



NAKAMUN

# ADVISOR

AN INFORMATION SERVICE OF THE NAKAMUN FINANCIAL GROUP

FALL  
05

## THINKING ABOUT RETIREMENT?

By Floyd Murphy, CFP, CLU, CHFC, The Nakamun Group, Vancouver

**T**ODAY, A NON-SMOKING male aged 60 can expect to live an average of another 20 years while a non-smoking female of the same age can expect to live an average of another 25 years. As you prepare for retirement, you should consider more than the financial aspects in planning for this very important quarter or more of your life. We expect that you and your Nakamun advisor have already discussed and planned the financial aspects of your retirement.

Some questions to ask yourself as you approach retirement: How are you coordinating the timing of your retirement with your spouse's retirement? What are



you going to do with your time? Where are you going to live? For how many years should you be planning?

### COORDINATING YOUR RETIREMENT WITH YOUR SPOUSE'S

**A**re you and your spouse planning to retire at about the same time? Some people dislike their job so much that the moment they are eligible for retirement, they leave. Their spouse might be in an entirely different situation and choose to work for another ten years or more. As a couple, you should plan how you are going to deal with one of you still working while the other is retired. Too often when one partner is retired and the other isn't, the retiree gets bored waiting for the working spouse to come home. If the retired partner isn't prepared to embark on activities on his or her own, resentment could build.

If both partners are not yet ready to retire, perhaps a compromise can be reached on the date both are willing to agree to stop working. The bonus is that financially, working two or three years more could make a significant difference to your retirement lifestyle.

### FILLING YOUR RETIREMENT HOURS

**W**orking full-time typically means at least 35 hours a week. Considering commuting time as well, you are away from home probably 40 to 60 hours a week. When you retire, what will you do to fill those hours? For the first several weeks or months, you will likely have plans to travel or tackle projects that you are saving for your retirement. This is what you've dreamed about for your retirement, right? Then what?

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# FULLY INSURED AT WORK? — MAYBE NOT!

By R.A. (Bob) Challis, CFP, RHU, TEP, The Nakamun Group, Winnipeg

**I**N DEVELOPING comprehensive financial plans for clients, we often hear, “I have all the life and long-term disability insurance I need through my group plan at work”. This may be true in some cases, but on closer examination, workplace plans often fall far short of expectations, particularly in life, long-term disability, and critical illness insurance.

## LIFE INSURANCE

**G**roup plans typically provide benefits on a flat-dollar or multiple-of-income basis. Flat benefits might range from \$10,000 to perhaps \$100,000 on the high end. Multiple-of-income benefits range from one to four times annual salary. In the majority of plans, regardless of the way benefits are calculated, benefit levels are inadequate to replace loss of the insured’s income in order to meet the needs of the beneficiaries and/or pay creditors.

Here are some other considerations:

- Group life insurance is not portable — if your employment ceases, so does your life insurance protection, and conversion options are restrictive and/or expensive. Your next employer may or may not have adequate coverage and therefore your beneficiaries can quickly and unexpectedly become vulnerable
- Group life insurance premium rates while sometimes inexpensive for older employees or those who smoke, are often more costly than private plans for younger, healthier, non-smoking employees
- Group premium rates are not guaranteed and may be adjusted every year

## LONG-TERM DISABILITY INSURANCE

**I**n the event you cannot work for an extended period of time because of illness, this benefit may appear to replace up to 67 percent of your unearned future income. Some plans have a maximum benefit of \$2,500 per month for 24 months, and if that’s the case, anyone earning \$44,776 per year hits the threshold. Beyond that, the higher your income, the greater the risk of un-insured income losses. To properly assess the degree of protection, the risk or potential of loss must first be understood and then contrasted to the benefit available.

Some group long-term disability plans provide benefits for 24 months if you are unable to perform “the substantial duties of your own job”. After the initial 24 months, benefit payments continue only if “you are unable to perform any job”. In other words, you may not be able to perform your own job, but you may well be able to pump gas or wait tables or do light housekeeping, in which case, your group long-term benefit payments are likely to end.

The following table illustrates potential lost income by calculating total earning from current ages between 25 and 60 until retirement age of 65 and comparing those totals with benefits from a typical plan that provides 67 percent of income to a maximum of \$2,500 per month for 24 months. The comparisons are done for earnings levels ranging from \$30,000 to \$100,000 and might be a shocking reality check!

POTENTIAL LOST INCOME					
Assuming no annual increase in salary, retirement at age 65, and benefits of 67 percent of income to a maximum of \$2,500 per month for 24 months:					
Age Now	Annual Earnings	Earnings By Age 65	Total Benefits 24 mos@67%	Income not Replaced	%Income Replaced
\$30,000					
25		\$1,200,000	\$40,200	\$1,159,800	3.3
30		\$1,050,000		\$1,009,800	3.9
35		\$900,000		\$859,800	4.5
40		\$750,000		\$709,800	5.4
45		\$600,000		\$559,800	6.7
50		\$450,000		\$409,800	9.0
55		\$300,000		\$259,800	13.5
60		\$150,000		\$109,800	27.0
\$40,000					
25		\$1,600,000	\$53,600	\$1,546,400	3.3
30		\$1,400,000		\$1,346,400	3.8
35		\$1,200,000		\$1,146,400	4.5
40		\$1,000,000		\$946,400	5.4
45		\$800,000		\$746,400	6.7
50		\$600,000		\$546,400	9.0
55		\$400,000		\$346,400	13.5
60		\$200,000		\$146,400	27.0
\$50,000					
25		\$2,000,000	\$60,000	\$1,940,000	3.0
30		\$1,750,000		\$1,690,000	3.4
35		\$1,500,000		\$1,440,000	4.0
40		\$1,250,000		\$1,190,000	4.8
45		\$1,000,000		\$940,000	6.0
50		\$750,000		\$690,000	8.0
55		\$500,000		\$440,000	12.0
60		\$250,000		\$190,000	24.0
\$75,000					
25		\$3,000,000	\$60,000	\$2,940,000	2.0
30		\$2,625,000		\$2,565,000	2.6
35		\$2,250,000		\$2,190,000	2.7
40		\$1,875,000		\$1,815,000	3.2
45		\$1,500,000		\$1,440,000	4.0
50		\$1,125,000		\$1,065,000	5.3
55		\$750,000		\$690,000	8.0
60		\$375,000		\$315,000	16.0
\$100,000					
25		\$4,000,000	\$60,000	\$3,940,000	1.5
30		\$3,500,000		\$3,440,000	1.7
35		\$3,000,000		\$2,940,000	2.0
40		\$2,500,000		\$2,440,000	2.4
45		\$2,000,000		\$1,940,000	3.0
50		\$1,500,000		\$1,440,000	4.0
55		\$1,000,000		\$940,000	6.0
60		\$500,000		\$440,000	12.0



diagnoses of cancer, strokes, and other critical medical afflictions occur at very early stages. If you are diagnosed, most often you can access early treatment and recover to go back to work long before long-term disability benefits start or end. However, during treatment and recovery you would be unable to work and if you have no insurance coverage, your income could be significantly reduced.

Critical illness plans are designed to deliver tax-free cash payments as early as 30 days after diagnosis of a covered illness. Premiums of \$10 to \$30 monthly for this type of insurance can provide \$20,000 to \$50,000 benefit per employee.

### IS YOUR GROUP INSURANCE ENOUGH?

**F**or assistance in evaluating whether or not your group insurance plan provides adequate coverage for your needs, please call your Nakamun advisor. ☎

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### CRITICAL ILLNESS INSURANCE

**M**ost group plans do not include critical illness insurance. With medical testing techniques continually improving,

# FOREIGN CONTENT RESTRICTIONS ELIMINATED

By Garry Keiller, The Nakamun Group, Edmonton

**T**HE FEBRUARY 23, 2005 Federal Budget eliminated the previous maximum 30 percent foreign content that had been allowed within a Registered Plan. Prior to that date, anyone who held more than 30 percent of the book value of their Registered Retirement Savings Plans (RRSPs), Locked In Retirement Accounts (LIRAs), Registered Investment Funds (RIFs), or Locked-In Retirement Income Funds (LRIFs) in foreign holdings was subject to penalties imposed by Canada Revenue Agency. Anyone who might have faced a foreign content penalty after February 23, 2005 will have those penalties reversed.

Most industry analysts do not expect to see much movement from Canadian to foreign investments as a result of this change. The Canadian market has outperformed many other markets recently, and as a result, investors have been moving away from foreign investments in favour of domestic holdings.

As we explained in our Summer 2005 newsletter, foreign investments face added



risk as a result of currency fluctuations. When the Canadian dollar appreciates against other currencies, returns on foreign investments when expressed in Canadian dollars, are negatively affected. On the other hand if the Canadian dollar weakens

against other currencies, yield on foreign holdings improves.

We feel that the elimination of foreign content rules is a positive move. ☎

## THERE ARE THREE STAGES OF A TYPICAL RETIREMENT:

From retirement to about age 75 — when you're active and are able to do whatever you want to do

Ages 75 to 85 — when you or your spouse has a health restriction and begin to require some assistance with daily living activities such as gardening or housekeeping

After age 85 — when most people are dealing with a health issue that significantly affects their lifestyle

Those first 15 years of your retirement, when you have the freedom and ability to do just about anything you choose to do, are the years for which you need to plan meaningful and challenging activities to fill your new-found hours.

Some people phase out of work by scaling back to part-time or job sharing. Others start their own business, while still others find volunteer activities. The key is to keep busy and always have purpose. One gentleman in his 90s always kept a notebook and pencil in his pocket and when he came across something that needed to be done, added the item to his list of things to do. Each day when he woke up, his goal was to do something on his list. The point is that he always had a purpose to his day. That's important for continuing physical and mental wellbeing.



## CHOOSING WHERE TO LIVE

When you retire, consider thoughtfully your choice of home. If, for whatever reason, you choose to move to a different community, two fundamental questions to answer are:

- Will you be able to replace the friends you are leaving?
- Are the medical and support services you require available in the new community?

Some retirees move to be near one or more of their children. The same two questions apply and there is another one: might your child be transferred or for any other reason move to another community?

## PLANNING FOR SUFFICIENT YEARS

We all know people who are living well into their 90s or even beyond 100. With average lifespan being 82 for males and 85 for females, there's a good possibility that at least one of a couple will live another 30 years if both retire at age 60. You and your spouse need to take that into consideration when planning all aspects of retirement, including finances and activities.



## TALK TO YOUR NAKAMUN ADVISOR

Your Nakamun advisor is experienced and conversant in all aspects of retirement planning. Please talk to us about your retirement plans and if we are not able to help you resolve your specific issues, we can certainly refer you to an appropriate professional. We urge you to start early with financial planning and as your retirement date approaches, plan all aspects of your retirement. Many people spend their entire lives dreaming about their retirement years. Make sure your retirement is the best possible, in every way!

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