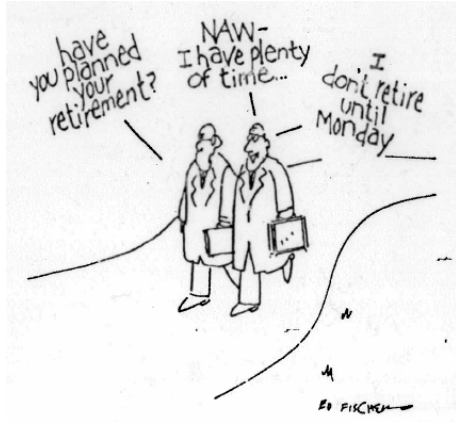


# McGill University Pension Plan Decumulation/Payout Phase Session



- This presentation is intended to inform you about the McGill Pension Plan & the importance of integrating pension investment decisions to your financial management.
- This is not financial advice & should not be taken as such. It is meant to alert you to the matters to look into.
- Your individual needs & circumstances may not be adequately addressed by the info contained in this presentation.

# Learning Objectives



- Understand the risks associated with the payout phase of retirement;
- Understand the options available to you;
- Understand the need to review your investment strategy; and
- Learn where to get more information.

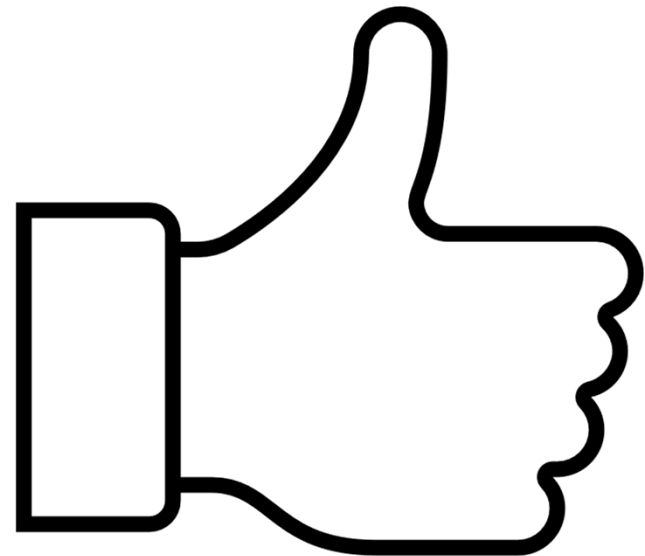
# Recap From Prior Sessions



# How much will I need?

Rule of thumb:

Canadians need 60% to 70% income replacement in retirement.



## Where your retirement income comes from

*Building  
your  
retirement*

### Personal Savings

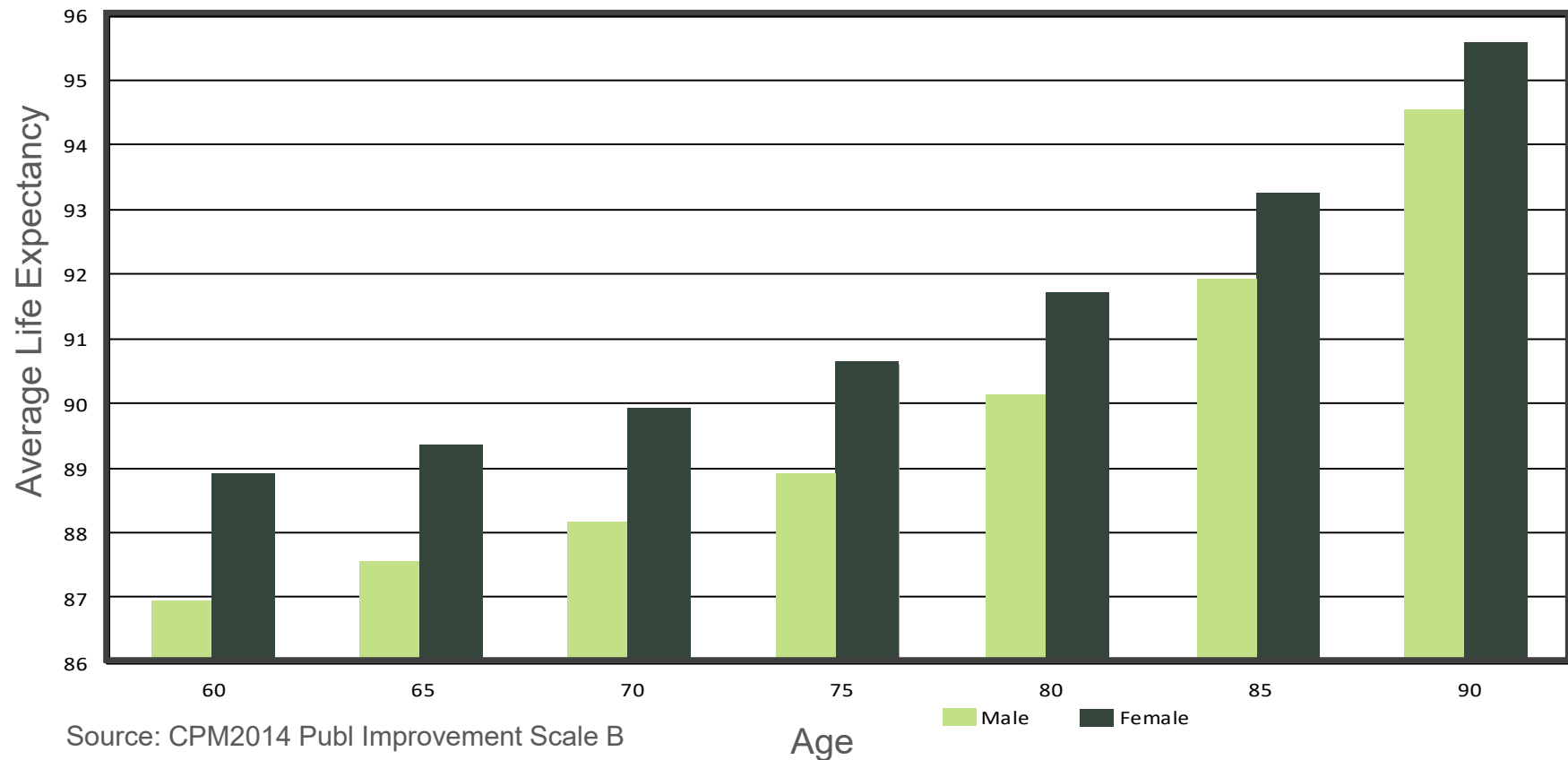
- Registered Retirement Savings Plan
- Tax Free Savings Account
- Non-registered holdings
- Home (if sold to generate income)

- McGill University Pension Plan
- Previous employer's pension plan

### Government Programs

- Quebec Pension Plan
- Old Age Security

# Projected Life Expectancy



Source: CPM2014 Publ Improvement Scale B

Maximum Recorded Life Expectancy: 122 years – Jeanne Calment (France)

# Retirement Income Options

	<b>Annuity</b> (including supplement pension for Part A)	<b>RRIF/LIF/Variable Benefits</b>
<b>Potential to Grow or Lose Value</b>		√
<b>Fixed Income</b>	√	
<b>Flexible Payments</b>		√
<b>Convertibility</b>		√
<b>Control of Investments</b>		√
<b>Inflation Protection</b>	√ if indexed	√
<b>Estate Preservation</b>	Limited to remaining guaranteed payments	√

RRIF = Registered Retirement Income Fund  
LIF = Life Income Fund



# Questions?



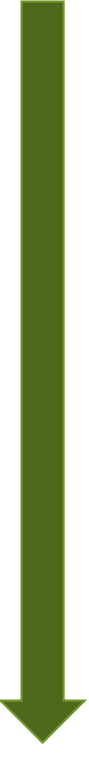
# Investment Objectives



## Accumulation Phase

- Accumulate assets through diversified allocation strategy which maximizes growth for acceptable level of risk
- No pension withdrawals, only new contributions
- Focus is on investment return and accumulated value at retirement

## Decumulation (Payout) Phase



- Focus shifts to building consistent cash flow to enjoy the retirement lifestyle you envisioned
- No contributions, only withdrawals
- Focus is on rate of return required to provide target income cash flow
- Aversion to cash flow risk

## Main Financial Risks in Retirement

- **Longevity Risk:** the financial risk associated to the possibility that you will live longer than expected and outlive your savings before your death
- **Inflation Risk:** Over time, loss of purchasing power can impact your standard of living when the cost of goods and services increase whereas sources of income do not keep pace
- **Market Risk:** Uncertainty with the rate of return on investments

## Longevity Risk

- Studies by Canadian Institute of Actuaries suggest Canadians are living longer and will continue to do so
- Difficult to predict what the future holds for each individual
- Individual health (expected longevity) may change during retirement years
- If underestimate future life expectancy, have you saved enough?
- Plan for living beyond “average” life expectancy

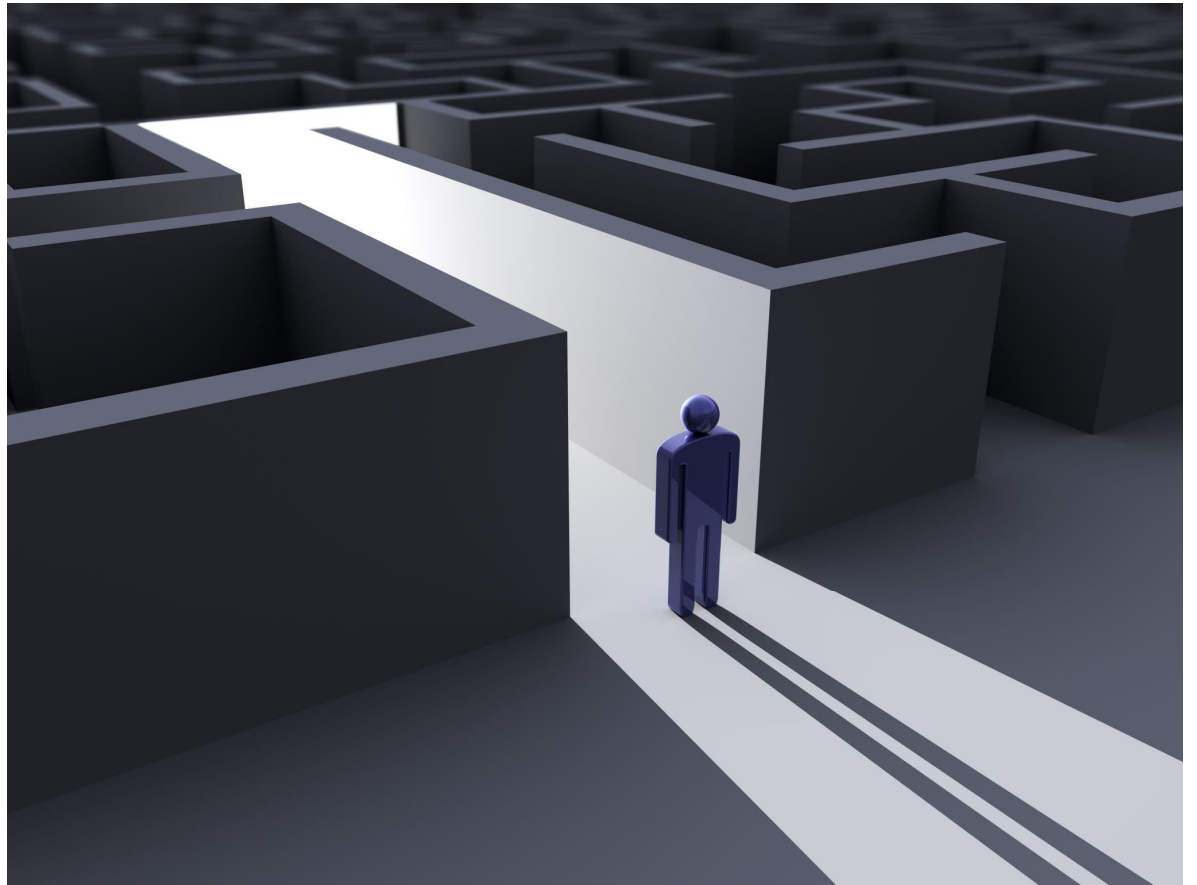
# Longevity Risk

**Table 1: Number of years to add to life expectancy, based on the probability that you will have enough income**

<b>Probability to have enough income</b>	<b>Man (Life expectancy at age 65: age 86)</b>	<b>Woman (Life expectancy at age 65: age 89)</b>
75%	+ 6 years	+ 5 years
90%	+ 10 years	+ 10 years

<https://www.rrq.gouv.qc.ca/en/planification/risques-financiers-lies-retraite/Pages/risque-de-longevite.aspx>

Do you  
have a  
retirement  
plan?



# Your Retirement Plan - Getting Started

- What is your spending plan?
  - Do you know how much \$ you need per annum?
  - Segregate essential spending from discretionary (wants vs needs)
  
- Have you saved enough?

# What is your Investment Horizon?

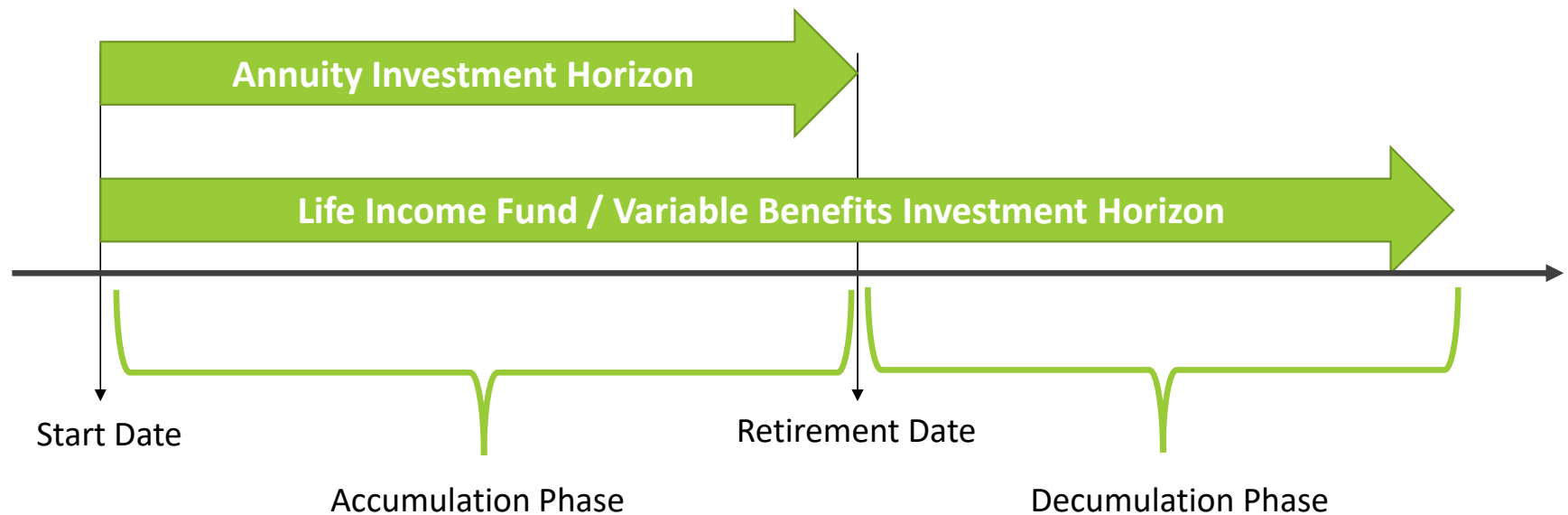


## Investment Horizon Definition:

The period of time you expect to hold an investment until the money is needed



## Impact investment horizon has on investment decisions prior to settlement



Generally speaking, the longer the investment horizon, the more aggressive the asset mix can be

# What is your spending plan?

## Variable Expenses

Food:	grocery store
	restaurant / take-out
	school meal / work meal
Tobacco / alcohol	
Clothing: purchase / maintenance	
Occasional transportation: public transit / taxi	
Automobile: gas / maintenance / parking	
Recreational vehicles and electronic equipment	
Health / beauty / personal hygiene (dental care, hairdresser, cosmetic)	
Educational expenses (tuition fees, school supplies, etc.)	
Pets	
Main and secondary residences (maintenance, miscellaneous items)	
Newspapers / magazines / books / music	
Leisure activities / sports / trips	
Spending money / lottery	

## Fixed Expenses

Rent or mortgage	
Electricity / heating	
Cable / specialty channels	
Telephone / Internet	
Taxes (municipal, school, etc.)	
Insurance:	life and disability (individual or group)
	home
	automobile
Driver's licence and registration (automobile, motorcycle, recreational vehicles)	
Public transit (monthly pass)	
Loans:	automobile
	other
Child care	
Bank, credit card and line of credit fees (interest and finance charges)	
Other fixed expenses (ex. support payments, etc.)	
= Subtotal (fixed expenses)	

**Table 8** PROBABLE CHANGES IN EXPENSES DURING RETIREMENT

	Expenses	Eliminated	Reduced	Unchanged	Increased
Social and recreational activities					●
Food				●	
Contributions to a pension plan offered by your employer	●				
RRSP contributions	●		●		
TFSA contributions	●		●		
Québec Pension Plan contributions	●				
Professional membership fees and union dues	●				
Employment insurance contributions	●				
Parental insurance contributions	●				
Vehicle maintenance				●	
Transportation expenses			●		
Expenses for travel					●
Income tax			●		
Lodging				●	
Health care					●
Clothing			●		

Guide to Financial Planning for Retirement – question retraite

<https://www.educepargne.ca/wp-content/uploads/2019/09/PDF-A-WEB-Guide-QR-2019-2020-E-Web.pdf>

## Have you saved enough?

- Tools such as the Sun Life Retirement Planner or other software packages will allow you to generate financial projections
- Look at all holdings not just MUPP
- Plan for the Unexpected
  - ✓ Emergency expenses
  - ✓ Creation of a reserve/contingency fund

# Decumulation Tool

- Sign in to **mysunlife.ca** from the McGill webpage using Single Sign On (SSO). To use SSO, visit **www.mcgill.ca/hr/pensions/mupp/mupp-login** and select the **Sun Life login button**.
- Or, go to **mysunlife.ca** and sign in using your sign-in ID and password.
- Select **my plan > Resource centre** drop-down menu > **my money tools > Retirement planner > Get started**
- Fill in your personal information and follow the instructions. We use a default retirement age and income replacement percentage. Change these to fit your own situation.

here's where you are with your current retirement savings:

- Your goal is to retire at 67.
- Your projected income will likely be \$6,255 per month.

Complete all the information below to get a better estimate of your retirement age.

**Congratulations, you're currently on track to reach your goal.**

You'll likely work until:

# 65

if your retirement goal is \$5,767 per month.

## Here's how we calculate your goal

We use the following information to calculate your retirement goal.





Please review these sections so we can give you a better look into your retirement.

The Retirement Planner does not automatically collect Additional Voluntary Contribution information that you may have provided via Workday. To include the Additional Voluntary Contributions in the Retirement Planner projections, please go to Current Savings section and add the information to the Registered Contributions corresponding to Savings Outside this plan.

Part A members with additional periods of participation will be required to complete a separate Retirement Planner session for each period. To include the Supplemental Retirement Benefit (Pension) calculated in a separate Retirement Planner session for a different Part A membership, please go to Other Retirement Income. Then add the monthly Supplemental Retirement Benefit pension amount to the Defined Benefit Pension Plan with the Starting at age as the planned retirement age entered in your other Retirement Planner session. Please note that CPP/QPP and OAS projections should only be considered once in the grand total.

### For Part A members who have recently terminated

While your settlement package is being prepared, the Supplemental Retirement Benefit (SRB) pension amount will show as \$0.00 and the Supplemental tab will not be shown in the Retirement Income Payment Illustration. For an approximation, you may refer to your most recent annual statement and enter this amount under 'Other Retirement Income', within the 'Defined Benefit Pension Plan (per month)' field. Use a starting age of 65, regardless of what your planned retirement age is.

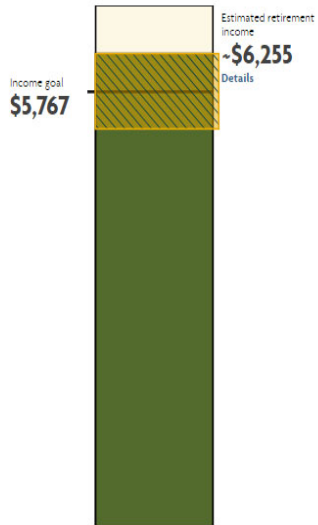
 <p><b>ABOUT ME</b> (Age, residence)</p> <p><a href="#">Edit</a></p>	 <p><b>CURRENT INCOME</b> (Workplace &amp; other sources)</p> <p><a href="#">Edit</a></p>	 <p><b>CURRENT SAVINGS</b> (Sun Life &amp; other places)</p> <p><a href="#">Edit</a></p>	 <p><b>OTHER RETIREMENT INCOME</b> (Pension income, CPP/QPP, OAS)</p> <p><a href="#">Edit</a></p>	<p><b>Include all sources</b></p>
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# Decumulation Tool

Let's take a look at your retirement goal

You can adjust these values to project a retirement goal. This will give you an idea of what your contributions will be, helping you get closer to your goal.

[Print detailed report](#)



### At what age would you like to retire? ⓘ

67 years old

### What income would you like to have when you retire? ⓘ

Most people plan to retire with an income between 60 to 80% of their current income. It's important to note that your situation and lifestyle may vary.

Show  per month  per year

\$ 5,767 = 80.05 %

Keep this % and automatically change my income goal when total income changes.

### Explore how much to contribute ⓘ

See what contribution amount can get you closer to your income goal. The retirement planner tool only shows you an estimate and doesn't update your contributions.

[Reset](#)

### Calculation assumptions

#### Rate of return ⓘ

Current: Balanced: 5.50%  
Compare risk profiles

Balanced: 5.50% ▼

Retirement income  
payment illustration  
[View my summary](#)



### Explore how much to contribute ⓘ

See what contribution amount can get you closer to your income goal.

The retirement planner tool only shows you an estimate and doesn't update your contributions.

[Reset](#)

Current: \$908

Registered contributions  
\$ 908 per pay ⓘ

Current: \$0

Non-registered contributions  
\$ 0 per pay ⓘ

Total contributions  
\$ 908 per pay

Make adjustments to find out how much more to save

[i](#) Congratulations, you're currently on track to reach your goal.

Calculation assumptions

Rate of return ⓘ

Current: Balanced: 5.50%  
Compare risk profiles

Income summary | MUPP locked-in | MUPP non locked-in | Supplemental | RRSP

- Variable benefit
- LIF

### Level income payment

Enter an income payment amount that you would like to withdraw from this plan in retirement.

The income payment amount you select will be automatically adjusted to reflect any minimum or maximum withdrawal limits required by legislation.

Level income payment per year

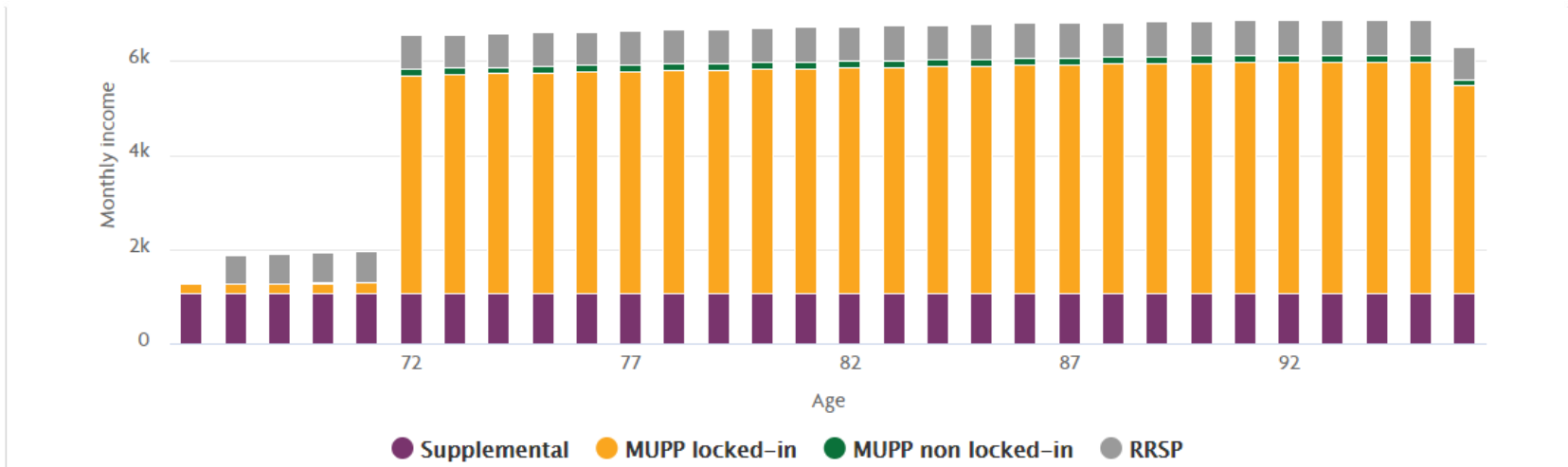
\$ 40,000

Index rate

2%

Calculate income payments

Income amounts are increased annually at the index rate you select



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[pensions.hr@mcgill.ca](mailto:pensions.hr@mcgill.ca)



# Financial Projections: Expected Rate of Return and Cashflow





# What is the expected cash flow if buying life annuities?

Source: CANNEX @ October 30, 2023

*This information is current as of the date posted and is subject to change without notice.*

## **Sun Life Financial - non commissioned rates (same assumptions)**

Single Life Annuity - Age 65 - monthly pay with no guarantee period

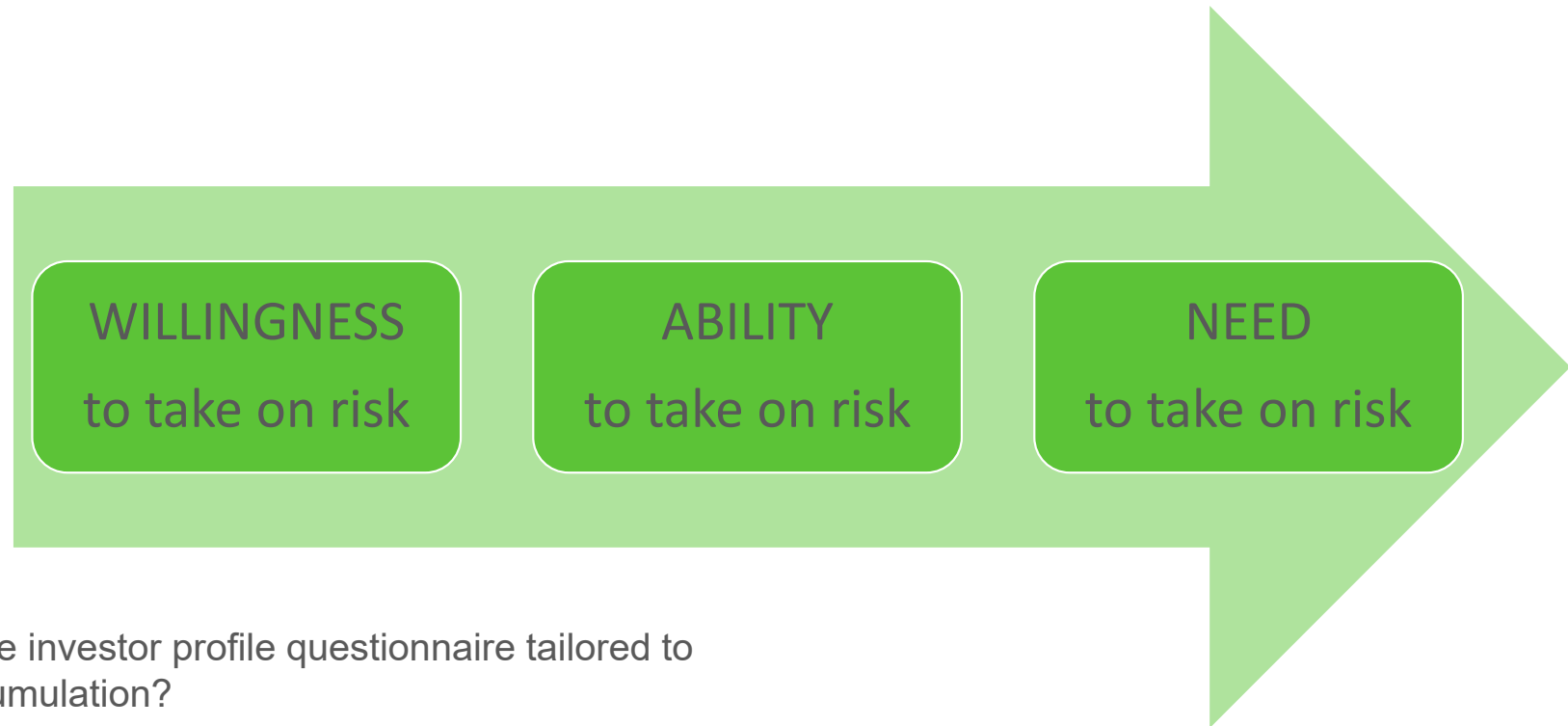
	\$75,000	\$100,000	\$250,000	\$500,000
<b>MALE</b>	\$457.57	\$613.57	\$1,568.77	\$3,169.92
<b>FEMALE</b>	\$432.19	\$579.66	\$1,482.65	\$2,996.27

<https://www.mcgill.ca/hr/pensions/mupp/rip/annuities-and-preferential-arrangements>

## Life Income Fund and Variable Benefits: What Rate of Return is required to maintain cash flow?

- Each asset class carries different expectations
- Expected rate of return reflective of intended asset allocation
- Historical averages and current economic and market conditions may not be good predictors for long-term returns
  - Inflation, interest rates and returns vary over time
- Long-Term Fund Objectives

# What is your risk tolerance?



Is the investor profile questionnaire tailored to decumulation?

## Asset allocation

### Complete the risk profile

Step 1 of 4 

MUPP - Part A (hybrid) - MUPP-A

Account #: **67022260006198 - 01**

Question 1 of 8

Which statement best describes your comfort level with fluctuations in the value of your investments?

- I'd be very upset if my investments dropped in value over any period of time.
- I'm willing to accept a lower, more predictable rate of return as long as fluctuations in the value of my investments are small.
- I'm willing to accept some fluctuations in the value of my investments as I'm seeking a higher rate of return.
- I want the highest rate of return possible, and understand the value of my investments can fluctuate significantly.

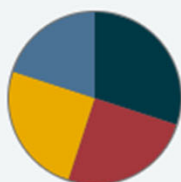
## Risk profiles



### Growth (Current)

You can tolerate relatively high volatility. You realize that over time, equity markets usually...

[Show more](#)



Cash & Equivalents	0%
Fixed Income	30%
Canadian Equity	25%
US Equity	25%
International Equity	20%

### Balanced

You're looking for long-term capital growth and a stream of regular income. You're seeking...

[Show more](#)



Cash & Equivalents	0%
Fixed Income	40%
Canadian Equity	25%
US Equity	20%
International Equity	15%

### Aggressive

You can tolerate volatility and significant fluctuations in the value of your investment because you...

[Show more](#)



Cash & Equivalents	0%
Fixed Income	20%
Canadian Equity	30%
US Equity	25%
International Equity	25%

# What is the expected rate of return on your investments? Life Income Fund and Variable Benefits



HOME GROUP RETIREMENT SERVICES ACCOUNTS REQUESTS RESOURCE CENTRE QUICK LINKS

Home > my plan > my money tools

## Retirement planner

McGill University Savings Program

### Calculation assumptions

#### Rate of return

**Current-** Balanced: 5.50%

Compare risk profiles

Aggressive: 6.25%



Conservative: 4.25%

Moderate: 5%

Balanced: 5.50%

Growth: 6%

Aggressive: 6.25%



# Investment performance

Chat Live Now

McGill University Savings Program

Rates of Return and Unit Values

Fund Report and Updates

Market Indices

Fund Quickrank™

Instant X-Ray™

Choose a date to review the performance and the unit values of the funds available in your plan for a specific period of time. Click on any fund to learn more.

## Performance of funds available in your plan

This an overview of your performance of funds rates of return. To view the performance of your personal investments, review **personal rates of return**.

Select a plan :

MUPP - Part A (hybrid) (MUPP-A) ▼

Show investment performance for:

01/03/2023



Submit

Overview
Chart
Performance
Risk and Rating
Portfolio
Management
Print 
<a href="#">Fund Sheet</a> 
<a href="#">PDF User Guide</a> 
<a href="#">Glossary</a> ?

# McGill Balanced Account

Firm Name	Benchmark
Multi-Manager	McGill Balanced Benchmark
Underlying Fund	Fund Type
-	Balanced

## Benchmark Description

45% Composite Equity Pool Benchmark + 25% Alternative Assets Benchmark + 30% Fixed Income Benchmark

## Investment Risk





## Fund Type

Balanced



# McGill Balanced Account

## Fund Details

Fund Manager Multi-Manager

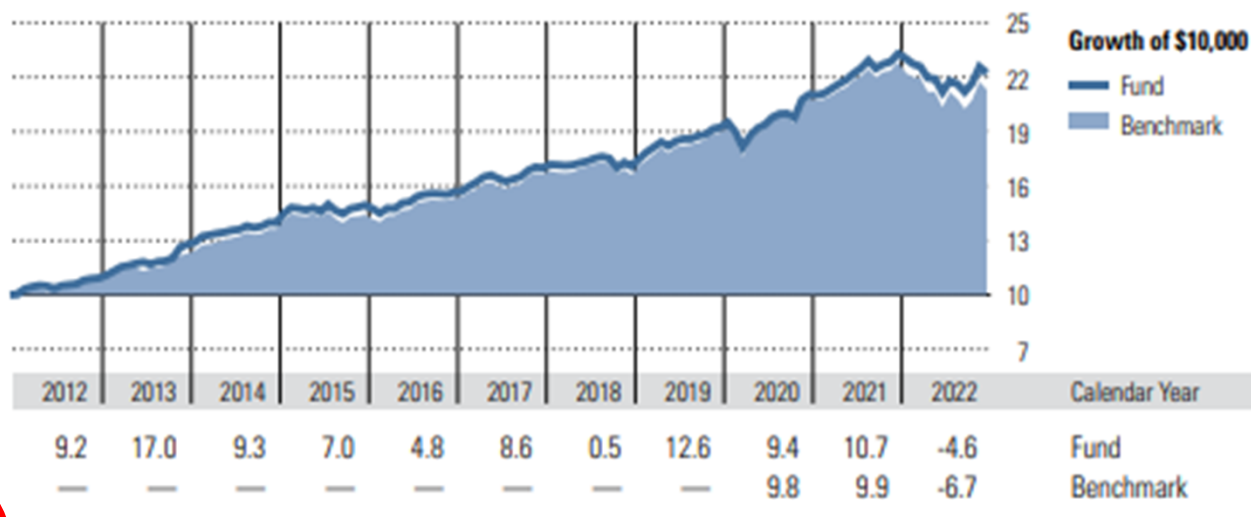
## Investment Objective

To optimize capital accumulation over the long-term through allocations to the Equity Pool, Fixed Income Pool, and Alternative Assets with a target mix of 45% equity securities, 30% fixed income securities and 25% alternative investments. In order to attain the investment objective, a moderate to high degree of short-term volatility is accepted in the Balanced Account mitigated through diversification of assets.

The annualized 10-year long-term objective is the annual change in the Canadian CPI + 3.7%, being 5.5%.

## Investment Strategy

## Performance as of 12-31-2022



	1 Yr	2 Yr	3 Yr	4 Yr	5 Yr	10 Yr	2022	Trailing Return %
Fund	-4.6	2.8	4.9	6.8	5.5	7.4	-4.6	Fund

## Life Income Fund Expected Rate of Return - Sample Calculation

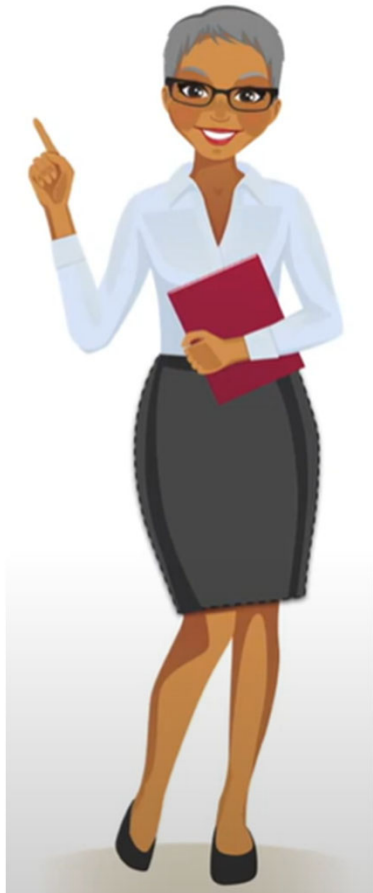
Asset Class	Your Allocation	Long-Term Return Estimate*	Expected Return
Equity	50%		
• CDN Equities (S&P/TSX Composite Index)	15%	8.6%	1.29%
• US Equities (S&P 500 Index – CAD)	20%	7.6%	1.52%
• Global Equities (MSCI World Index - CAD)	15%	8.2%	1.23%
Fixed Income (FTSE Canada Universe Bond Index)	40%	4.1%	1.64%
Money Market (FTSE Canada 91 Day T-Bills Index)	10%	2.6%	<u>0.26%</u>
<b>Gross Return</b>			5.94%
<b>Less: Admin Fees</b>			0.75%
<b>Estimated Return</b>			5.19%
*Source PH&N Institutional (2022)			



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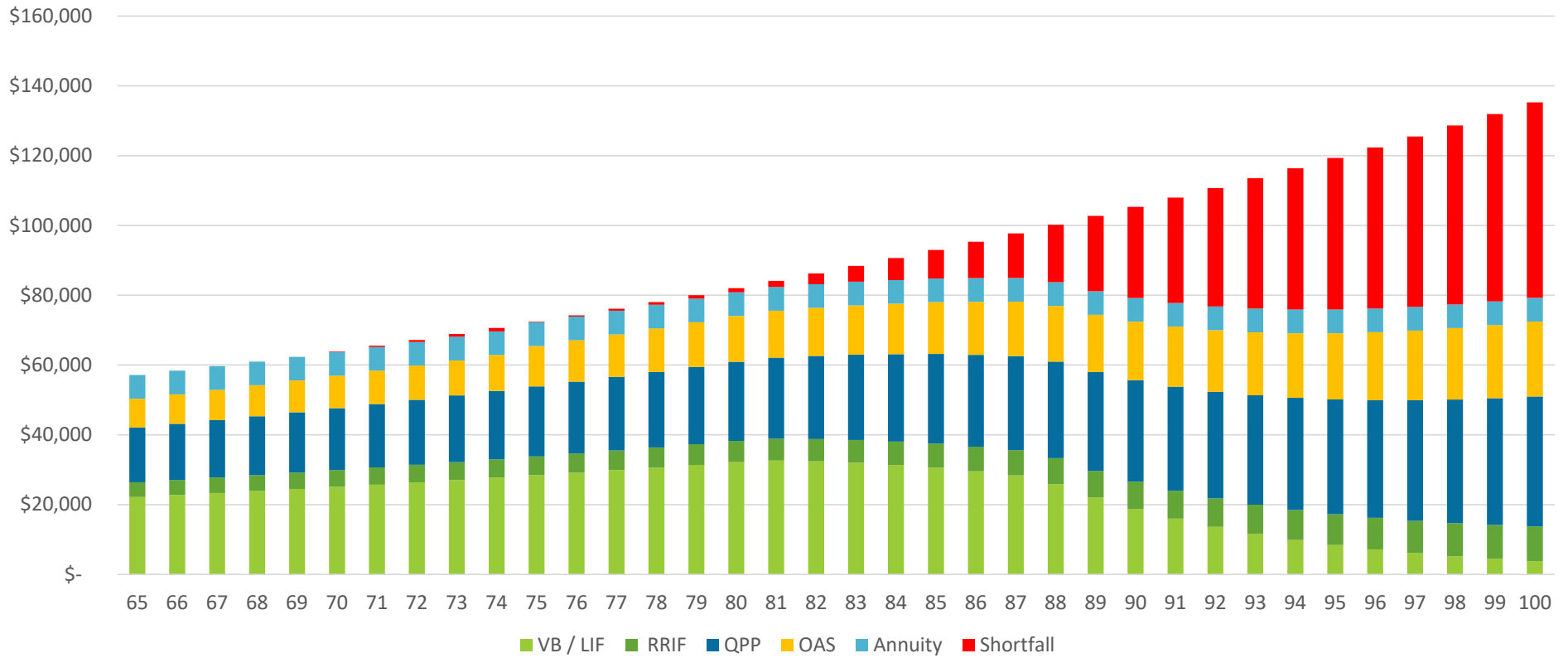
## Meet Marie



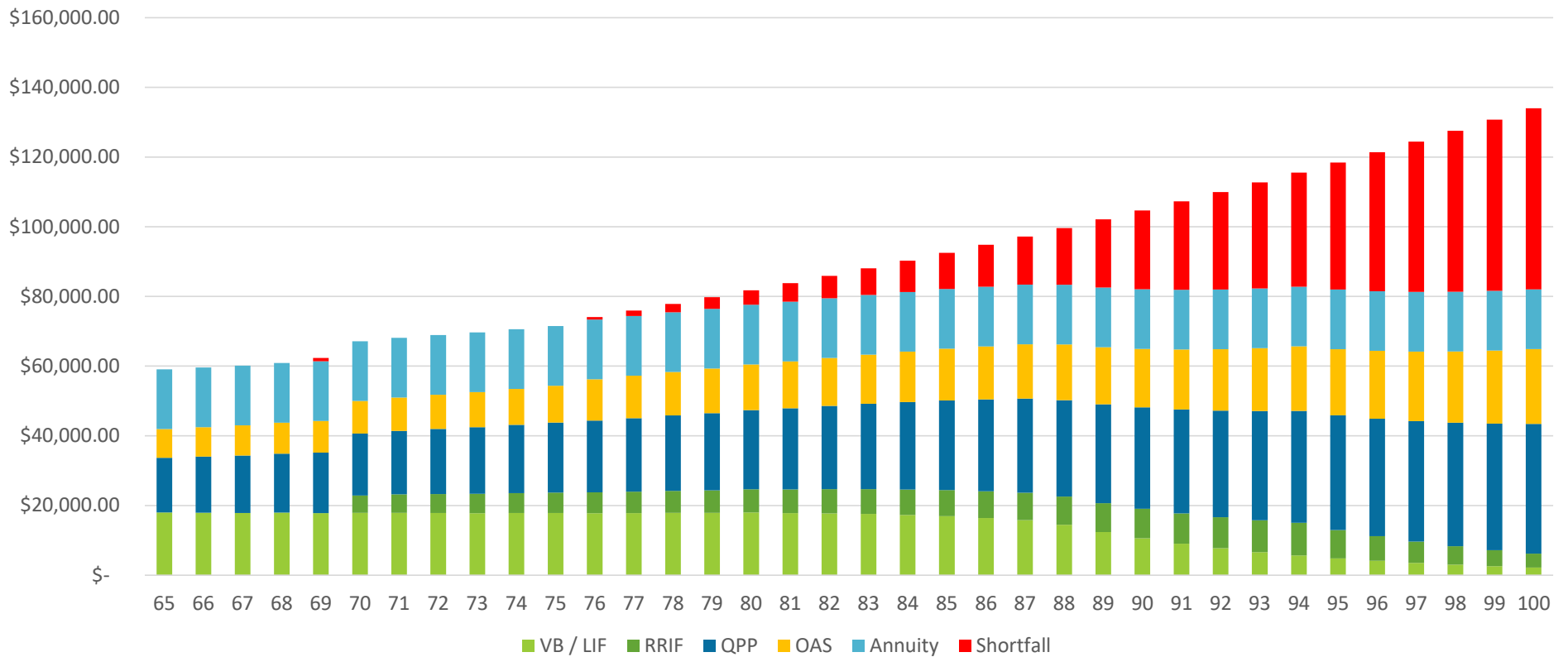
Marie is retiring at age 65, has been participating in the McGill University Pension Plan for 35 years with pre-retirement income of \$94,000.

- Marie's has accumulated \$500,000 in the pension plan and has \$100,000 in the McGill Group RRSP.
- She is projected to receive the maximum QPP and OAS.
- She plans to transfer \$400,000 into the Variable Benefits option, \$100,000 into a Registered Retirement Income Fund and acquire a life annuity with \$100,000

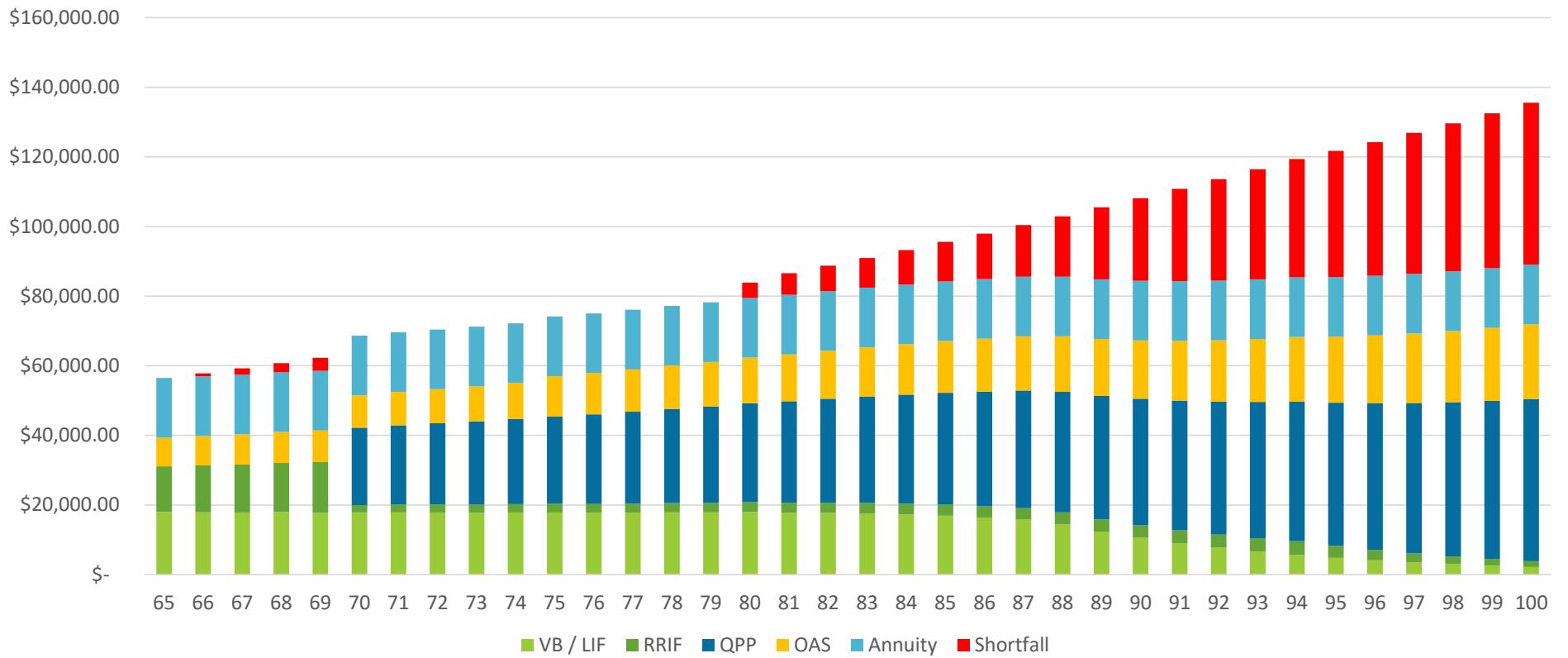
# Marie's Projected Retirement Cash Flow



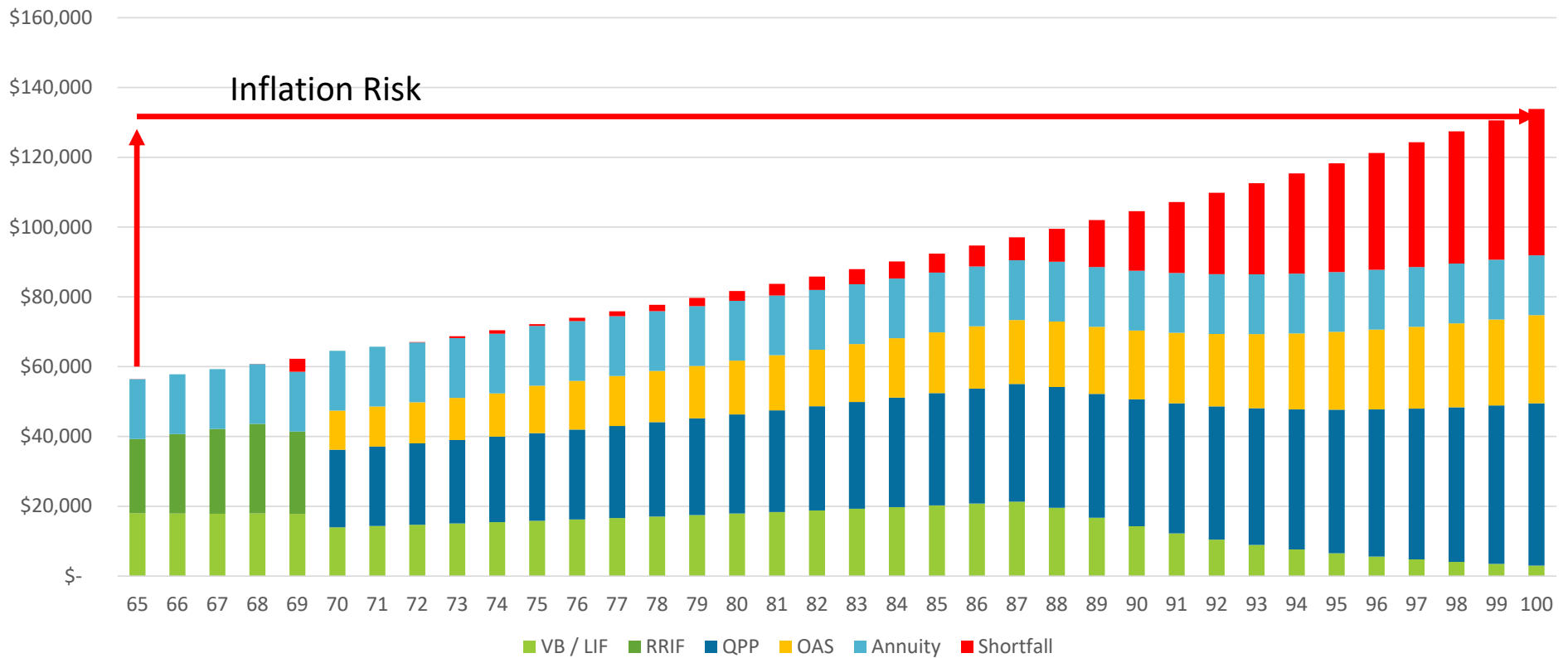
# \$250,000 annuity + fee reduction of .3 of 1%



# Delay start of Quebec Pension Plan to age 70



# Delay start of QPP & OAS to age 70







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## How can I manage risk?

- Annuity options: Insurance company assumes investment and longevity risk
- Determine how much of portfolio to annuitize
  - Annuity purchases and pension income streams hedge against future increases in life expectancy
  - If applicable, Defined Benefit Supplement pension annuity versus transfer value
  - Option to delay commencement of Quebec Pension Plan & Old Age Security; reduced inflation risk
- Life Income Fund/Registered Retirement Income Fund/Variable Benefits & systematic withdrawal plan
  - Adjust spending in case of poor markets
  - Manage risk through portfolio asset allocation
- Monitor market risks and make changes as required.

# Asset Allocation Decisions

- Project possible outcomes/scenarios
  - Significant increases/decreases of portfolio due to market performance
  - Depletion of assets due to unforeseen expenses
- Manage withdrawals and asset allocation throughout retirement
- Reassess plans resulting from changing portfolio values
- Risk tolerance may change with age
- Inflation concerns ease in latter phases of retirement

## Cost efficient options will extend the value of your account holdings

Management Expense Ratio	Present Value of Management Fees	Total Management Fees
¼ of 1%	\$12,666	\$19,939
½ of 1%	\$25,332	\$39,879
¾ of 1%	\$37,998	\$59,819
1%	\$50,664	\$79,759
1 ¼ %	\$63,330	\$99,698
1 ½%	\$75,996	\$119,638

This table provides estimated management fees on a Life Income Fund with a starting balance of \$500,000 from age 65 to 89, assuming equal monthly withdrawals using the maximum LIF payment stream and a 5% discount rate and net 5% rate of return on investment

## Which should I withdraw first?

- Current vs future marginal tax rate
- Locked-in vs non locked-in funds
- Tax deferred vs after-tax holdings
  - Withdrawals from a RRSP, RRIF, LIF and VB are subject to income tax
  - No withholding tax at source on minimum LIF withdrawals
- Income splitting considerations
- Pension Income Tax Credit
- See Article “What should you cash in first when you retire?” (Flash Retirement Quebec)

RRSP = Registered Retirement Savings Plan

RRIF = Registered Retirement income Fund

LIF = Life Income Fund

VB = Variable Benefit

# Income Splitting

- One spouse has a significantly higher income than the other
- Can share taxation of up to 50% of eligible pension income with spouse
- Conditions apply - for more information:
  - Canada Revenue Agency: [www.cra-arc.gc.ca/tx/ndvdl/tpcs/pnsn-splt/menu-eng.html](http://www.cra-arc.gc.ca/tx/ndvdl/tpcs/pnsn-splt/menu-eng.html)
  - Revenu Quebec refer to line 123  
<https://www.revenuquebec.ca/en/citizens/income-tax-return/completing-your-income-tax-return/how-to-complete-your-income-tax-return/line-by-line-help/96-to-164-total-income/line-123/>

## Your investment responsibility

- Understand the decisions that you need to make and select investment and settlement option(s) which are right for you.
- Review your investment portfolio & investment strategy
- Seek independent investment & tax advice

## Where can I get more information?

- The McGill University Retirement Income Program Brochures (Sun Life website)
  - Planning Your Best Retirement webpage:
    - ✓ What to consider when choosing among income options?
    - ✓ Retirement planning guide - How do you turn your retirement savings into income?
    - ✓ McGill University's Retirement Income Program fund lineups and fund management fees at a glance
  
- Retraite Quebec: Self-Service Financial Information on Financial Security in Retirement  
<https://www.retraitequebec.gouv.qc.ca/en/services-en-ligne-outils/Pages/flash-retraite.aspx>
  
- Association of Canadian Pension Management - Retirement Savings Course  
<https://acpm-acarr-ret.thinkific.com/courses/retirement-savings>
  
- Independent investment advisor or financial planner



# Key takeaways

- Investment objectives differ in the decumulation phase relative to the accumulation phase
- Your risk tolerance will influence your decisions
- Your expected rate of return will be impacted by your asset allocation decisions
- Access to decumulation options which are cost efficient can make a difference
- Developing a retirement plan and making use of income projections will confirm if you are on track

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[pensions.hr@mcgill.ca](mailto:pensions.hr@mcgill.ca)

