TYLER
& ASSOCIATES
Financial Services

Sound Advice

"If I Had a Million Dollars"

By Rod Tyler, CFP, R.F.P., CLU

"If I had a million dollars
We wouldn't have to eat Kraft Dinner
But we would eat Kraft Dinner
Of course we would, we'd just eat more
And buy really expensive ketchups with it
That's right, all the fanciest ke...
dijon ketchups!
Mmmmmm, Mmmm-Hmmm"

The song, **"If I Had a Million Dollars"** by the Barenaked Ladies was a big hit back in the 1990s. I think its appeal was largely because it sounded so dreamy and unrealistic, and was performed by a typical Canadian musical group whose greatest ambition appeared to be to have lots of expensive ketchup to add to their Kraft Dinner.

Fast forward 20 years. Ask that question again, "If I had a million dollars" and you might just get a different response. Consider the following example. Imagine attending a pre-retirement workshop. Most of the attendees are between 50 and 65 years of age. Many couples have combined pension and RRSP savings totalling $750,000. Some have been able to save an extra $250,000 or may receive inheritances of a similar amount. If you add them together, presto, you do have a million dollars. That is the good news. The bad news is, to paraphrase Yogi Berra, "A million dollars isn't what it used to be." More accurately, two things have happened in those last 20 years. The first thing that you may have noticed is that everything we want and need seems to cost more.

Let's consider a couple of examples. How much do you remember paying for a car 20 years ago? Let's suppose you purchased a Honda Accord in 1990. You would have paid approximately $14,000. Today, you could expect to pay approximately $30,000 for a 2011 model, plus an extra 10% for GST and PST.

Similarly, do you remember the cost of your combined cell phone, telephone and cable bill back then? Well, you probably didn't have a cell phone and the cost was probably about $50 combined. Today it is not uncommon to spend $100-200 per month for the privilege of being "connected." I think you get the idea. The goods (cars) and services (telecommunications) simply cost more. Of course, who would want to be without either in today's world?

The second phenomenon we are witnessing is that your savings and investments just don't earn as much as they used to. Another way to describe this is to consider interest rates for the last 20 years. In 1990, a 5-year GIC yielded 10%*. Today you can expect to earn about 2%. If you need access to any of the money sooner, you will need to accept even lower rates.

So let's compare 1990 to 2011. In 1990 a million dollars would produce $100,000 of predictable, safe GIC income. In 2011, at 2%, that amount has fallen to $20,000. And we just witnessed how everything we want and need has gone up in price, while all our income from "safe" investments has declined by 80%.

No wonder the public is so concerned about the safety of their investments and pension income.

The Solution

I suggest that despite what you have just read, all is not lost. There are clear strategies available to all of us to overcome this dilemma of low interest rates and rising living costs. Here are the ways to combat this problem and to look forward to a satisfying and dependable retirement income.

Strategy 1 - Work with your financial planner to complete a written comprehensive financial plan. This is your **retirement roadmap**- the document that provides you with a clear understanding of how much money you will need and where it will come from.

Strategy 2 - Work with your financial planner to more fully understand your comfort zone with respect to risk and reward. If you do this, and revisit it regularly, you will be much more confident about your investment decision and not worried about changing directions every time some world event occurs.

Strategy 3 - Develop a guaranteed source of income. This can be done by working with your planner to identify and create specific sources of income that will not change because of some political or financial shock, or is not subject to the whims of interest rates. This can include the use of a guaranteed minimum withdrawal benefit account, annuity income and specific government guaranteed incomes, such as CPP.

Strategy 4 - Include in your investment portfolio one of the Warren Buffet solutions to successful investments. More specifically, you can combat the effect of inflation by owning a select group of the companies which provide you with the very goods and services that you want and need and on which you will be spending your money.

As the prices of these same services and goods continue to rise, you will have the benefit of owning these same companies. The result is that you are participating in their growth and will have more money to fund your retirement. For more on this strategy be sure to read the article entitled, ***"Saturday Morning Shopping"*** in the next quarterly issue of *Sound Advice*.

Strategy 5 - Equip yourself with a backup plan. One of the realities of life is that it sometimes challenges us with risks for which we didn't plan. Health risks are a good example. You can work with your professional financial planner to develop your own set of fully funded insurance plans that will enable you to protect against the cost of unplanned health expenditures.

HOW TO FUND RETIREMENT?

	25 Years Ago	Today
Canada Savings Bond (1Yr)	10.1%	0.65%
5 Year GIC	10.8%	2.1%
S&P/TSX Dividend Yield	4.2%	2.6%
Inflation	4.0%	3.7%

Courtesy of IA Clarington Investments

For more on your personal backup plans make sure to read my article, ***"Don't Leave Home Without It."***

Strategy 6 - Plan to live longer than you thought. The baseball player, Mickey Mantle, famously remarked, "If I knew I was going to live this long, I would have taken better care of myself."

The extraordinary advances in medical science are just beginning to yield results that will enable people to live better and longer than ever before in human history. The challenge to all of us is that the public health care system is being overwhelmed by increasing costs. The best strategy for any of us is to obtain fully funded solutions such as **critical illness** and **long-term care coverage**. These and other financial solutions will protect you from the rising costs of health care and provide you with access to life-extending solutions not easily available otherwise.

If you put all these strategies in place you can choose to eat lots of Kraft Dinner because you want to, not because you have to. And you can add all the ketchup you please!

Don't Leave Home Without It

By Rod Tyler, CFP, R.F.P., CLU

You may remember the expression **"don't leave home without it"** from a long-running ad campaign by American Express. What you may not remember is that at one time, one of the challenges of world travel was that there was no widespread acceptance of credit cards anywhere in the world. It all seems so distant now, but when American Express introduced this ad campaign in 1975, it was providing travelers with the confidence that if you ever lost all your money or credit cards, one call to American Express would guarantee you that funds would be available virtually anywhere in the world. And most hotels and restaurants would accept the AMEX card.

Of course all of that has changed, and now travelers can choose from VISA or MasterCard or other ways to ensure they have a way to pay for their expenses. But what about all those other protections you may be leaving behind when you retire or go traveling? I am speaking about the risks to your health, your medical coverage and your income. And what about your life insurance? Will you still want to keep some of that protection?

For many people, these protections were all included in the group insurance they had while working for their employer. However, once you leave work or retire, the availability or the affordability of that insurance protection may cease, or become unaffordable. So what can you do? Here is my advice.

The first thing to do is take a good look at your overall insurance coverage. In other words, take inventory. What do you have already, what do you need, or not need, and what will it cost? The best way to do this is to work with a trusted insurance advisor, preferably someone with his or her Chartered Life Underwriter designation.

During a discussion with your advisor you will learn about the value of the following forms of protection:

1. **Critical Illness Coverage:** This type of insurance pays a lump sum of cash for diagnosis of approximately 24 diseases, the most common of which are cancer, heart attack and stroke. If you should be faced with recovering from these difficult health issues, you will have a significant sum of money to seek medical solutions, or cushion you from any other expenses you may incur. And if you are far from home, this would provide a very comforting feeling of confidence about your financial obligations.

2. **Travel Insurance that is valid until your 80th birthday.** This eliminates the need to reapply each year. You are covered regardless of any change in health.

3. **Personal or Family Medical Coverage:** You can obtain a personally designed insurance program that will provide you with a range of medical, drug, dental and vision coverage. You can also have all the same benefits you enjoyed while working, or only those that you really want. And your insurance plan provides you an access card you can use almost anywhere in North America.

4. **Long-term Care Coverage**: As the baby boomers retire and get older, the strain on the existing public healthcare

system will continue to get even more challenging. Even now there are not enough available spaces to assist the disabled or elderly. A **long-term care policy** will protect families now, and when they are older, from the excessive costs associated with finding a suitable care facility for you or your spouse.

5. **Finally, if you would like to have the benefit and peace of mind associated with a Permanent Life Insurance Policy, now is the time to examine this option.** It will probably never get cheaper because it increases in price as you get older. The best time to get it is when you still qualify medically. Eventually, we will all be uninsurable by virtue of health or old age.

So the next time you go traveling, or if you are planning to retire, you will have your own peace of mind that you do not have to **"leave home without it."** You will have your own personal insurance and backup plan. And if you leave the cold weather back at home, well that's ok too!

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The True Cost of Procrastination

By Zena Amundsen

"You may delay, but time will not."

BENJAMIN FRANKLIN

When Blockbuster had a period of no late rental fees, our family rejoiced! The movies sitting at the back door waiting to be returned no longer equalled a stack of cash. Other than the time we drove away with the movies on the roof of the van, it was the late fees that had cost our family a small fortune at the movie store.

My late fees are a perfect example of procrastination. In the evening I would be too busy or exhausted to drive to the movie store, so I would tell myself the same thing each time, "I will return them in the morning." The next morning would be busy and the movies would get left at the back door again. The procrastination cycle went around and around like our puppy in the back yard chasing her tail.

I share this story with you because developing a financial plan and a strategy to save for the future could run the same procrastination cycle as my movie returns to the store. Ignore the little voice telling you to do it another day.

"I have time before I retire to make a plan", **"Maybe next year"** or **"I will wait until I have a specific amount of savings in the bank"**

An example of one of my first experiences with investing and savings was our daughters' RESP accounts. We started these as soon as each girl was born. The initial amounts 14 years ago were low, but the habit was established. I knew approximately how much we thought we needed to save for their post-secondary education. My husband and I revisited the accounts annually and increased the savings amount as we could. If I had told myself, " We can start the RESP in a few years", our savings and budgeting habit would not have been started and we would have missed out on years of potential growth and accumulation.

By starting a financial plan sooner rather than later, a goal and a path can be created to meet your needs. One of the first steps to reaching your retirement goals is to **skip the procrastination cycle** and make your financial plan a priority.