real assets (real estate, etc.)
- Money market
- Floating rate notes
- ...

Inflation Protection

- Real return bonds
- Real assets (real estate, etc.)
- ...

Technology is Playing a more Prominent Role for Participant Engagement



- Digital retirement planning tools have evolved
- Robo advisors are catering to younger generation



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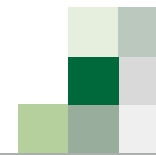
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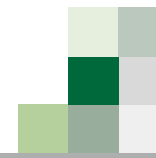
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