

Sustainable retirement income is a puzzle. Here's how to solve it



Take a giant puzzle, spread the pieces across your kitchen table, and try to put it together without looking at the image on the box. That's how some people feel about retirement income planning. They don't know how everything fits and they can't see the big picture.

Workplace retirement plan sponsors can help by outlining the pros and cons of member options, while nudging them to seek assistance from a financial adviser.

Workplace savings, government pensions and various private sources of retirement income should all mesh. That approach builds sustainable retirement income.

Earlier in this series on decumulation, we looked at [how to combine retirement plans for predictable income](#), and [rethinking retirement income planning](#) in light of changes to Old Age Security (OAS). Now we'll dig deeper into private retirement income products. How do these non-workplace retirement plans or non-government sources address retirement risk and readiness?

When plan members reach out to Gary Poulin, a Quebec-based retirement consultant¹ at Sun Life, they need direction. They often lack a clear idea of how to shift from savings to income mode, and how to map out their income. "The typical conversation is 'I'm retiring, what are my options?'" Mr. Poulin says.

His first follow-ups are about mindset. Do plan members prefer a lifetime guarantee of fixed income for peace of mind? Do they want the flexibility to change their income level as needed?

Defined-benefit pension plans provide a set monthly income for life. That makes decisions a little easier. However, these retirement vehicles are no longer the norm.

Members increasingly have defined-contribution plans, a group Registered Retirement Savings Plan (RRSP), or a mixture of plans that may also include a group Tax-Free Savings Account (TFSA).

¹ Registered as Financial Security Advisors in the province of Quebec.



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People might also have their own RRSPs or Locked-In Retirement Accounts (LIRAs) from previous employment. Their partners might also have retirement assets to factor in.

“The big challenge for a lot of retiring members is they don’t always understand the distinctions between their sources of savings,” says Eric Monteiro, senior vice-president of group retirement services at Sun Life. “Compounding the challenge is that each income-producing account has its own advantages and limitations.”

Managing private sources of retirement income is complicated because of the number there may be to juggle and the rules surrounding each account. The upside? These members have choices. With assistance from a plan sponsor and a retirement consultant, they can find the right mix of assets to build a retirement income to meet their needs.

“That’s why it’s so important to speak with our retirement consultants—a service offered for all plan members,” Monteiro says. “Sun Life’s retirement consultants are accredited, salaried and specialized in decumulation options. Their goal is to help identify the needs of plan members and to recommend the most suitable options at Sun Life for income based on their unique situation.”



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Putting the pieces together

Retirement consultants can help with tax efficiency. The goal is to ensure that annual income from private sources and government monies, such as the Canada Pension Plan (CPP), is managed to avoid clawbacks to benefits such as OAS.

Assistance can also involve elements of estate planning and considering the assets to provide beneficiaries. But the heart of the planning process involves decisions around how workplace pensions might fit with other assets.

For example, individuals might be able to keep their assets in a plan post-retirement. That allows growth while relying on other assets. Or they may opt to convert their pension plan to a Life Income Fund (LIF). Additionally, they could convert all or a portion of their plan to a Registered Retirement Income Fund (RRIF) or RRSP.

It’s a lot to consider, even for financial professionals, says Frederick Vettese, author of the book *Retirement Income for Life: Getting More Without Saving More*. He notes that William Sharpe, who won a Nobel Prize for Economics, once said retirement planning is one of the most complicated problems he’s ever encountered.

The key reason is that no one knows how long they are going to live, says Mr. Vettese, an actuary and one of Canada’s top pension and retirement experts. “The second complicating factor is people often have conflicting goals.”

One is security—consistent money for the rest of your life.

One solution for pension-plan risk is a life annuity. Individuals hand over a lump sum of capital from their pension to an insurance company. In return they receive guaranteed payments for life.

That payment often brings additional guarantees, such as continuing funds to a spouse upon death. Members can also elect to receive a guaranteed payment for a beneficiary, should they die early in retirement. That can be arranged for an added cost, with payments for a set period.

At the same time, most individuals worry about dying early. That can mean giving away too much capital for that guaranteed income at the expense of their estate, so there’s a tension between the two objectives, Mr. Vettese says.

Mr. Poulin says plan sponsors and retirement consultants can help resolve this by clarifying their members’ range of options.

New hybrid products will offer more choices

Those options include more than a RRIF, LIF or annuity. The government is introducing legislation for new hybrid products that are part annuity and part investment.

Chief among them is a variable-payment life annuity, which is linked to equity market performance and mortality experience. Payments are higher than with a guaranteed annuity, and they can increase over time if underlying assets perform well. The risk is that the payment can decrease if underlying assets fall in value.

"But variable annuities offer professional investment management that addresses market risk. Over decades, that should offer more upside than downside risk," Mr. Monteiro says.

The industry is constantly evolving, offering new annuity products to solve different needs, he adds.

One product under development is an Advanced Life Deferred Annuity (ALDA). An ALDA allows someone to purchase a life annuity with their registered funds. They can defer the income past age 71, to a maximum age of 85. People can use 25 per cent of their total registered assets, up to \$150,000, to purchase an ALDA.

The 2021 federal budget included measures which will, if adopted, ease the introduction of ALDAs.

"An ALDA provides clients with longevity protection, similar to a standard payout annuity," says Jordan Clark, AVP, Insured Wealth Product, at Sun Life Global Investments. "It's best suited for those with other sources of income earlier in their retirement, who may not be concerned with a portion of their savings locked away for their later years."



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One challenge for plan sponsors is reducing the "black-box factor" with these newer products, Mr. Vettese says. Plan members often hesitate to take up beneficial products because they're unknown quantities. That reinforces the need to explain products in plain language, helping plan members explore their options and solve the retirement income puzzle.

"There are a lot of ways these retirement income options can be put together," Mr. Monteiro says. "It's important members get help to better understand not just their income needs today, early in retirement, but how those might change in old age."

