How a digital decumulation tool can grow AUM

Discover tax-efficient strategies for retirement income

MILESTONES
RETIREMENT INSIGHTS

Introduction

As baby boomers begin to retire in droves, wealth managers can grow AUM by helping clients calculate the most tax-efficient way to access retirement income.

Investment advisors can spend decades helping clients effectively accumulate assets. However, when clients retire and begin the asset decumulation phase of their lives, many advisors are not as well equipped to guide them.

There are many reasons why advisors and their firms haven't focused a lot of resources on client decumulation. Providing decumulation advice is complicated. There are intricate tax laws, time-consuming data gathering and calculations, and reputational risk. As well, some people might argue that the assets are declining in value anyway so it's less of a priority.

On the surface, it may appear that investing time in decumulation is counter-productive. In fact, the opposite is true. Decumulation can provide firms with a number of potential benefits and opportunities.

Decumulation

An opportunity for wealth managers

Every week, approximately 5,000 baby boomers retire[1]. On average, $25,000/year of retirees' income comes from private savings. This means in 2020 alone, the aggregate value of retiring boomers' portfolios is $137 B[2]. That's equivalent to an average account size of approximately $525,000. Further, Canada is in the midst of the biggest intergenerational wealth transfer in history. Approximately $1 trillion is changing hands between 2016 and 2026[3].

5000/wk x $25,000/yr = $137 billion

5000/wk	x	$25,000/yr	=	$137 billion
Baby bomers retire		Income from private savings		Aggregated portfolios
x 52 weeks		x 21 years post-retirement		

Impact of poor tax planning

Poor tax planning can cost each of your clients thousands of dollars during their retirement years. An income drawdown strategy that minimizes taxes not only satisfies your clients, but also increases the likelihood of attracting new investable assets through account consolidation.

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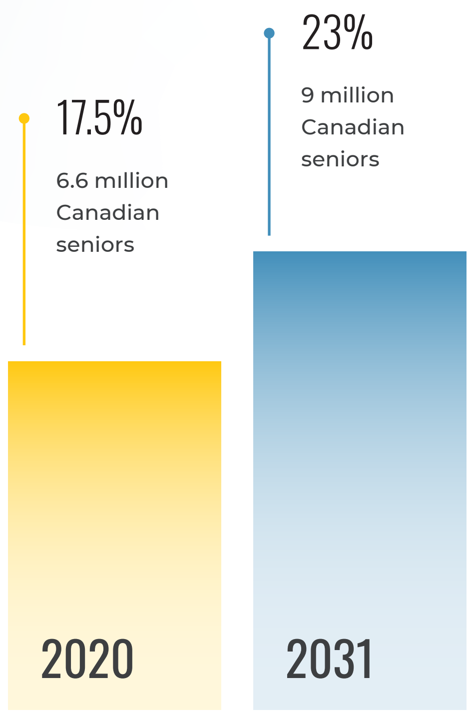
It's well known that many Canadians invest their retirement savings across a number of financial institutions. Therefore, it's reasonable to expect that advisors who demonstrate skill in creating tax-efficient income can become the leading consolidators. With the right decumulation tools, skill set and marketing plan, advisors can realize significant transfers in. On a firm-wide basis, this can result in market share and revenue gains.

Benefits of tax-efficient income strategies

- Slows the decumulation of client accounts
- Reduces the likelihood of transfers out
- Increases the likelihood of account consolidations and transfers in
- Helps protect client relationships for approximately two decades



Seniors and income tax

There are 6.6 million seniors (55+ years of age) in Canada representing 17.5% of the population. By 2031 there will be almost 9 million seniors comprising 23% of the population. In other words, 2.4 million people are retiring within the next 10 or so years and will live off their savings and pensions, while many of them will also leave inheritances.

Ninety-five percent of seniors file income taxes, so tax concerns are top of mind for new retirees. Life expectancy in Canada after age 65, when most people claim Canada Pension Plan (CPP) and Old Age Security (OAS) benefits, is 86 years[4]. This means advisors have 21 years to continue providing investment advice and services when a client retires.

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Retirees worry about outliving their money

Almost half of retired Canadians (48%) are worried they will outlive their savings; this percentage rises to 74% for those not yet retired[5]. Client concerns and aspirations create an opportunity to discuss their goals and desires. By doing this, advisors can help clients relax and enjoy their golden years.

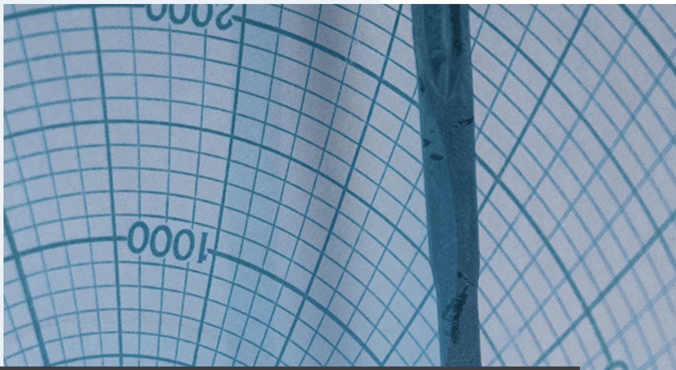
Investment advisors are well-suited for this role because they already have strong relationships with their clients. Upward to 98% of clients trust their advisor's advice, according to a Pollara Inc. report[6].

48%

Retired Canadians worry they'll outlive their savings

74%

Not yet retired Canadians worry



Five steps for advisors to grow AUM

1. **Identify a client's multiple income sources.** Let your clients know that to determine the most tax-efficient strategy, you need to include all of their income sources.
2. **Calculate optimum strategies with the Milestones Retirement Insights decumulation tool.** Walk your clients through comparisons of three different withdrawal plans and explain your most tax-efficient recommendation.
3. **Recommend account consolidation.** Reinforce the value of your advice by illustrating how consolidated accounts minimize taxes.
4. **Use the conversation to cross-sell insurance.** Run complex scenarios and highlight how life insurance and annuities can provide tax-preferred savings for clients with excess income.
5. **Offer your advisory services.** When inheritances are part of a retirement plan, ask for referrals to your clients' heirs and other family members.

Demonstrate the value of planning advice

Milestones Retirement Insights is the retirement income planning tool that provides the greatest opportunity for wealth management firms to empower their advisors to grow AUM and increased market share.

Everyone wins when you determine the best way for your clients to utilize their income sources in retirement.

Ian Moyer, President & Co-Founder,
Milestones Retirement Insights

This cloud-based solution enables advisors to quickly and accurately develop the most tax-efficient retirement income strategies possible for their clients. It summarizes competing decumulation strategies and reveals the income tax savings of each one. It also provides a clear breakdown of retirement income, key planning considerations, and long-term financial projections.

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Data management

Myriad income sources and tax rules

Many clients may soon start to make withdrawals from their investment plans. When spouses decide to split their retirement income there can be 30 potential sources, each with unique tax considerations. Complex calculations are required to generate tax-efficient income from so many different sources, while complying with a myriad of tax rules. Further, every client's tax status, portfolio and retirement plan is unique.

Determining tax-efficient scenarios

To create tax efficiency, advisors need to consider all the retirement income sources, along with the government programs designed to balance the tax burden for seniors[7]. All applicable income sources must be accounted for when clients prepare income tax returns. All of the potential income sources, coupled with the tax rules, make it prohibitive for advisors to manually create unique, tax-efficient plans for every client.

Retirement income sources:

- Government pensions – CPP/QPP, OAS and the Guaranteed Income Supplement (GIS)
- Employer defined benefit pension plans
- Group RRSPs
- Registered retirement accounts such as RRSPs and RRIFs
- Tax Free Savings Accounts (TFSA)
- Non-registered investments and deposit accounts
- Annuities
- Insurance policies
- Downsizing from the family home
- Real assets such as recreational properties, artwork, and precious metals
- Other sources such as business ownership, inheritances and support from family members

Government tax programs for seniors:

- Age Credit
- Pension income tax credit
- Pension income splitting
- Expanded tax relief for home care services
- OAS claw back

Tax-efficient strategies made simple

Milestones Retirement Insights dramatically reduces the complexity of retirement income planning. It enables advisors to accurately calculate a tax-efficient withdrawal plan and create a report that reveals three income tax reduction strategies. Instead of saying
"trust me" to a client, an advisor can say, "Let me show you."

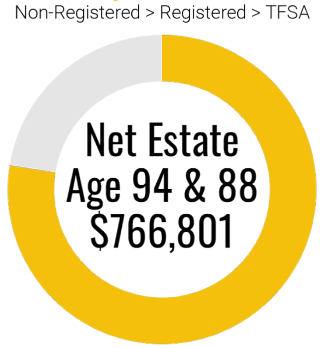
*I'd been working on a case for months and decided to use the **Milestones Retirement Insights** software for the closing meeting. I reviewed the clients' financial planning options with them, and these three beautiful circles really made the discussion go from a list of numbers, to a strong definitive answer*

Shawr.n Todd, CFP, Partner at ECIVDA Financial

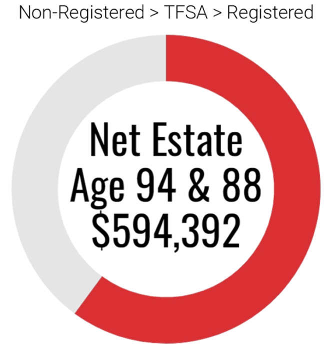
Planning Boutique

Best Strategy
Registered Funds First
Registered > Non-Registered > TFSA

Runner Up
Non-Registered Funds First
Non-Registered > Registered > TFSA



2nd Runner Up
Tax Free Funds First
Non-Registered > TFSA > Registered



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Milestones Retirement Insights identifies the retirement income strategy that can potentially save clients the most money.

This includes providing clients, based on their life expectancy, with the highest estate value, net of taxes and fees. It demonstrates the difference tax-efficient retirement planning can make and builds trust in the value of an advisor's advice.

The result is that clients can enjoy a worry-free retirement, heirs will have confidence knowing their inheritances are protected, and advisors will be well positioned to acquire new clients.

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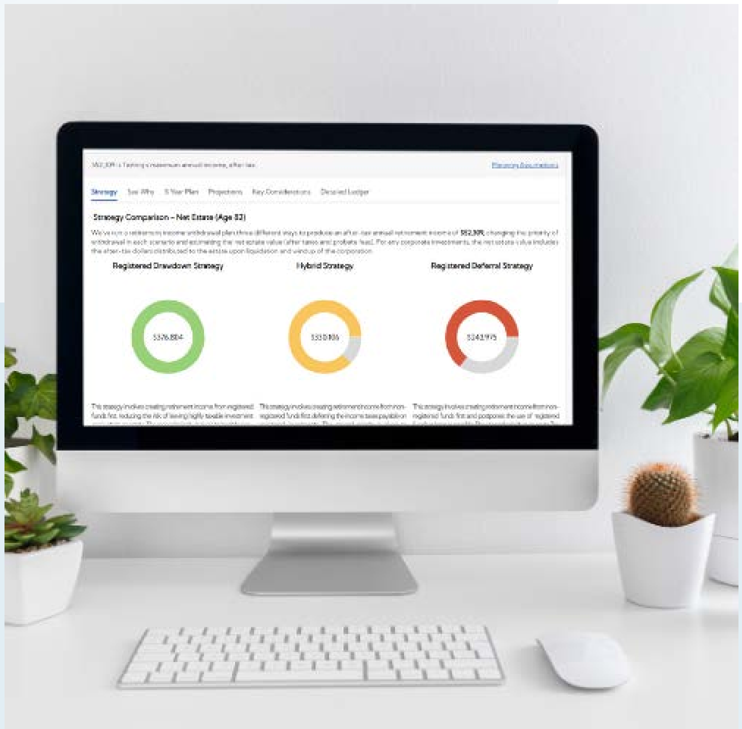

Implement the digital decumulation tool that will grow your AUM

Consider retirement income planning as the inflection point for your firm to solidify client assets and relationships. Get it right and your AUM growth curve will continue its upward projection. Get it wrong and your AUM may enter a period of decline as assets are transferred out. The race is on for your firm to implement a digital decumulation tool that will support your advisors and provide significant financial benefits for clients in retirement.

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About Milestones Retirement Insights and PureFacts

Milestones Retirement Insights, in partnership with fintech leader PureFacts Financial Solutions, provides a software solution that revolutionizes the way advisors can help clients with retirement income planning.

This leading-edge, cloud-based tool integrates into enterprise platforms for easy and intuitive use by advisors. It accounts for all sources of retirement income, is always current with the tax code, and simplifies the complex task of income planning.

Milestones Retirement Insights empowers advisors to quickly enter the growing retirement decumulation planning space and creates the potential to protect and grow their AUM.

For more information, please contact:

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Sources

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