Your retirement time horizon may be longer than you think

- Life spans continue to increase: A typical Canadian retiree may need their assets to last for 30 years on average or longer!
- The joint probability of a Canadian couple living past 90 is 41%

The probability of living to a certain age or beyond, if you are 65 years old today

Retirement strategies that worked in the past may not work in the future

- Future returns, especially for fixed income, may be lower than historic returns on Canadian investment portfolios
- Anticipated low bond yields may result in a decreased probability that a portfolio with a high fixed income allocation can generate the income needed to fund your retirement.
- A higher equity allocation in a portfolio may not have a meaningful impact on improving outcomes over the longer term.

Probability of Retirement Assets Lasting 30 years

- The chart (left) analyzes a traditional portfolio with an 80% fixed income and 20% equity asset allocation in a portfolio, and a 60% equity and 40% fixed income portfolio.
- The probability of a traditional retiree’s portfolio lasting for a full retirement (30 years) is less than 50%.

For illustrative purposes only

Sources: TD Asset Management Inc. calculation, Bloomberg Finance L.P. Data as of December 31, 2017.
Assumptions: Calculations used historic S&P500 Index and 10-Year US Treasuries 30 year rolling returns adjusted for 2% inflation and 2% management fees and adjusted to reflect lower future expected returns.
The sequence of returns may significantly impact the longevity of retirement assets

- It’s not just the returns that matter; it’s also when a retiree experiences higher or lower returns during retirement drawdowns.
- Poor early returns in retirement, or volatile returns, can result in income withdrawals occurring when portfolio assets are lower; this can have a negative impact on retirement asset longevity.
- Higher early returns mean that early income withdrawals will not erode assets as quickly, as more of the portfolio assets remain to grow for the duration of retirement.

Scenario: Sequence of returns

Take the examples of two investors, Kim and Dan. Both retired at 65 with $200,000 in retirement savings. Over the next 10 years they both achieved a 9% average annual return and each withdrew $15,000 per year in retirement income. However, at the end of 10 years Kim had $297,000 while Dan only had $172,000.

Same returns – different retirement outcomes depending on when funds are withdrawn

**Kim:** Kim captured strong returns early in retirement, followed by negative returns. These higher early returns allowed her to withdraw a lower percentage of her assets, leaving more to grow throughout retirement.

**Dan:** Experienced the same average returns as Kim, but in reverse order. Since the negative returns were experienced at the beginning of his retirement, he withdrew a higher percentage of his assets, leaving less to grow during the remainder of his retirement.

For illustrative purposes only. Sources: TD Asset Management Inc. calculation. Kim and Dan have an annual withdrawal of $15,000 per year. Initial Portfolio value of $200,000.
Investment solutions which may help minimize sequence of return risk and make your assets last longer

- Ideal investment solutions strive to capture market upside exposure while protecting assets when markets decline – this can help minimize sequence of return risk.
- TD Asset Management Inc. (TDAM) offers access to a broad range of risk managed strategies that can help generate growth and protect your assets in down markets.

Expect more with TDAM

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- Fixed income solutions
- Monthly income paying solutions
- Cash flow series options

TDAM’s retirement focused solutions:

1. Source: Brand Finance, 2020
2. Source: Canadian Association of Asset Managers, 2020
3. Source: TDAM, 2020
For more information on how TDAM’s retirement focused solutions can help you achieve a comfortable retirement, contact your Advisor today.