Retirement Decumulation Strategies
Next Generation

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Agenda

- The Canadian Environment
- Current Approaches to Retirement Decumulation
- Next Generation of Decumulation Strategies
What is the life you want to live in retirement?

What is the financial plan to surround your retirement dreams?

What are your health needs to support your lifestyle?

Ideal State
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!**


**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.

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**DB Plans Closed to New Employees**

- Canadian Corporations: 28%
- Canadian Subs of U.S. Corps: 30%
- Public Sector/Provincial: 6%

**Proportion of Canadian Investors**

- Over $5 billion: 15%
- $1 - 5 billion: 19%
- $501 - 999 million: 34%
- $251 - 500 million: 28%
- Under $250 million: 20%

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**DB Plans Expected to Close in the Next 5 Years**

- Canadian Corporations: 3%
- Canadian Subs of U.S. Corps: 10%
- Public Sector/Provincial: 0%

**Proportion of Canadian Investors**

- Over $5 billion: 0%
- $1 - 5 billion: 4%
- $501 - 999 million: 3%
- $251 - 500 million: 3%
- Under $250 million: 2%
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

**Target Date Funds**

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<th>0%</th>
<th>20%</th>
<th>40%</th>
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<th>80%</th>
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<tbody>
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<td>Equity / Alts</td>
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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

For illustrative purposes only.
What Can Plan Sponsors Do?
Canadian Plan Sponsors Decreasing Domestic Exposure

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

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
The Challenge

- By traditionally focusing 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

For illustrative purposes only.
Retirement savings programs typically focus on the asset accumulation phase, are risk-based, which may not meet a participant’s desired post-retirement outcomes.

Focus on Addressing Retirement Goals

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
Liability Driven Investing is not Just for Institutions Anymore

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.

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

- Legal obligation
- Pension obligation
- Bond payment
- Corporate project
Dynamic Liability-Driven Investing is NOT a systematic, long-duration fixed income strategy.

Dynamic asset allocation between portfolios

- **Fixed Income Portfolio**
- **Growth Portfolio**

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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