

## The Value Equation and You



Challenging Thought  
Changing the Game  
Call to Action

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™Trademark and marketing identity of The Empire Life Insurance Company. Policies are issued by The Empire Life Insurance Company.

## What today's ads say;...

"If you are not happy with the returns that you have received, we would like to sit down with you,"

You may not have had the best investment advice; we think we can do better.

Best and worst performers  
Ranked by one-month returns

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## Points to Ponder

- What clients are looking for
  - different version of what they already have?
  - Investment advice little more than fund recommendation and chasing ROR
- What about the big picture? The whole picture? The whole job?
- Jaded clients no longer believe in superiority of one investment advisor over another

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## Client risks

- Fear
- Over reaction
- Market timing

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## 10 reasons for investment failure

1. Failing to have a financial plan
2. Procrastinating
3. Failing to diversify
4. Ignoring the impact of taxes
5. Ignoring the impact of inflation
6. Not staying invested in the market
7. Not paying yourself first
8. Not seeking professional advice
9. Not protecting your earning power
10. Taking unnecessary risks



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## 10 reasons for investment failure

### What's not on the list?

1. Not getting consistently high rate of return
2. Not getting high short term rates of return
3. Beating the market
4. Consistent first quartile performance
5. Constant rejuvelling of portfolio
6. Timing the market
7. Paying for guarantees
8. Using insurance based products
9. DIY (as an investor or advisor)
10. DIA (as an investor or advisor)

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## Accumulating money – the 3 things you need

- Dollars
- Time
- Rate of return
  
- Why continually focus on the factor over which you have the least control?
- Hard lesson to learn even today

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## More on ROR

- The biggest number?
  - Generally the bigger the number the bigger the risk
  - Gross, after tax, reportable, most probable, predictable?
  - Match the need and plan
    - Where's the plan?, what does it say? does it work for you? How often is it reviewed
    - Review the solution against the plan – regularly
    - Stress testing the plan
    - Aligning plans and behaviours

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## Planning opportunities

- Only 4/10 Canadians know amount of future retirement income
  - Twice as many >@45 vs. <@45
  - 61% of high income vs. 28% of middle income
- Among affluent Boomers 75% have no formal, written retirement plan for guidance
  - Even though they predict significant income declines but expect no decline in standard of living

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## Canadian Views on Health in Retirement

- 71% of male workers feel they will suffer from health problems during retirement & think only 11% of women will
- female workers feel 55% of males will suffer from health problems during retirement and think only 12% of women will



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## Value-Building Strategies

### Maintain service, responsiveness, and consistency

- Quarterly client meetings
- Move from transactional based to service based operations
- Client relationships
  - reactive to proactive
  - adding value



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## Value-Building Strategies

### Maintain service, responsiveness, and consistency

- It's about continually adding value
  - If clients have no reason for continuing to pay
  - ...buyer not going to pay much of a premium



- the value equation and you
  - If not you...when not you...then who?



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## Your value proposition

- Do it yourself?
- Do it at all?
- Do it right?
- Do it right now?
- Doing it alone is a way – generally not the better way

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## Rate of Return and impact on Accumulation vs. Withdrawal

Year	1	2	3	4	5	6	7	8	9	10	Average Return	Acc. Value	Withdrawal Value
A	7	7	7	7	7	7	7	7	7	7	7%	\$196,715	\$100,000
B	9.4	14	13	23	-4	10	-1	21	-4	-7	7%	\$196,715	\$117,986
C	-7	-4	21	-1	10	-4	23	13	14	9.4	7%	\$196,715	\$ 83,150

Assuming: \$100,000 deposit for accumulation comparison  
 \$100,000 starting balance for withdrawals  
 \$ 7,000 annual withdrawal for withdrawal comparison

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## Funding retirement

AXA Retirement Scope 2007-08-Wave 4-Canada-January 2008



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## Buy term and invest the difference Theory vs. Practice

- Insurance coverage at lower cost compared to whole life
- Invest the difference and build more equity value
- How is the difference doing?
- Ever get around to investing the difference?
- Done it regularly?
- Other competing issues – spend, deferred spend, who knows?

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## Buy term and invest the difference Theory vs. Practice

- Disciplined enough to have done it and stuck with it?
  - Part of a minority
  - Enough of a difference to qualify/optimize investment options?
  - How's the hands-on investment management felt?
  - How's the rollercoaster ride been?
  - Has the difference made much of a difference?

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## How much is enough?

- Focus on the income side
- What about the expense side?
- Match recurring expenses to recurring income
- Enough to do what....exactly?
- Remember: What do you want to do? When do you want to do it? How do you want to do it? How long do you want to do it? .....no matter what?

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## Caveats and considerations

- When clients recognize need for lifetime income to cover lifetime expenses, much more willing to address via annuities
- Finances in retirement more complex
  - uncertainty of death and increasing possibility of large unanticipated expenses (medical or long-term care)
- Retirement income planning quite different from planning during working life. Past financial planning lessons while working could be misleading in retirement planning

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## Redefining Risk Tolerance

- Review the fundamentals
- What's the real risk tolerance?
- Positive volatility vs. negative volatility
- Stress test your definition and level
  - Most clients have lower thresholds than they let on
- Proper diversification
- Real meaning of risk
- Match the plan to the experience
- Monitor the solution against the plan

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## Advisor's primary responsibility

- Protect the downside of client's plans and portfolios
- Portfolios are not one big block
  - Different purposes, needs, dreams, expectations
- The ostrich approach to client contact
- Unknown and uncharted?
  - Chartered and uncomfortable?



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## Planning points

- Decrease Line 234 on tax return
- Increase Revenue
  - Look at different applications, derivations of Insured Annuity to improve yield and/or further decrease reportable income to optimize silver lining in the tax jacket
- Are dividends always good?
- Watch net income tested benefits
  - Particularly age 65+
  - Gross-up by 45% can have large negative impact

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## Planning points

- Decouple funding of two parts of Insured Annuity
- Decouple timing of funding of Insured Annuity
- Explore guaranteed minimum withdrawal plans as alternative to annuity

Why?

- Increase cash flow without increasing risk - predictable
- Increase effective ROR without increasing risk (tax treatment)
- Guaranteed, maintenance free, administration free

Why not now?

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## Wealth Management - Redefining the role

- Not about managing \$\$\$
- Ability: do what you want, when you want and how you want
- Help define, map out, recommend sustainable solutions and call to action
- Don't just be this but clearly state it to clients
- Help clients enjoy their lifestyle, help their family, provide for the future, create financial comfort and build a legacy
- What makes you different

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## The 'new' you

- specializes in understanding client, instead of specializing in insurance, investment management, tax planning, etc.
- client's primary financial advisor, supported by team of experts in areas client requires, marketing self as such marketing tools — websites, brochures and seminars — all support this position
- focuses on client's life issues, concerns and opportunities first, rather than on specific products

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## The 'new' you

- educator, resource, coach, catalyst and quarterback helping clients tie life issues and dreams to financial resources and strategies
- has discovery process established that systematically and effectively helps everyone understand issues important to the client
- Has a review process that stress tests recommendations and solutions...

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## Lessons from Tom Sawyer

- Leverage your time
- Leverage the expertise of others
- Leverage other's time and effort
- Multiply activities
- Build fences around clients
- Give someone else the paint
- Let them bring their own supplies



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## Why Empire Life

- Financial position (top 8 insurers in Canada)
- Strength, size, security (201% MCCR)
- Canadian focus (no FM, FM, AIG, CB)
- STEPUP

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## Value-Building Strategies

### Embrace Compliance & Education (cont'd)


- get/ stay educated, current, in tune
- current on strategies, options, changing regulations, positioning
- have and network with accredited professionals



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## Pulling It All Together

- Want to move from job  business
- Develop deliverable service philosophy
- Systematize your insurance & investment advising process
- Begin working on your business plan
- Creating your winning business team
- Integrating your business and process systems effectively
- The Financial Plan; putting the numbers in writing

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