Your Guide to Retirement Savings Plans

Wawanesa Life®

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Investment Options

1: Statement of Investment Philosophy

We understand that everyone has a unique set of financial goals and a different timeframe for achieving those goals. Savings goals may be long term - a secure retirement or a summer vacation property, or short term - purchasing a car or renovating the family home.

We believe that a sound investment strategy is essential to the realization of these goals by helping you accumulate and grow your savings over time. The strategy should not be difficult to understand nor require constant monitoring. The investment products selected to carry out the strategy should be easily understood and free of excessive fees or charges that could reduce both future investment flexibility and returns.

2: Investment Strategy Considerations

Many methods have been suggested to assist investors in determining how they should allocate savings to the variety of investment products available in the market. Regardless of the specifics of any method, there are several common factors that should be considered by investors as they develop an investment strategy. The following are some of those key factors:

a) When will the funds be needed?

The answer to this question is the investor's "Investment Time Horizon". The horizon is directly related to the reason you are saving in the first place - the financial goal(s) discussed earlier. If the goal is funding of a child's post-secondary education or the purchase of a new car, the time horizon will be known and quite specific. The time horizon for retirement will likely be more uncertain and will have to be estimated. In general, a shorter time horizon should result in more conservative investment selections. Whatever the reason for investing, the horizon should be realistic and reflect your personal circumstances.

b) The importance of peace of mind

Peace of mind is often referred to as "Risk Tolerance." Each individual investor has a unique comfort level when dealing with investment risk. Risk tolerance is a very important consideration because, for many people, the ability to sleep at night outweighs the potential of higher investment returns associated with more aggressive investments.

As a general rule, there is a correlation between the volatility of a particular investment and the potential returns available from that investment. That is, investments with greater volatility tend to provide higher returns in the long run.

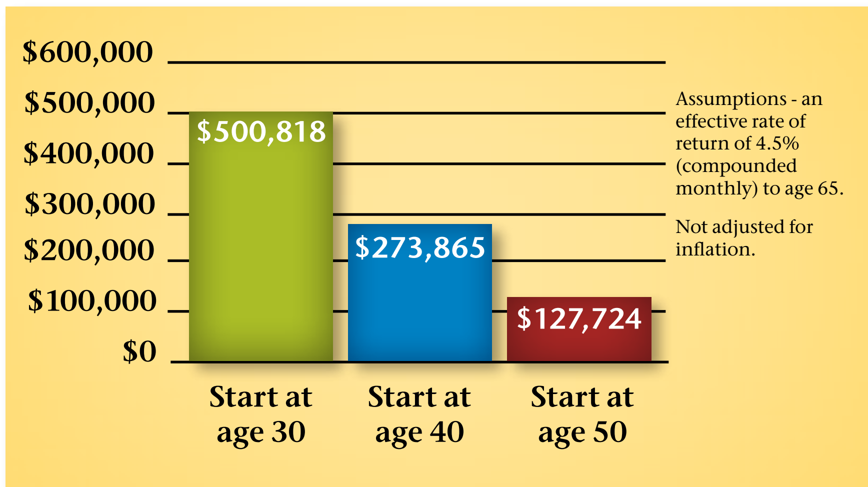
c) Invest early

Starting and building a nest egg is an investment in the future – your future. The sooner you start, the better. Remember, even small, regular contributions will build over time, even if you can't put in the maximum every year. Everything you contribute to your Registered Retirement Savings Plan (RRSP) or Tax-Free Savings Account (TFSA) can grow on a tax-deferred basis, which gives you more money to enjoy in retirement or towards your specific goal.

A little can add up to a lot if you start early enough. If you started saving $500 a month at age 30, by the time you reached the age of 65 you would have accumulated $500,818 compared to only $127,724 if you had instead started at age 50. That's because the earlier you start saving, the more you can benefit from compounding returns.

Even if you didn't start an RRSP or TFSA when you were younger, there's still time to put money away before you retire. Any money you contribute will benefit from compounding returns and the potential of tax-deferred growth. Plus for RRSPs there is the immediate tax benefit.

See the difference in how much you can save if you start putting $500 per month away at age 30, age 40, or age 50.



d) Invest regularly and often

It's easier to save towards your goals on a regular basis throughout the year, rather than trying to come up with a large amount all at one time. Regular automatic contributions are an excellent way to accumulate savings by ensuring that your financial goals maintain their priority. Similarly, the strategy to regularly put away "whatever is left over" can produce disappointing results - even with the best of intentions! By "paying yourself first," that is, regularly investing a portion of your income before taking care of the usual monthly expenses, many people find that they can make do with a little less consumption while saving towards their goals.

The most effortless way is to set up an automatic, regular withdrawal from your bank account for deposit into your RRSP or TFSA.
Ask us how.

e) Creating an investment strategy

Diversification in the investment world is an application of the old principle "don't put all of your eggs in one basket." A well designed portfolio will usually contain a mix of investments from each of the three main asset classes - Cash, Fixed Income, and Equities. Diversification by asset class allows the investor to take advantage of the primary benefits of each class. Available investments include daily interest savings accounts for liquidity and safety, guaranteed investment accounts and bond funds for income and safety, and equity funds for exposure to the world's major stock markets.

Within the Fixed Income and Equity asset classes, diversification can be achieved easily and at a low cost by purchasing units of a segregated fund. Since investment funds typically contain a number of securities issued by many different entities, the "business-specific" risk associated with an investment in a single company's stock or bond can be greatly reduced.

For investors who wish to assume the risk of investing in equities, allocating a portion of those funds to foreign investments may be desirable, as it further increases investment diversification. Individuals who invest all of their savings in Canada are ignoring 95% of the world's investment opportunities. Canada represents less than 5% of the world's stock markets, and many of the largest and most attractive companies are based elsewhere.

Seven Easy Steps

To determine your investment strategy, just complete the following seven steps. The first six steps help to determine an asset mix between Equity and Fixed Income investments and allocation strategy within those asset classes. Step seven suggests an appropriate distribution of guaranteed accounts, if required.

Step 1

Choose the Investment Time Horizon that best suits your situation from the following table:

Investment Time Horizon	Time Factor
Under 2 years	1
2 to 5 years	2
6 to 10 years	3
11 to 15 years	4
Over 15 years	5

Step 2

Which best describes your Risk Tolerance Level?

Risk Factor	
0	You cannot tolerate any risk to your investment.
1	You can accept minimal risk to your capital or require investment income to cover regular expenses.
2	You are looking for both income and capital appreciation and are willing to assume some risk to reduce taxes and hedge against inflation.
3	You are willing to accept risk to maximize potential returns and do not need investment income to meet expenses. You also have money in liquid investments set aside for emergencies.

Step 3

Use your Time Factor and Risk Factor to determine your suggested Equity Percentage in the matrix below:

Time Factor	Risk Factors 0	1	2	3
1	0	0	0	0
2	0	15	25	35
3	0	25	35	50
4	0	30	50	65
5	0	40	60	80

Step 4

Allocate the suggested Equity Percentage into Canadian, United States and International stock markets:

Total Equity %	=	Cdn. Equity %	+
U.S. Equity %	+	International Equity %	

Allocating a portion of total equity investments to foreign stock markets is desirable, as it provides additional investment diversification by geographic region.

Step 5

Calculate the percentage to be invested in Fixed Income Investments:

100 - Total Equity % = Fixed Income %

Step 6

Select a Fixed Income Investment Strategy:

1. Bond Fund (you are finished all steps)

2. Guaranteed Investment Accounts (complete Step 7)

The illustration assumes that only a single Fixed Income strategy is selected. In reality, an investor may choose to allocate a portion of available savings to each. An example might be an individual who uses investment account maturity scheduling to invest a lump sum deposit, then a bond fund for subsequent regular automatic contributions.

In addition, the funds allocated to Fixed Income investments should include a reasonable amount held in cash (daily interest savings) for emergencies and other situations where cash may be required quickly.

Step 7

Ladder your Guaranteed Investment Accounts for risk management

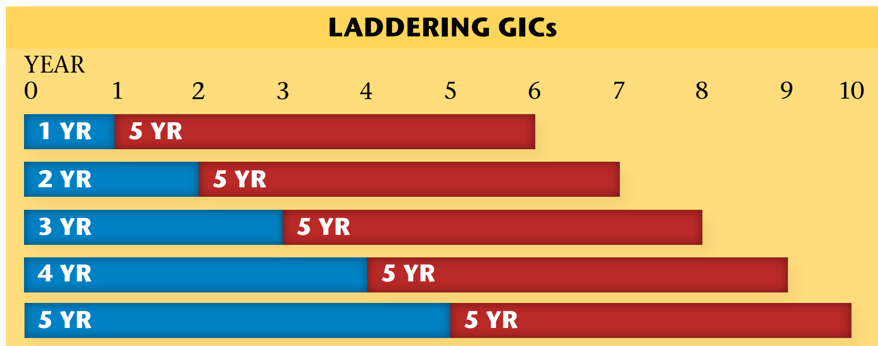
For your Fixed Income component, Guaranteed Investment Accounts (Wawanesa Life's version of GICs) provide predictable, long-term growth and can play a very important role in building a balanced portfolio. By arranging various investment accounts to mature at different times, you can avoid the downside reinvestment risk - having all your Fixed Income accounts mature at once during a period of low interest rates.

Laddering maturities can be achieved by:

- dividing the amount you are planning to invest by 5 (e.g. $10,000 equals five investments of $2,000 each)
- equally investing in five GICs of one- to five-year terms (e.g. $2,000 in a one-year GIC, $2,000 in two-year GIC,...$2,000 in five-year GIC).

As a result, 20% (1/5th) of your portfolio will mature each year. This can be cashed or reinvested for five years at the then prevailing rate. This strategy locks in the portfolio for higher long-term rates, yet also provides liquidity.

It is often difficult to predict future interest rate trends, but laddering maturities provides a strategy for managing the uncertainty of re-investment risk.



What is the difference between a Bond fund and a Guaranteed Investment Account (GIA)?

For a GIA (like a GIC) you are locked in, must hold it until it matures and can't sell it early without losing interest. A Bond fund, on the other hand, holds many individual bonds and as such the rate of return can vary over time as interest rates rise or fall.

f) It can pay to borrow

If you don't have the money on hand, it can make sense to borrow. Over the long term, the benefits of saving within your RRSP could far outweigh the cost of borrowing, and you can use your refund to pay down your RRSP loan.

RRSP LOAN EXAMPLE	
Based on the following assumptions, you would receive a net benefit of $1,840 if you borrowed $5,000 to contribute to your RRSP.	
Marginal tax rate	40%
RRSP loan amount	$5,000
RRSP loan interest rate over the term	6%
Monthly loan payment	$430
Tax savings (in contribution year)	$2,000
Total loan interest over the one-year term	$160
Net benefit	$1,840

3: The Advantages of a Registered Retirement Savings Plan (RRSP)

When it comes time to accumulate money for your retirement few investments provide for the future like an RRSP.

An RRSP is a savings plan registered with Canada Revenue Agency. You can hold a range of investments within your RRSP, including:

- Daily Interest Accounts
- Guaranteed Investment Annuities (our version of GICs)
- Segregated funds (with our Index-linked Market Participation Options)

An RRSP helps you save money on a tax-deferred basis:

- Any money you contribute to your RRSP, up to your contribution limit, is tax deductible.
- You don't pay tax on what your investments earn until you withdraw the money.
- When you retire, go back to school, etc. you may be in a lower tax bracket so you may pay less tax on any money you withdraw.

Income tax advantage

Your annual RRSP contribution can reduce the amount of income tax you pay, especially if you contribute the maximum allowable amount each year. For example, if you earned $60,000 and your maximum allowable RRSP contribution was $10,800 (18% of $60,000), your tax benefit will be $4,320. (Based on a marginal tax rate of 40%)

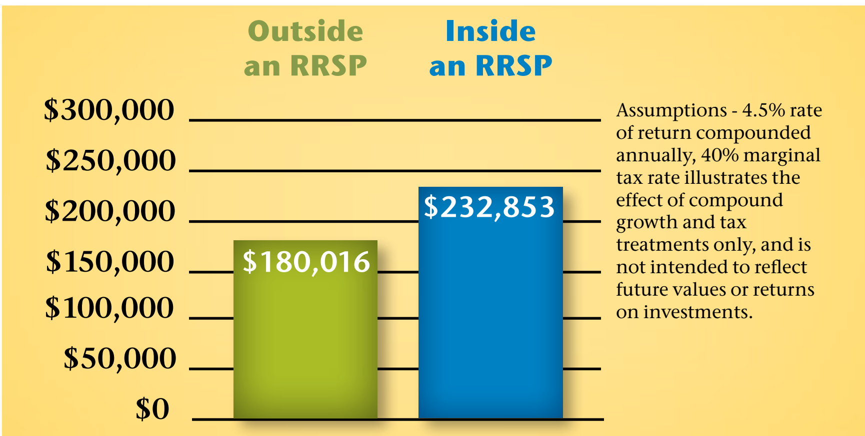
Tax-deferred growth advantage

The immediate tax benefit is a great incentive, but the fact that the money you are putting away may have years of tax-deferred growth potential can be even more important to your long-term financial plan. This can have a significant effect on how much you can save for retirement.

Investing inside vs. outside an RRSP

Choosing to save inside or outside an RRSP (or a Tax-Free Savings Account, see next page) can make a dramatic difference to how much you are able to save for your retirement.

For example, if you invested $5,000 at the beginning of each year for 25 years inside an RRSP, you'd have $52,837 more than if you invested the same amount outside an RRSP in a non-registered account.



4: The Advantages of a Tax-Free Savings Account (TFSA)

Whether saving for short-term goals or longer-term goals a TFSA, like an RRSP, also allows you to accumulate funds tax-free.

As with an RRSP, a TFSA is a savings plan registered with Canada Revenue Agency and provides you with the opportunity to hold the same variety of investments including:

- Daily Interest Accounts
- Guaranteed Investment Accounts
- Segregated funds

If you happen to find RRSPs unattractive due to your currently low tax bracket, TFSAs offer a welcome alternative as you can still save on a tax-free basis while postponing the use of RRSP contributions for when you are in a higher tax bracket.

Tax-free growth and Tax-free withdrawals

Although contributions are made with after-tax dollars (unlike RRSPs), as with RRSPs their growth is tax sheltered allowing you to take advantage of the power of tax-free compounding. The main difference with TFSAs, however, is that withdrawals from TFSAs are not taxed. Funds withdrawn also increase the contribution room dollar-for-dollar giving you increased savings opportunities in the future.

Are there any age restrictions on when a TFSA can be opened or must be closed?

No. Anyone 18 years of age or older can contribute. There is no time limit at which a TFSA must be wound up or converted into another investment vehicle.

Upon death, the value of the TFSA is not included in your income (unlike an RRSP or a RRIF), although any income that accrues after death will be subject to tax. To retain the tax-free status of the account, it may pass to your spouse or common-law partner, or the assets of the account can be transferred to a TFSA of your spouse or common-law partner.

Taking advantage of tax-free growth can potentially have a significant effect on how much you can save towards your goals or retirement.

Will withdrawals from my TFSA affect my eligibility to receive Old Age Security or Employment Insurance benefits?

No, amounts withdrawn from a TFSA are not taken into account in determining income-based government benefits.

5: Wawanesa Life's Investment Products

Investment Options

All Wawanesa Life individual savings plans provide a complete range of investment alternatives. Deposits may be directed to any of the three investment alternatives:

(1) Daily Interest Account

Interest is earned and compounded in this account on a daily basis. The value of the Daily Interest Account is guaranteed by the Company and is defined as cash contributed plus interest earned less any amounts withdrawn. Higher interest rates are paid to accounts with balances exceeding $1,000. Credited rates are competitive with money market funds. There are no administrative fees in this account.

(2) Guaranteed Investment Accounts

Investment Accounts are purchased for fixed terms at guaranteed rates of interest. A wide range of terms are available, from 1 to 10 years. By special request, specific maturity dates may be selected to provide complete flexibility of terms and maturity dates for up to a 10-year period.

There are no administrative charges on Investment Accounts. However, if an account is surrendered before the end of a term, a "Market Value Adjustment" may be charged. This would occur if the interest rate at the date of surrender exceeds the rate guaranteed in the account being surrendered.

The value of each Investment Account is guaranteed by the Company and is defined as cash contributed plus interest earned less any amounts withdrawn and less any applicable Market Value Adjustments.

(3) Market Participation Option (MPO)

The MPO allows a policy owner to purchase units of segregated funds offered by the Company. The MPO provides the opportunity to participate in the Canadian bond market and major stock markets in North America and throughout the world. The segregated funds are all passively managed index funds designed to achieve investment results based on the performance of each underlying index.

There are currently four segregated funds being offered:

- **The Canadian Equity Index Fund** is based on the TD Emerald Canadian Equity Index Fund.
- **The U.S. Equity Index Fund** is based on the TD Emerald U.S. Market Index Fund.

- **The International Equity Index Fund** is based on the TD Emerald International Equity Index Fund.
- **The Canadian Bond Index Fund** is based on the TD Emerald Canadian Bond Index Fund.

The MPO provides Maturity and Death Benefit Guarantees to the policy owner. (Contact your broker or your nearest branch for more details).

For additional information on how our products can benefit you and your family, contact your broker or your nearest branch today.

www.wawanesa.com/life
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