

# Investment UPDATE

## Planning is the key to financial security throughout your retirement

It's natural that you might be concerned about how your savings will support the retirement you desire, especially if you are close to retiring or are newly retired. The best strategy is to focus on the three steps that make up a successful retirement plan: estimating your expenses, estimating your income and finding a way to bridge any gap between the two.

### Step 1: Estimate your expenses

The starting point for determining how much income you will need in retirement is knowing how much you spend now. You can get an accurate estimate by monitoring your expenditures over a relatively short period using this simple strategy:

- › Use one bank account for all your transactions and bill payments.
- › Make sure all your debit transactions come from the same account.
- › Use only one credit card.

Track only those expenses that will carry through to retirement. For example, if

you know you will have paid off your mortgage, you can remove it from your list of retirement expenses. Of those expenses that will continue, total them at the end of each month for three months.

To identify priorities, divide your spending into three categories: needs (essential items such as food and housing), wants (extras such as restaurant meals), and dreams (luxury items). The amount you spend on each category will help you assess whether your retirement income will support a basic lifestyle – the must-haves – or a more comfortable one.

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## Step 2: Estimate your income

Your sources of income will change when you retire. Instead of employment earnings, you'll be drawing income from a number of different sources — some of it guaranteed and some of it variable. These are summarized in the following table.

Type of income	Sources	Key considerations
<b>Guaranteed income</b>	<ul style="list-style-type: none"> <li>› Company pensions</li> <li>› Government benefits, such as Canada Pension Plan (CPP) or Quebec Pension Plan (QPP) and Old Age Security (OAS)</li> </ul>	<ul style="list-style-type: none"> <li>› Secure; not affected by market movements or fluctuating interest rates</li> <li>› CPP/QPP and OAS indexed to inflation</li> <li>› Taxed at marginal rate, just like employment income</li> <li>› OAS subject to “clawback” when income from other sources surpasses a certain level</li> </ul>
<b>Cash reserves</b>	<ul style="list-style-type: none"> <li>› Cash and cash-like investments, such as Treasury bills or money market funds</li> </ul>	<ul style="list-style-type: none"> <li>› Provide steady income and liquidity</li> <li>› Not volatile</li> </ul>
<b>Investment income</b>	<ul style="list-style-type: none"> <li>› Interest, dividends and capital gains generated by stocks, bonds and mutual funds held in registered and non-registered portfolios</li> </ul>	<ul style="list-style-type: none"> <li>› Can be significantly affected by market fluctuations</li> <li>› May dwindle as capital is drawn down in retirement</li> </ul>
<b>Alternative income</b>	<ul style="list-style-type: none"> <li>› Employment income</li> <li>› Tapping into home equity by downsizing or taking out a loan or line of credit</li> <li>› Rental or recreational real estate</li> </ul>	<ul style="list-style-type: none"> <li>› Tax treatment dependent on source of income</li> </ul>

In most cases, it's advisable to draw on your non-registered assets before taking money from your Registered Retirement Savings Plan (RRSP) or Registered Retirement Income Fund (RRIF). The reason is that RRSP and RRIF withdrawals will be fully taxable at your marginal rate. Investments that remain in your registered plans will continue to benefit from tax-deferred compound growth. These investments may also qualify for rollover into a spousal plan after your death. On the other hand, withdrawals from your non-registered investments may trigger capital gains or reduce your capacity to earn tax-preferred dividends.

To get an idea of what your income might look like in retirement, you can use the retirement cash flow calculator at [www.rbcroyalbank.com/redefine/budgetcalculator](http://www.rbcroyalbank.com/redefine/budgetcalculator).

## Step 3: Bridge any gaps

If you find that your expected income isn't sufficient to support the retirement lifestyle you've planned, you need an action plan to correct the shortfall. You might consider the following strategies.

**Accelerate your savings.** Before retirement, your last few years in the workforce provide a unique opportunity to maximize your savings. Now is the time to maximize your RRSP contributions, including making up any carryforward room and to build up a Tax-Free Savings Account.

**Continue to work.** Many Canadians are choosing to move gradually into retirement by working part-time or on a consulting basis for a few years.

**Pay down debt.** Tackle the debt on which you are paying the highest interest rate first. Consolidating your debt into one lower-cost loan may enable you to pay down more of the principal each month.

**Explore alternatives.** Going through the retirement income planning process can be a valuable reality check. If the retirement you envisioned is out of reach, you may want to adjust your plans to include more modest, yet equally rewarding, pursuits.

For more personalized assistance based on your circumstances, please speak with an RBC® advisor at any RBC branch or call 1-800 ROYAL® 1-1 (1-800-769-2511).

# The one-minute market update

## EQUITY MARKETS

- › In the six-month rally from March lows, stock gains have matched those typical of the first two years of a bull market. A rally of such intensity bears risk of a near-term correction/consolidation.
- › Prospective long-term returns for equities are still very attractive. If stocks simply return to equilibrium, equities should deliver far-superior risk-adjusted returns relative to bonds.

## FIXED INCOME MARKETS

- › Government bond yields have risen from depressed levels to more reasonable rates. Low single digit total returns expected.
- › Central banks likely to keep rock bottom rates in near-term. Initial mild hikes likely to begin in mid-2010, but not before.
- › Despite recovery in credit spreads, significant opportunity remains, particularly in investment grade corporate credit. The gap to government bond yields should narrow further.

## ECONOMY

- › Global recovery likely began in mid-2009, marking the end of the longest and deepest recession since the Great Depression. Growth below 2% expected through 2010.
- › Reflation risks exist beyond the forecast horizon of Fall 2010.
- › Housing appears to have bottomed, the financial system is healing and confidence is being restored, but challenges remain. In addition to funding government deficits, timing the removal of massive policy ease must minimize risk of inflation without reversing the economy.

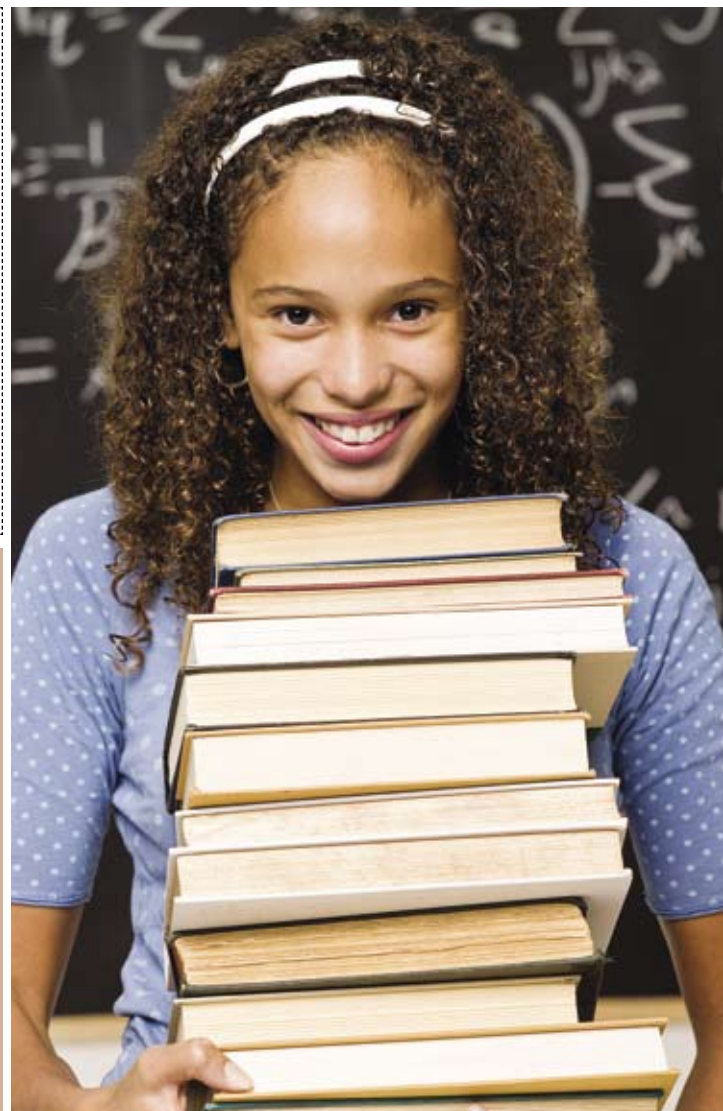
For a summary of the Fall 2009 Market Outlook, please visit our website at [rbcam.com/news/investment-market-outlook](http://rbcam.com/news/investment-market-outlook).

## Saving for the long-term financial security of a person with a disability

**The Registered Disability Savings Plan (RDSP)** allows Canadians with disabilities and their families to set money aside for the future. Government assistance may add up to \$90,000. To learn more, visit [www.rbcroyalbank.com/products/rdsp/index.html](http://www.rbcroyalbank.com/products/rdsp/index.html).

## Remember, family and friends can help with your children's education

**RBC RESP Gift Cheques** can be deposited into any new or existing Registered Education Savings Plan. They're a great way for grandparents, other relatives and friends to help with a child's post-secondary education. To learn more, visit [www.rbcroyalbank.com/products/resp/index.html](http://www.rbcroyalbank.com/products/resp/index.html).



# Unlock the income potential of your investments with RBC Managed Payout Solutions

While short-term investments such as GICs and money market funds might have been able to generate enough income for retirees a few years ago, chances are they no longer can with today's record-low interest rates. RBC Managed Payout Solutions (RBC MPS) are a solid alternative for clients seeking a one-stop solution that generates a regular income stream.

## RBC MPS are ideal for you if you:

- › Need cash flow to meet living expenses or supplement existing income
- › Seek cash flow that doesn't use up your initial investment
- › Can accept some fluctuations in the value of your investment

One of the key benefits of RBC MPS is that they deliver a level of annual income certainty since the payout rates are set at the beginning of each year and typically remain unchanged until

the next year.\* These solutions combine active investment management with a managed payout strategy designed to protect your initial investment through your retirement, and to deliver predictable, monthly tax-efficient cash flows.

### RBC Managed Payout Solutions:

- › Provide monthly tax-efficient cash flows, resulting in more after-tax dollars than a typical fixed income investment
- › Reduce the risk of withdrawing too much from investments, too early
- › Help reduce the effects of inflation and market risk through diversification and active management, so your investment lasts through your retirement years
- › Allow you to access any portion of your money anytime in the event that something unexpected happens

With three payout rates available (5%, 6%, or 7%\*), you can choose the RBC MPS that meets your income needs. Your RBC advisor can work with you to determine the best choice for you, based on your cash flow requirements and your investment goals.

If you are not ready to completely part with the security of GICs, you might consider a combination of RBC MPS and GICs. Generating income in retirement doesn't have to be complicated; you can manage it effectively with the help of your RBC advisor.

**For more information about RBC Managed Payout Solutions, please visit [www.rbcam.com/mps](http://www.rbcam.com/mps) or contact your RBC advisor.**

\* Payout rates are not guaranteed and may be adjusted depending on future market conditions. Cash flow from mutual funds should not be confused with mutual fund rates of return.

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