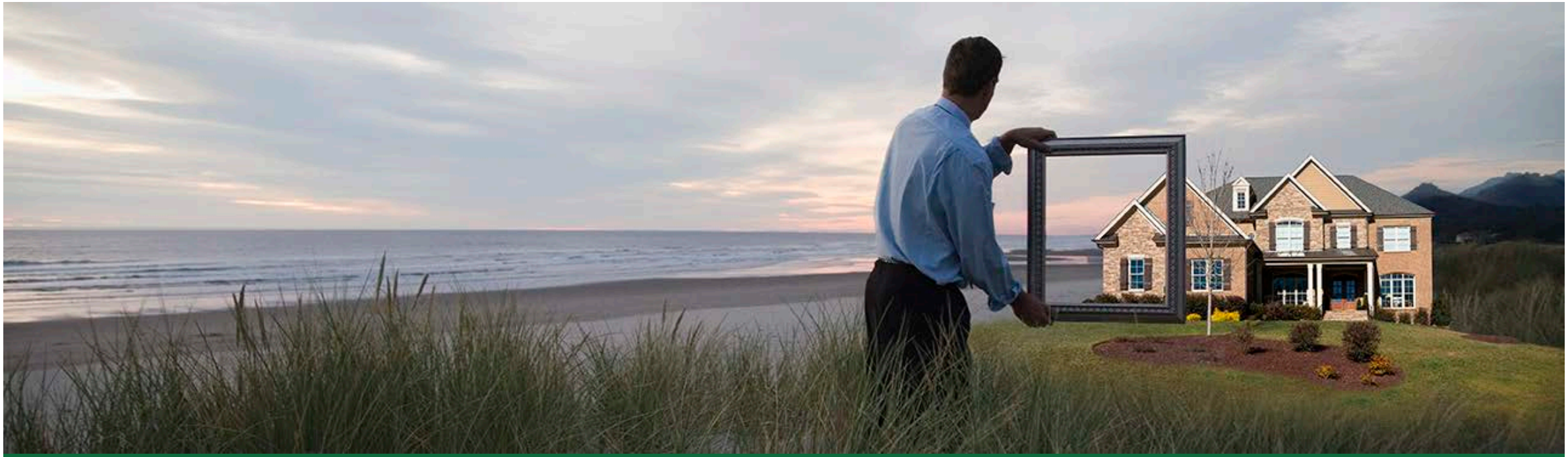
Who is managing your clients' favourite asset in retirement?



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The Financial Wealth of Canadian Households
Focus on Wealth Management

Carlos Cardone
Senior Managing Director

May 29, 2017

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The Next Decade in Canada's Household Wealth

Demographics and retirement

Baby-boomers advance into the payout phase as Millennials backfill the ranks of investors.

Economics of the business

As competition intensifies, few players will escape margin compression.

Technology as disruptor

Lines between advice, direct and self-reliance will blur, if not disappear.

Regulation

Focus on advice, transparency, and disclosure will transform the distribution landscape.

Competition

Product and platform adaptability and solutions-focused delivery will be key to conquering competitive territory.

Dealing with Debt

For many households, debt servicing has become their main financial obligation, acting as a constraint on financial asset accumulation.

Muted Growth in Household Wallet = Intensified Competition

In billions of dollars

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	Assets 2015	2024	2015-2024 CAGR
Financial wealth	$3,756	$6,482	6.3%
Deposits	$1,212	$1,652	3.5%
Investments	$2,545	$4,830	7.4%
Real estate	$5,026	$5,410	0.8%
Household credit	$1,997	$2,150	0.8%

Source: 2015 Household Balance Sheet Report.

Demographics of Wealth #1
Evolving households priorities signal new opportunities

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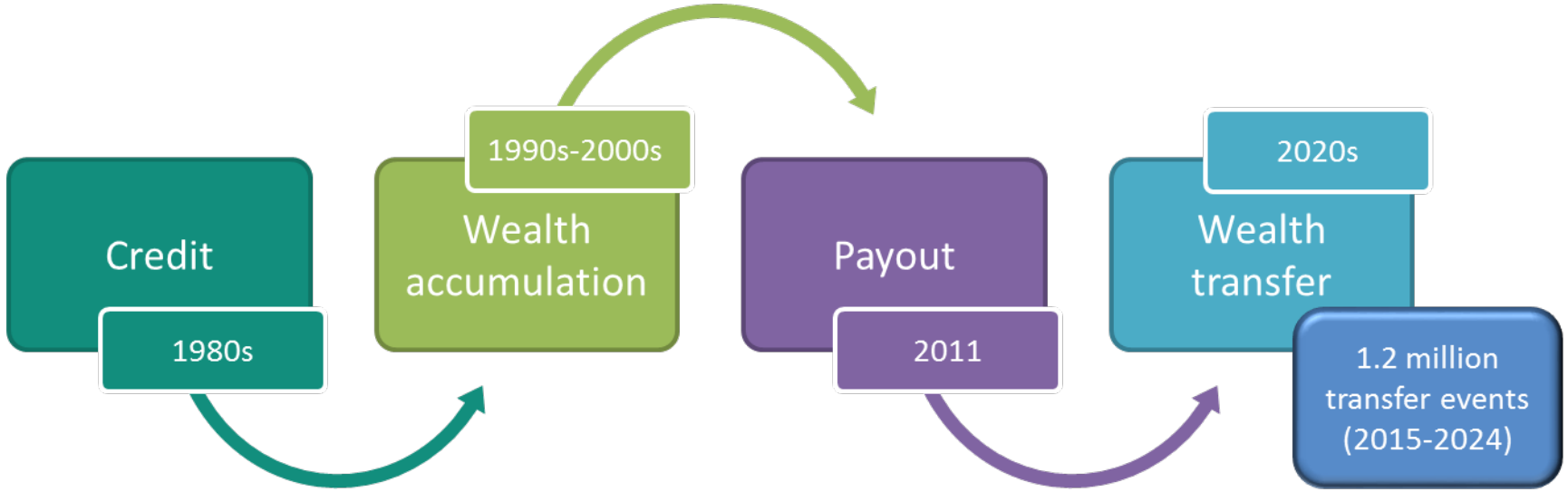

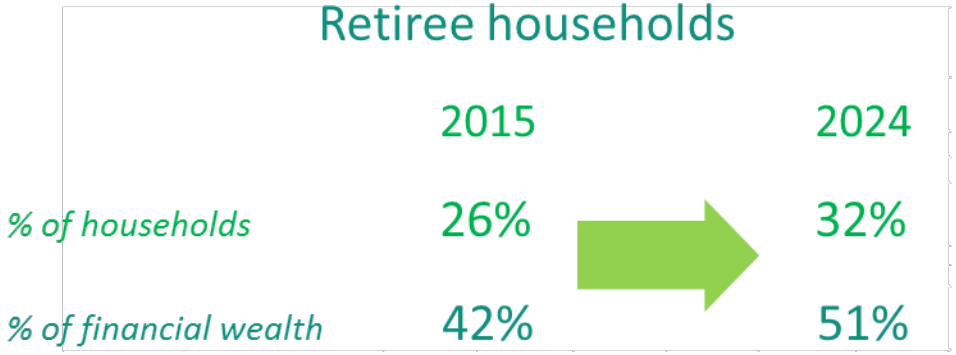

Source: 2015 Household Balance Sheet Report.

Projected Average Intergenerational Inheritance Transfers

Who is getting what dictates whether you are set to gain or lose business

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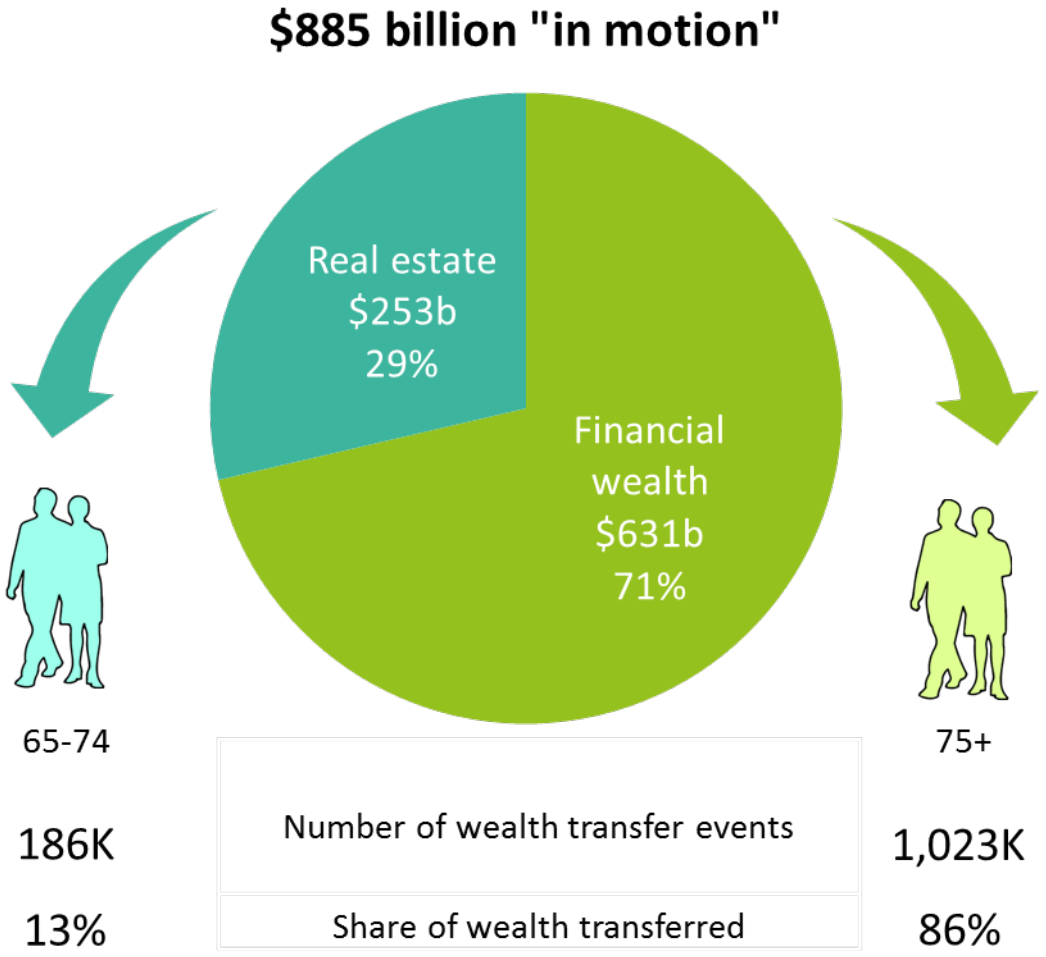

Demographics of Wealth #2

HNW Households account for nearly 2/3 of financial wealth

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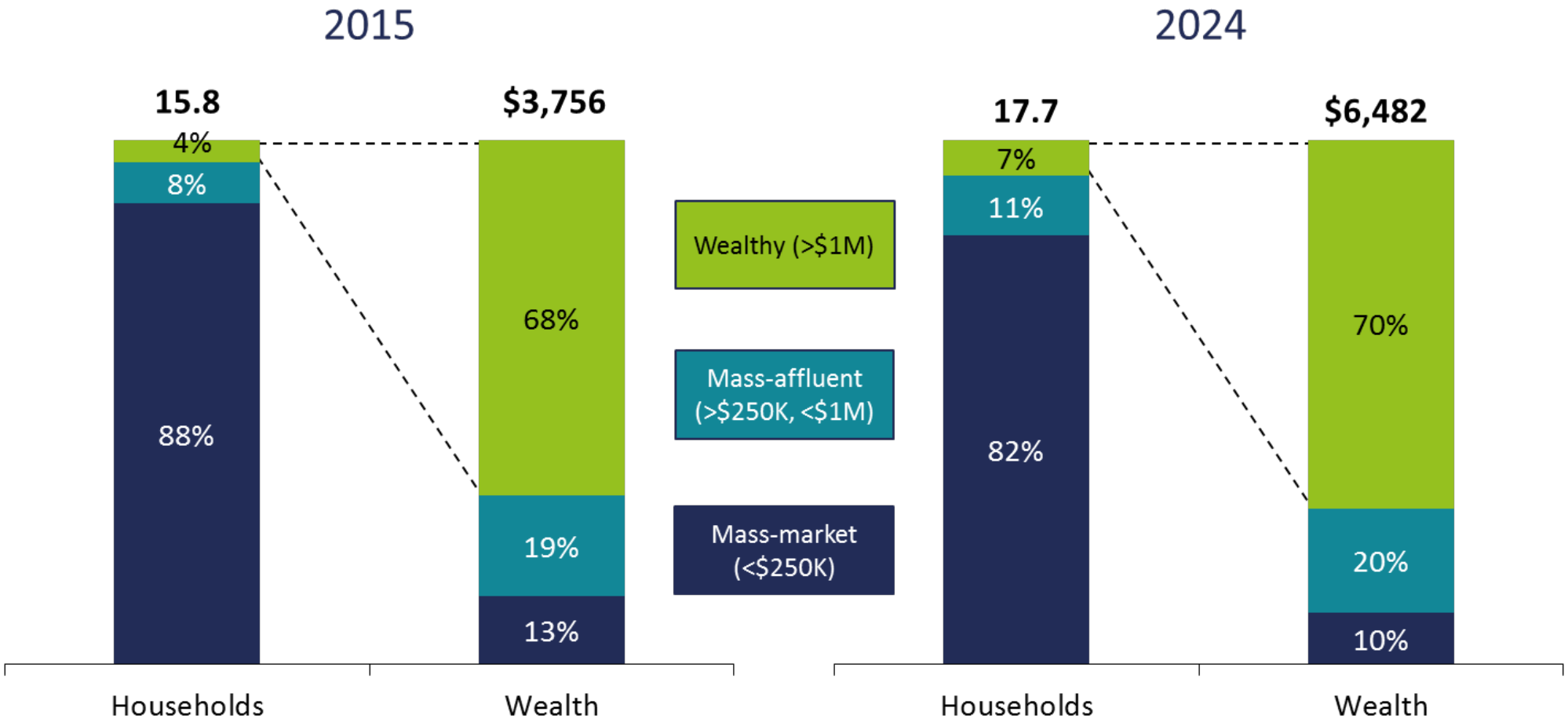

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Demographics of Wealth #3
Many pre-retirees are quite unprepared for retirement

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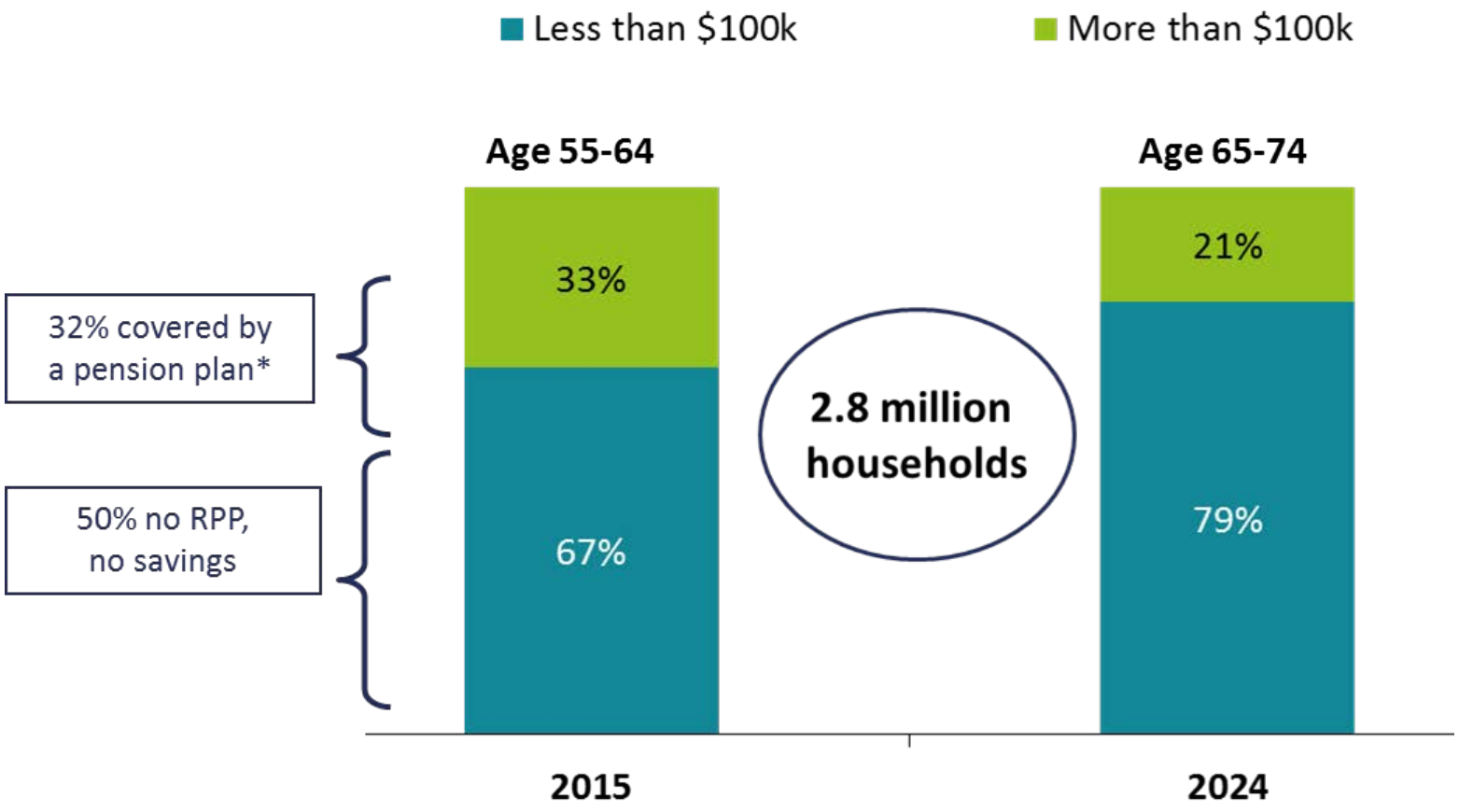

Percentage of households with debt	69%
Average debt	$ 185

*Statistics Canada, 2013

Average Debt and Financial Wealth Assets by Age Cohort
In thousands of dollars as of December 2015

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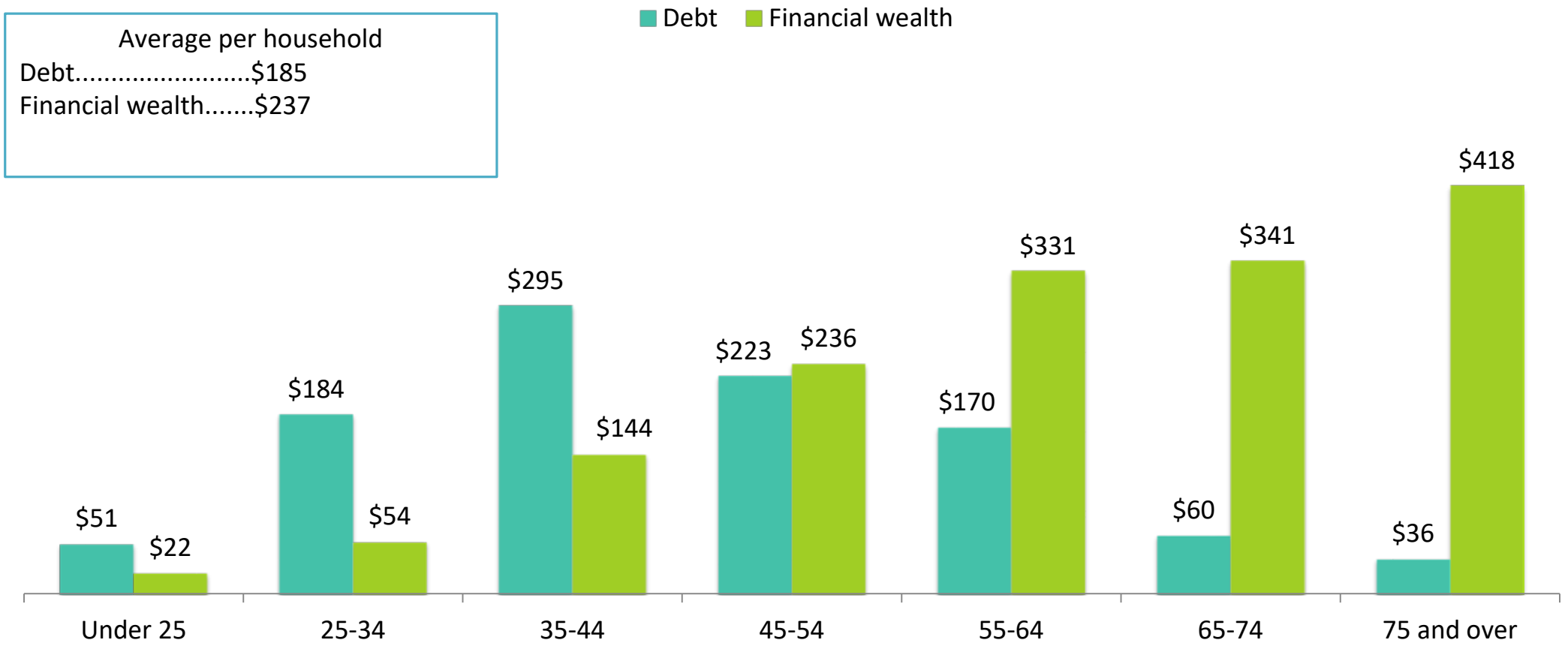

Demographics of Wealth #4
The Millennials: Where and When Is the Payback?

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Today		2024
20%	Millennial share of households	30%
3.2 million households		5.3 million households
4%	Millennial share of financial wealth	12%
$142 billion		$775 billion

Source: 2015 Household Balance Sheet Report.

Student Debt on the Rise: An Increasing Burden on Millennials
In billions of dollars

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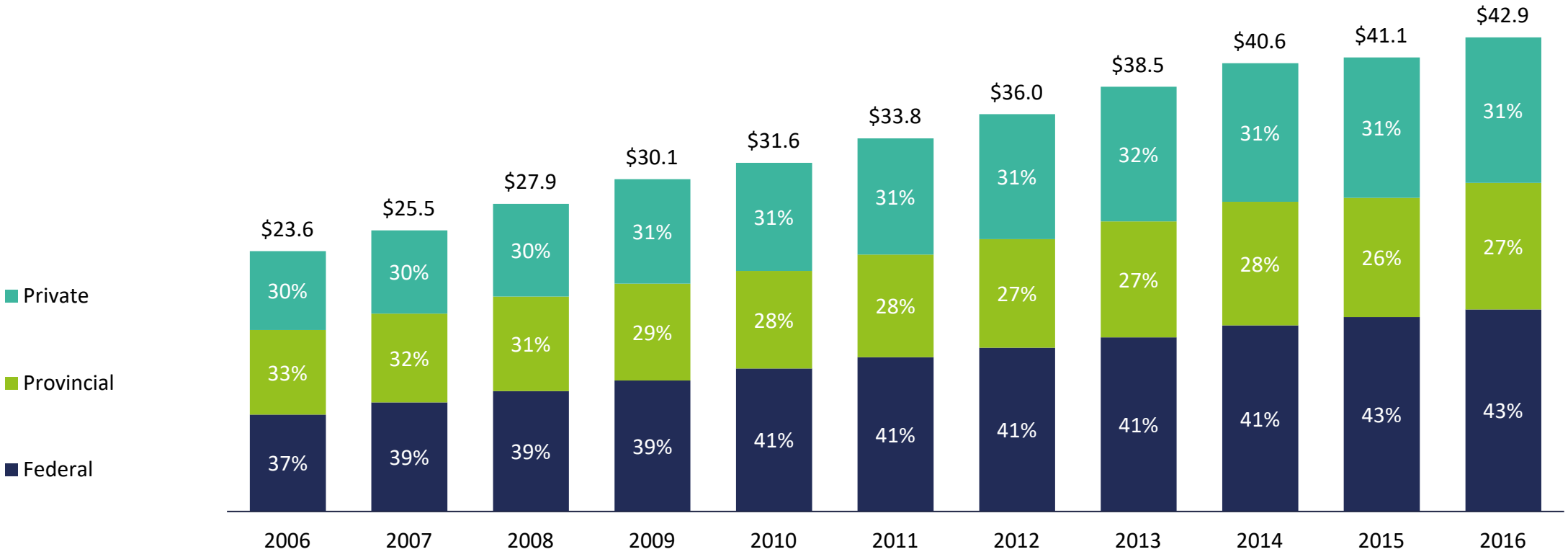

	Student debt as a % of:										
Total debt	2.2%	2.1%	2.1%	2.1%	2.1%	2.1%	2.2%	2.2%	2.2%	2.2%	2.1%
Total debt excl. mortgages	7.1%	6.7%	6.6%	6.5%	6.5%	6.8%	7.0%	7.4%	7.6%	7.5%	7.5%

Evolution of the Household Lifecycle
Debt for Life; Wealth Accumulation, Delayed

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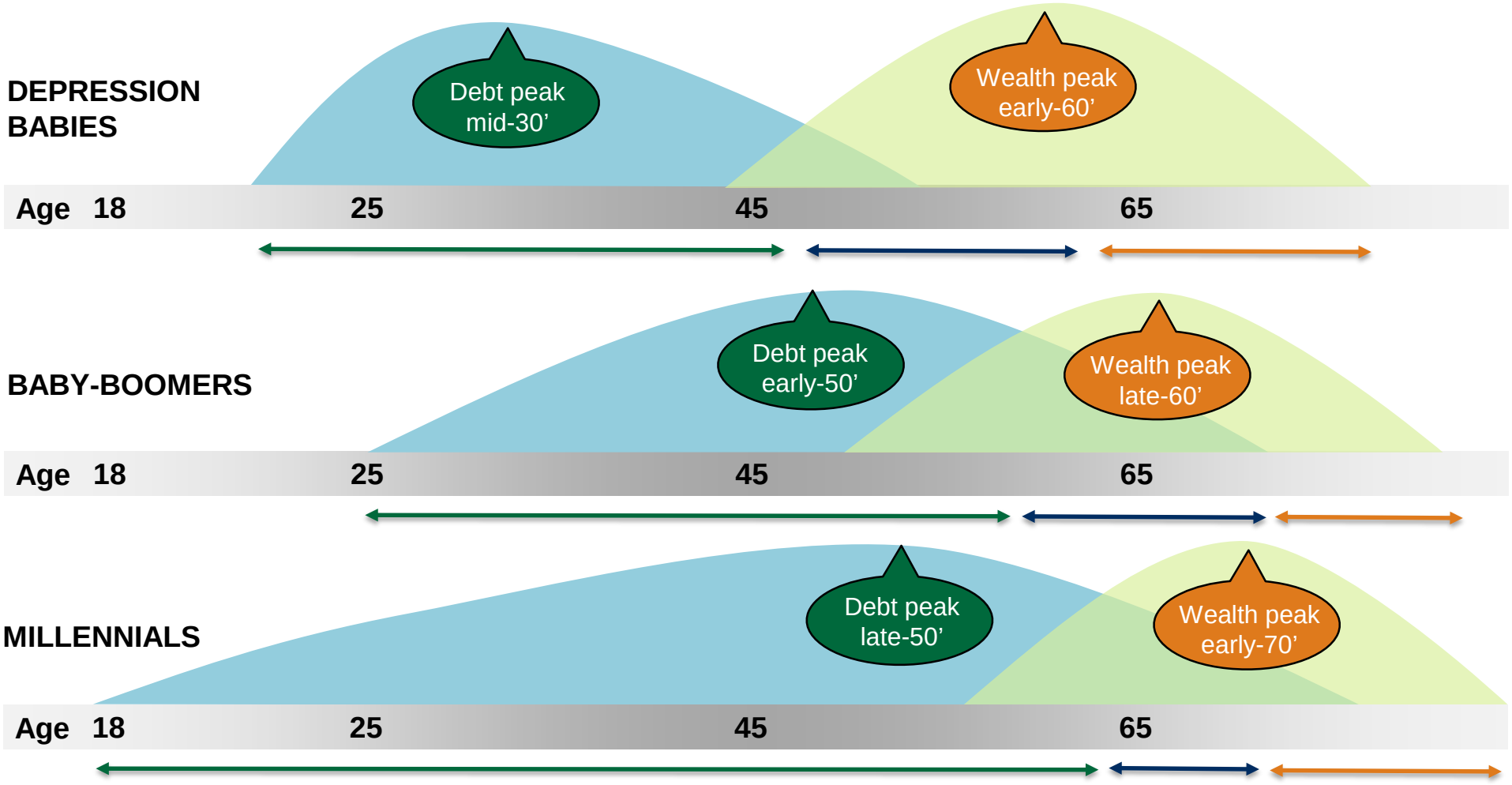

HOUSEHOLD FORMATION
FOCUS: Borrowing, Real estate, Consumption/family security

CAPITAL ACCUMULATION
FOCUS: Capital growth

CAPITAL PRESERVATION AND ORDERLY LIQUIDATION
FOCUS: Income generation

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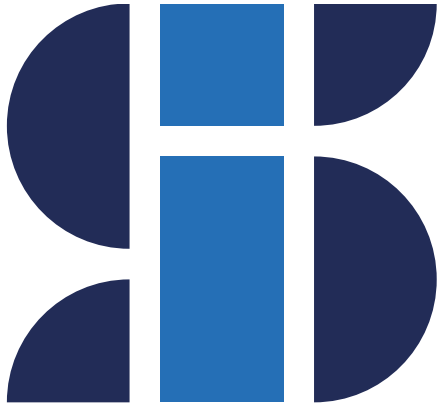

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Who is managing your clients' favourite asset in retirement?

- Completing the retirement picture with home equity

Presentation objectives:

- Create more tax efficient retirement plans and increase overall client wealth
- Differentiate yourself from colleagues with holistic cash flow management
- Consider a different perspective on how we treat real estate before and during retirement
- Place you on a path to better client retention/satisfaction and subsequently asset retention

Aligning your practice with the research of Strategic Insight

Agree or disagree?

Given expected continued longevity improvements, traditional retirement income planning needs to adapt?

Aligning your practice with the research of Strategic Insight

Agree or disagree?

Given real estate represents a large % of your client's net worth, it is something you shouldn't ignore?

Avg. Cdn. home:
1996: 151,000 / 2016: $442,000
(12% average inflation adjusted growth)*

* Canadian Real Estate Association; **CMHC: HOUSING FOR OLDER CANADIANS: The Definitive Guide to the Over-55 Market, Revised 2015

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Aligning your practice with the research of Strategic Insight

Agree or disagree?

$885 Billion in motion through inheritance over next 10 years

The vast majority of these transfers will be paid into bank accounts you don’t currently manage

Reality:
Many Canadians find it challenging to mange cashflow effectively

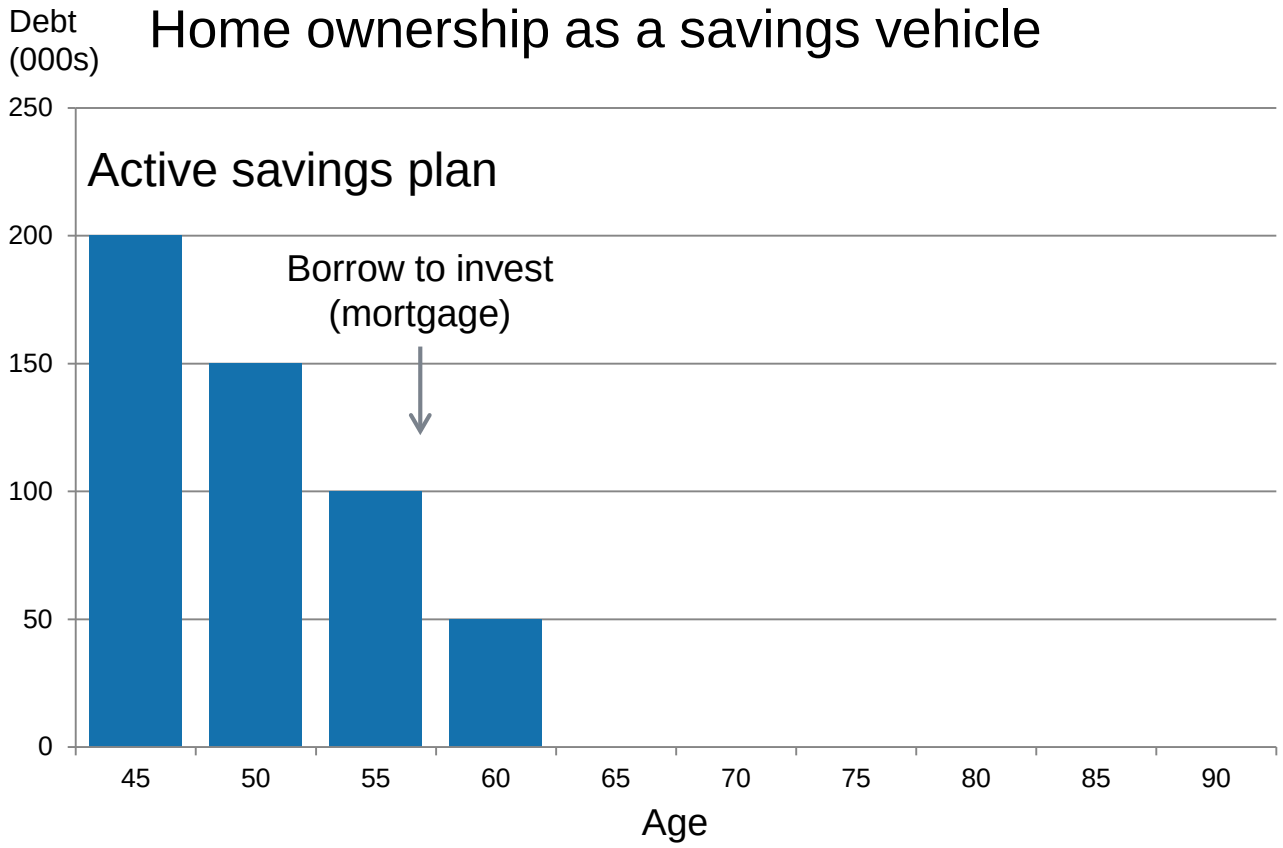
- Real Estate has always taken up a big chunk of their cash flow with fixed payments and amortizations
- Worried about saving for their children’s education costs
- Concerned about retirement with most not having a Defined Benefit Pension
- Need financial advice and products that allow for flexibility

Real estate and debt planning starts early

Make real estate an active asset for life

Pre-retirement

- A “forced” savings account
- Tailored debt management plan
- Enhance Tax efficiency
- Good long-term growth
- Remember to qualify clients in earning years to set up for retirement



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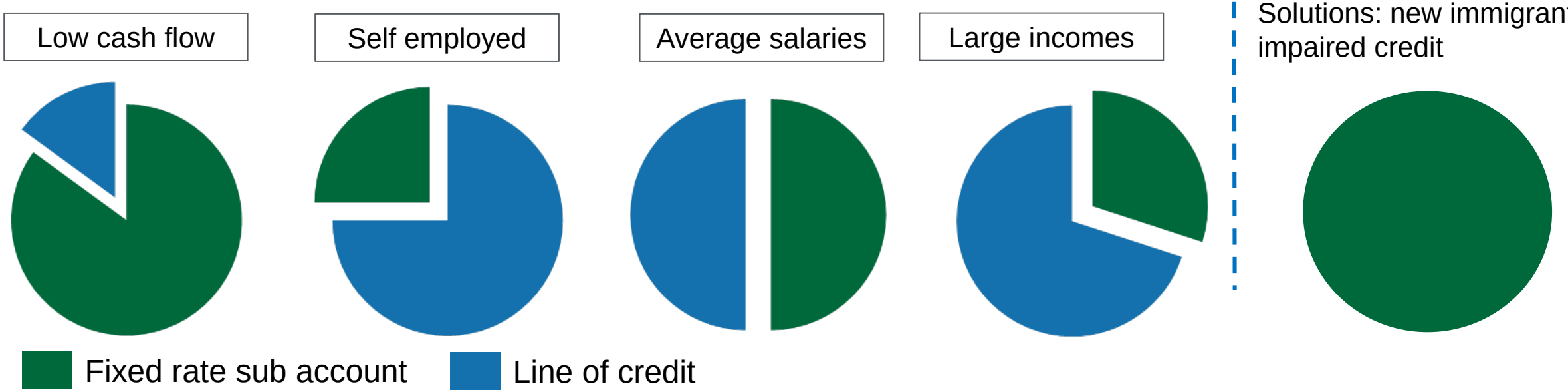
All-in-one does not mean all debt in the all-in-one account

- Building a mortgage specific to your clients needs
  - Income
  - Lifestyle
  - Cash flow surplus
  - Interest rate risk tolerance

Additional opportunities

Manulife Bank Select: less than 20% equity

Alternative Mortgage Solutions: new immigrants / impaired credit



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Tailored debt management: On the road to flexibility in retirement

Lowest Interest Rate

Lowest Interest Paid

- Unlocks home equity with line of credit
- Daily interest calculation – every deposit immediately lowers debt

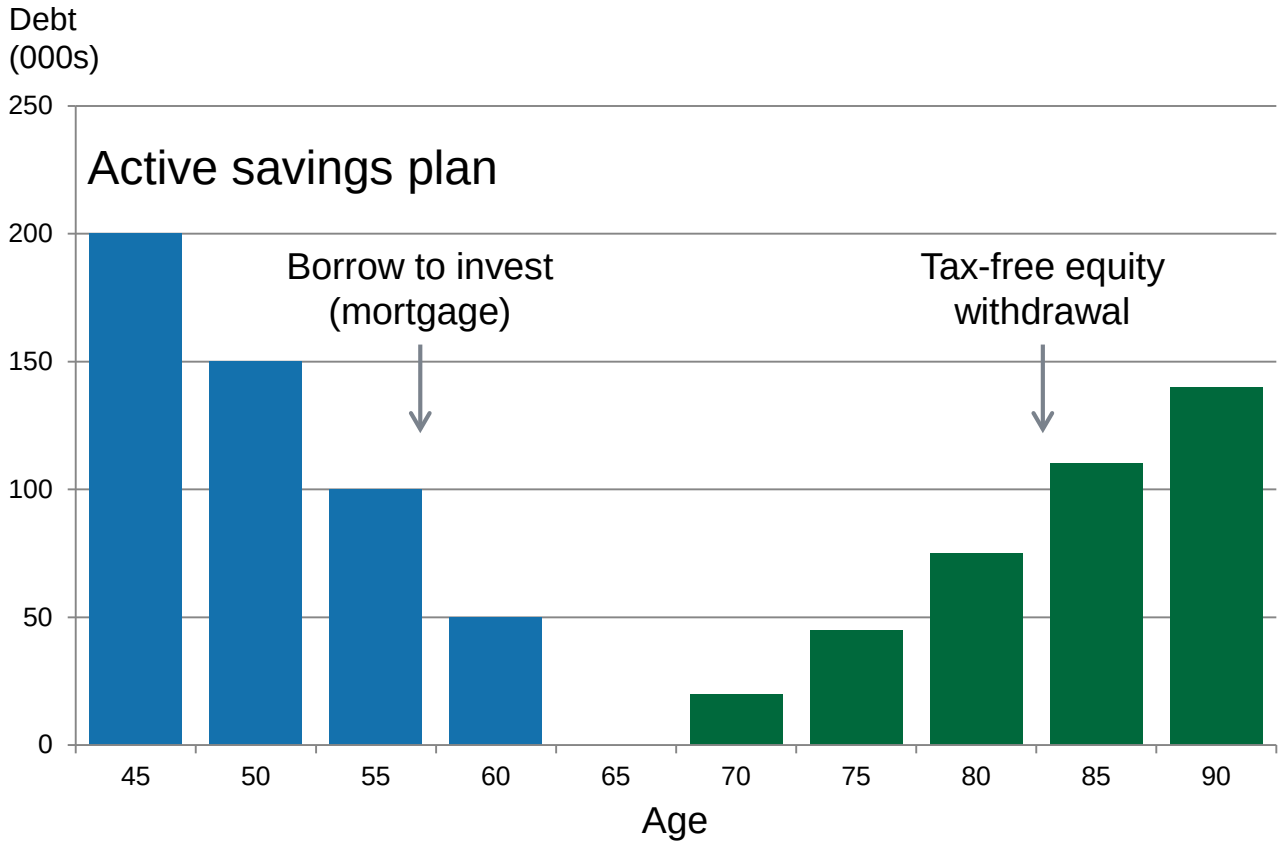
Retirement redefined

Make real estate an active asset for life

In retirement:

- Create monthly cash flow
- Tax-efficient income solutions
- Fully diversified
  - Home equity extends life of all assets
  - Allows for market timing

Home ownership as a tax-free income source



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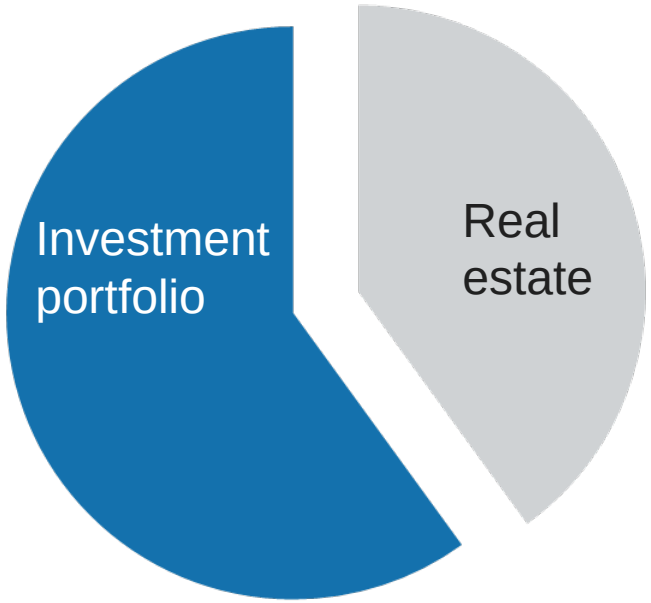
Cash flow in retirement:

Traditional Planning Approach

- Liquidate investment assets for funding retirement
- Most investments have tax implications
- Large amount of net worth dormant



Diversified Planning Approach

- Optimized tax efficiency
- Utilizing entire net worth to fund retirement
- Betters your ability to fund longer retirement plans

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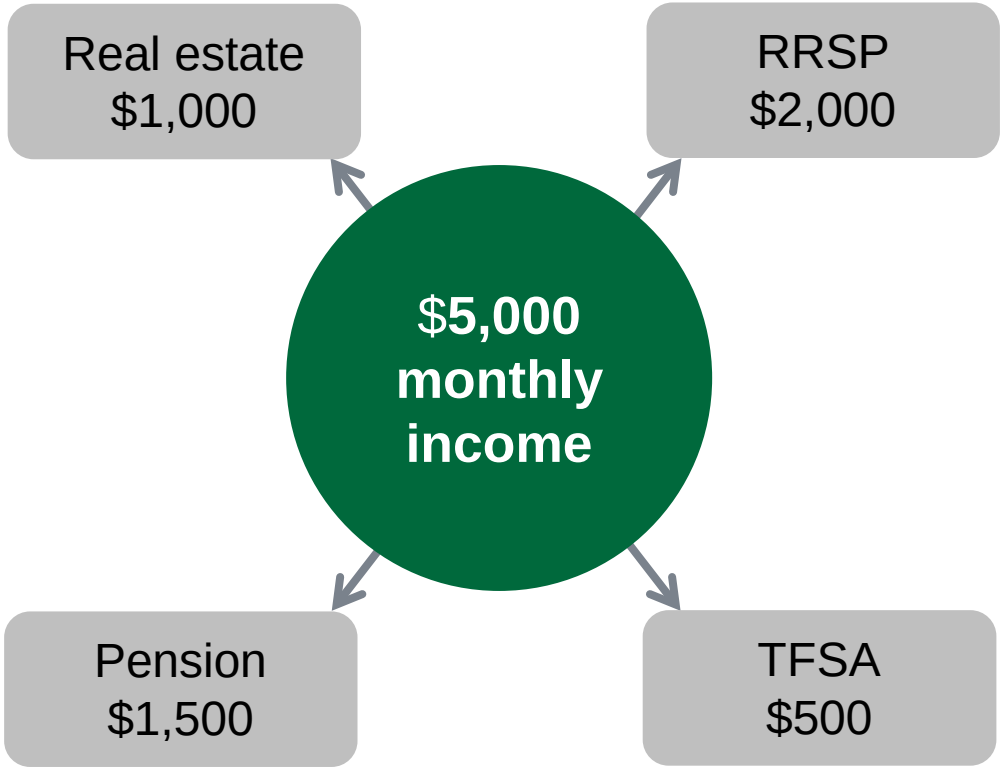
Diversification in retirement should be the same as pre-retirement

Diversified approach

Dialed up or down
with all asset classes



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What clients will be saying about liquidating real estate

"No other option but to sell?"

"I worked so hard to get out of debt and don't want to be back in debt."

"I want to leave my house to my children."

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“No other option but to sell”

A great asset but …

- It’s not perceived as liquid
- Can’t sell it like typical investments – won’t buy my basement
- Accessing it and maintaining it costs less than their investment portfolio

January, 2014: Laura Cooper Economist: Statistics Canada/RBC Economics Research

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“I worked so hard to get out of debt and don’t want to be in debt.”

Debt in retirement can be defined better as really only being the interest – the money I take out is mine

- Real estate is a savings plan
- Lump sums I take out are my savings
- Interest is the cost to manage the real estate portfolio and is the only true debt

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“I want to leave my house to my children.”

We will be leaving our houses to 60 years olds! …and they may be selling it.

- Over 1.5 million already 80+ (children in their 60s)
- An estimated $850 billion will transfer through estates in the next decade

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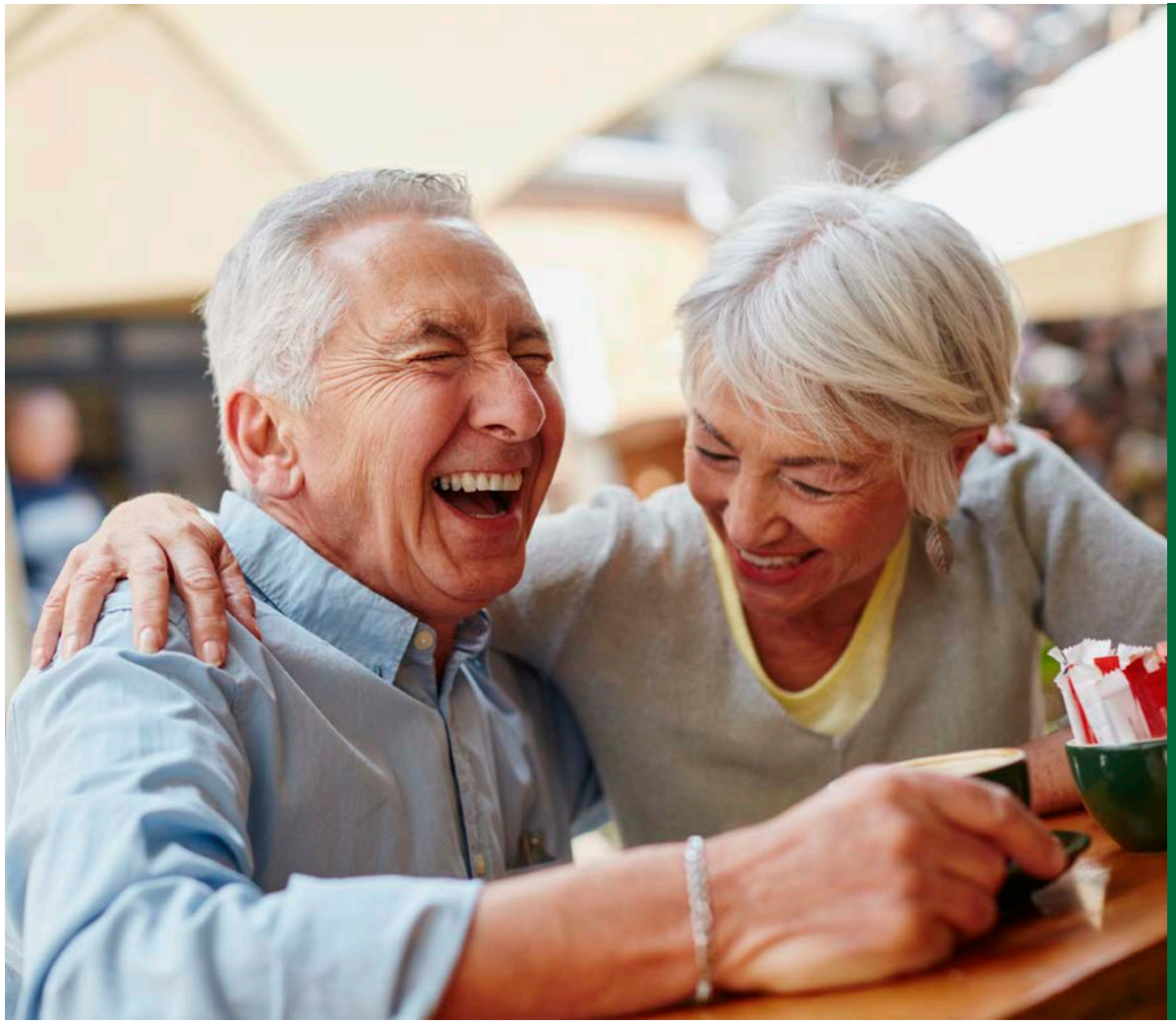
To be open to this approach there had better be some big benefits



- Helps clients stay in their home longer
- Extends the life of all of clients' assets
- Retains net worth later into retirement
- Optimizes tax efficiency – PAY LEAST AMOUNT OF TAX POSSIBLE
- Home ownership has been linked to increased life expectancy*

*UK Study

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Case study –

Real value with real estate as an active asset in retirement

The Smiths

- Retiring this year
- Both worked for companies without pensions
- Tax-optimized retirement plan using CCH Software

Net worth:	
$1,000,000	RRSP
$500,000	Non-registered investments/TFSA
$1,300,000	Home (no mortgage or debts)
$2,800,000	**Total Personal Net Worth**

For illustration purposes:
Assumes 6% growth on investments and 2% inflation rate; 38% marginal tax; 2% growth in home value, 5.25% borrowing rate, includes CPP/OAS

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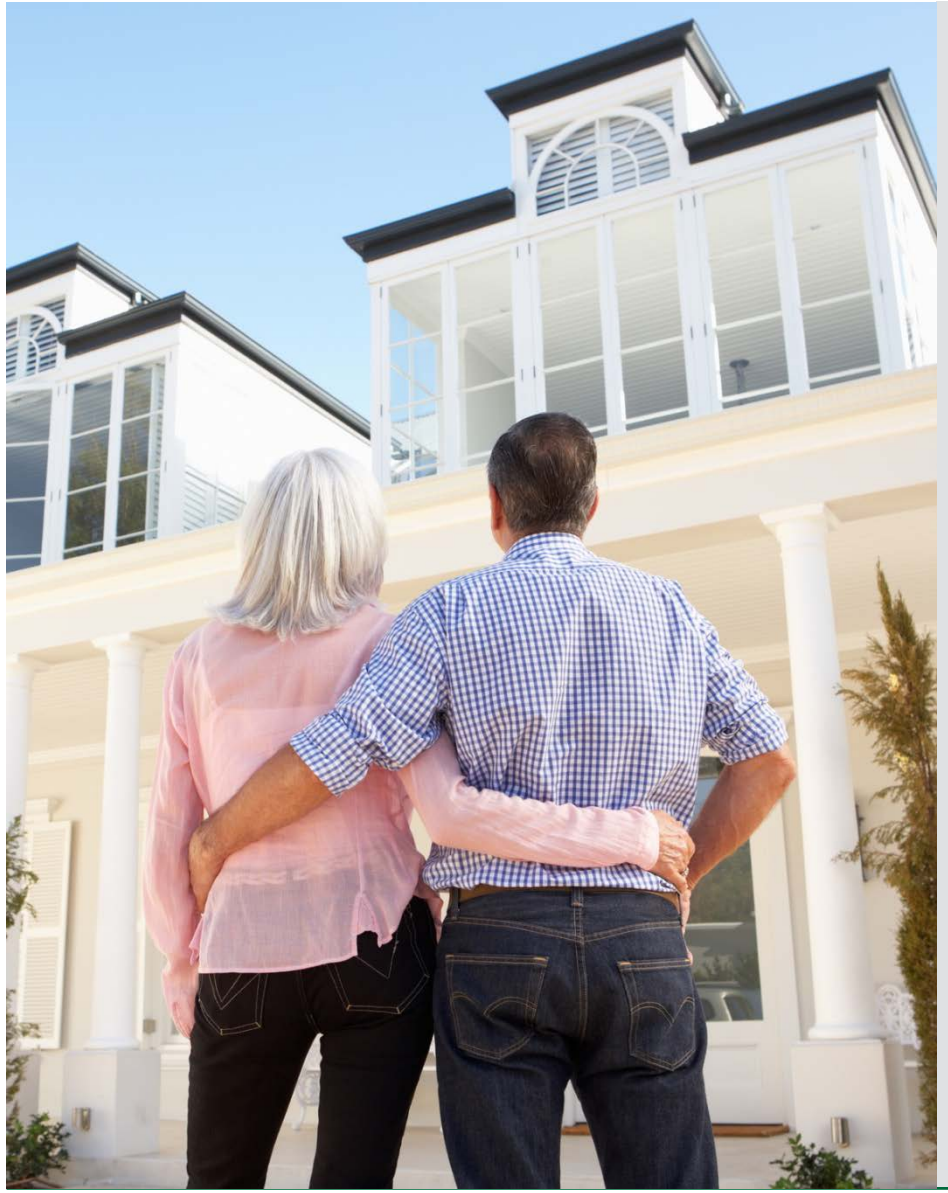

Case study –

Wanted $100,000 after-tax retirement income to age 90

- Won't make it – Money lasts to year 84
- Will need to sell home or use a home line of credit

Age	Managed Investments ($000s)	Withdrawals ($000s)		Mortgage ($000s)	Real estate ($000s)	Net Worth ($000s)
		Registered	Non-registered	HELOC	Home Equity	
63	$1,489	$60	$32		$1,326	$2,318
77	$946	$83	$45		$1,750	$2,324
82	$382	$180	0		$1,932	$2,124
84	$8	$199	0		$2,010	$2,014
85		Line of credit. Investments fully depleted.		$154	$1,896	$1,896
90				$1,197	$1,066	$1,066

For illustration purposes: Assumes 6% growth on investments and 2% inflation rate; 38% marginal tax; 2% growth in home value, 5.25% borrowing rate, includes CPP/OAS

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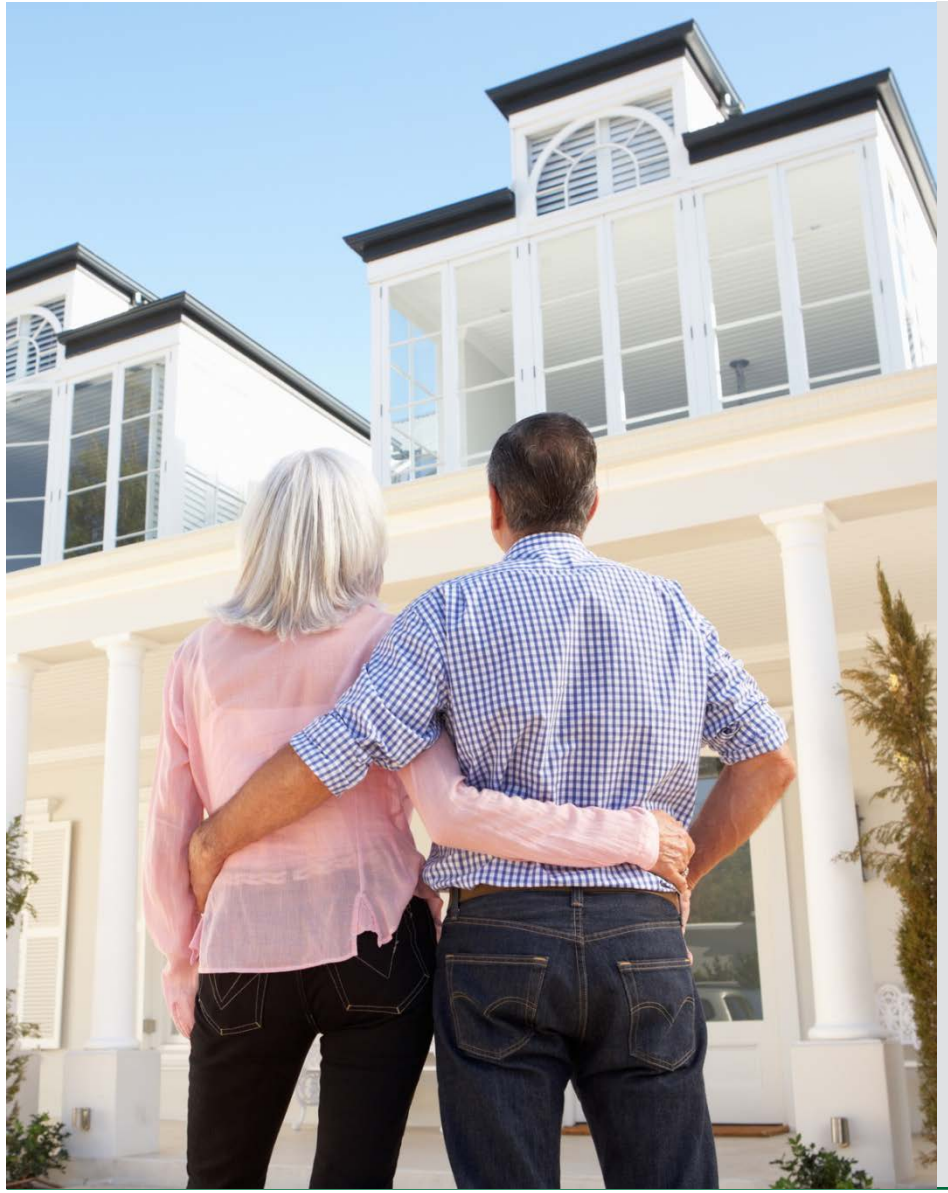


Case study –

Real value with real estate as an active asset in retirement

- $100,000 after-tax retirement income to age 90
  - $1,000 per month using home savings last until age 90
  - Still has home equity and investments

Age	Investments ($000s)	Withdrawals ($000s)	Line of credit ($000s)	Home Equity ($000s)	Net Worth ($000s)
	Total	Reg. & Non Reg.	Manulife One	Home value – debt	
63	$1,506	79	$13	$1,313	$2,319
71	$1,518	85	$141	$1,412	$2,417
82	$1,167	125	$432	$1,499	$2,275
84	$1,020	134	$505	$1,504	$2,159
90	**$237**	**$188**	**$776**	**$1,487**	**$1,606**

For illustration purposes: Assumes 6% growth on investments and 2% inflation rate; 38% marginal tax; 2% growth in home value, 5.25% borrowing rate, includes CPP/OAS

Case study –
Net Worth Comparison

	Use Non Reg First Net Worth ($000s)	**Use Home Equity LOC First Net Worth** ($000s)	Difference
Age 82	$2,124	$2,275	$151,000
Age 90	$1,066	$1,606	$540,000

For illustration purposes: Assumes 6% growth on investments and 2% inflation rate; 38% marginal tax; 2% growth in home value, 5.25% borrowing rate, includes CPP/OAS

Case study –
Fully diversified retirement portfolio

– Client benefits

- Able to stay in their home
- Less stress of outliving retirement savings
- Tax-free withdrawals that by age 90 meant:
  - $237,000 investments assets remain
  - Paid more than $150,000 less in tax
- Reduced their overall risk and volatility

For illustration purposes: Assumes 5% growth on investments and 2% inflation rate; 5.25% borrowing rate; 38% marginal tax; 2% growth in home value

Case study –

Fully diversified retirement portfolio

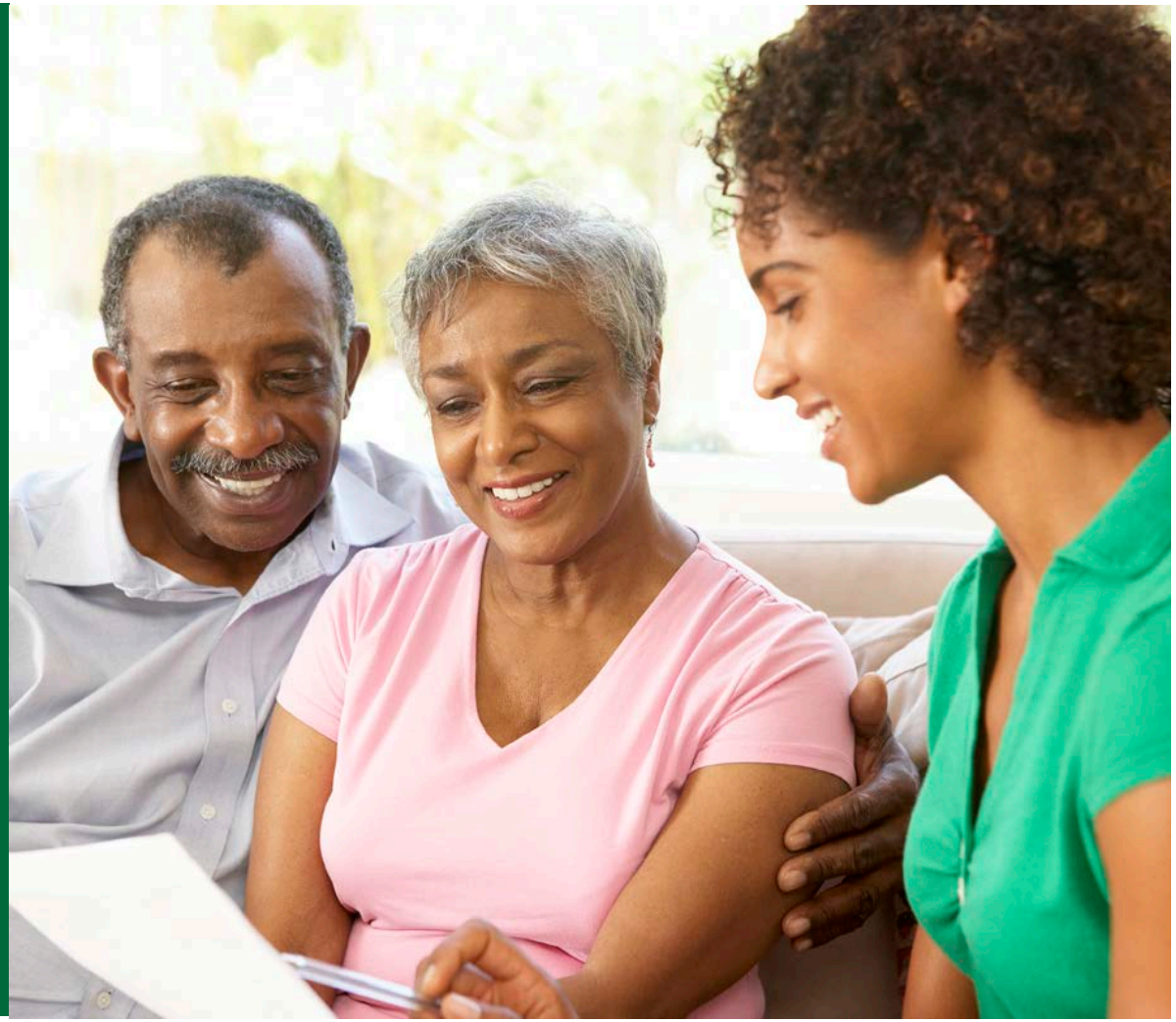
– Advisor benefits

- Did not have undesired conversations about selling the home
- Able to reduce stress and create peace of mind for customers
- From this one client retained approximately $120,000 in revenue
  - Assumes 1% investment trailer
  - + $9,120 in Manulife One trailer compensation
- Increased the value of your book of business with reduced redemption rate

For illustration purposes: Assumes 5% growth on investments and 2% inflation rate; 5.25% borrowing rate; 38% marginal tax; 2% growth in home value

Other concepts with real estate active in retirement

- Retirement bridging
- Managing life events (All the lump sum requests)
- Funding insurance policies or other estate friendly products



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Diversification in retirement

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Home equity provides flexibility for large purchases and unforeseen events

For every $1 withdrawn, it could cost your client:

RRIFs/Pensions
$0.20 to $0.54

Equities †
$0.10 to $0.27

These costs are based on how much tax* your client may pay on investment withdrawals

Lost opportunity cost: Once withdrawn, it can no longer produce future income

*For illustration purposes only: Current combined federal and provincial taxation for Ontario residents. Borrowing rates for home equity lines of credit are typically Prime +1%
†Equities reference in this illustration are non-registered

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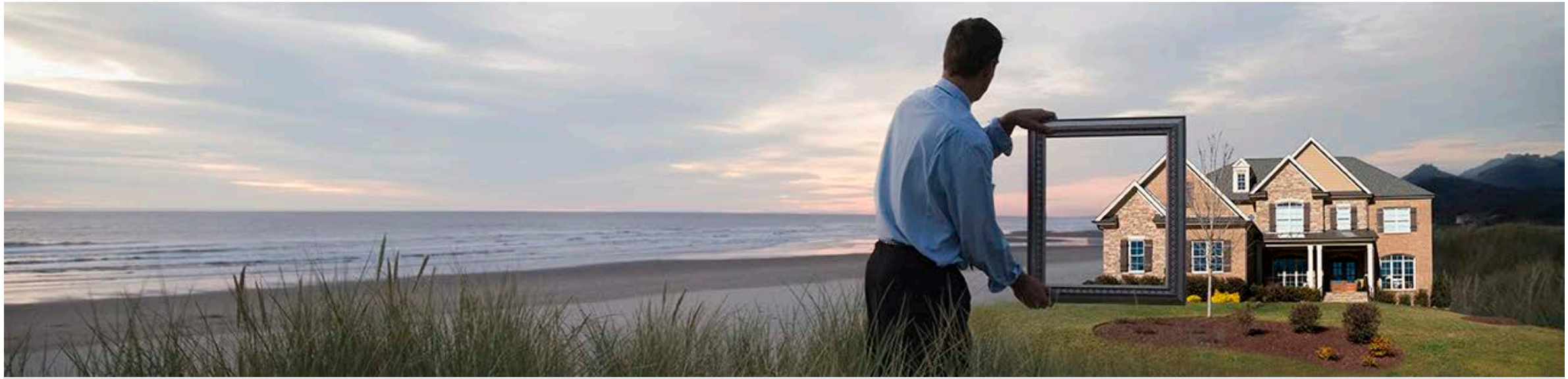
Deliver more to your clients with Real Estate actively involved



Cash flow planning using real estate:

- Enables pre-retirement savings goals through a tailored debt and cash flow plan
- In retirement most clients can remain in their homes for as long as they choose
- Maintains net worth much later into retirement to assist the longevity challenge
- Ensures that Diversification is the same – pre and post retirement
- Allows for reduced risk and volatility
- Enables clients to pay less tax throughout retirement

Completing the retirement picture with Manulife One

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Completing the retirement picture with Manulife One:

“One” of the best solutions for making your clients home part of their retirement plan

- One account for their retirement – managed by their advisor
- Income if needed and adaptable to their financial situation
- Unlock their home equity
- No opening costs
- Reduce risk of mortgage fraud

Here's how it works… **Money In:**

Simplify your clients' retirement income

- One account for all their income sources
- Every deposit immediately reduces debt or adds to positive savings balance
- Invest idle savings –line of credit is their rainy-day savings account

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Here's how it works… **Money Out:**

Online | Phone | Mobile

- Enjoy easy access to their money:
  - A debit card for each owner on the account
  - Access to 3,300 ABMs, Canada's 2nd largest network
  - Chequing privileges
  - Online, mobile and telephone banking
  - Optional Manulife Bank credit card
- Extra cash lowers debt or adds to savings

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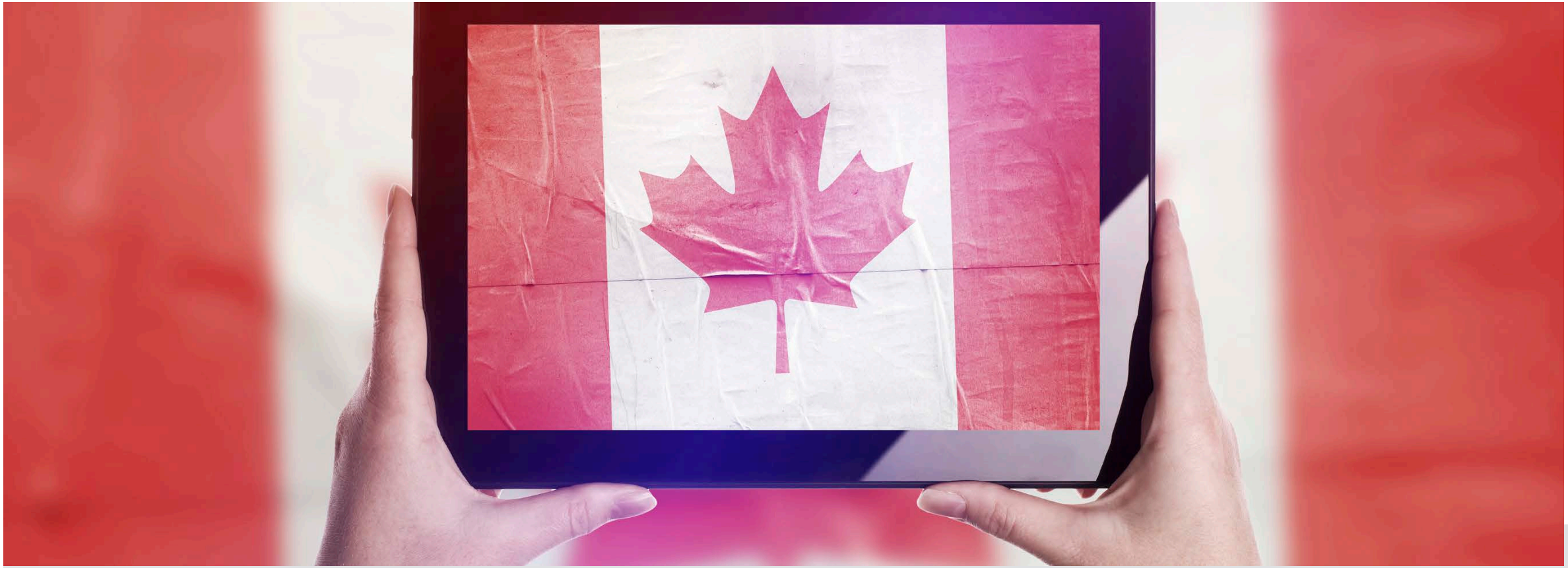
How do you learn more about real estate as an active asset in your client's portfolio?



Talk to your dedicated Business Development Consultant.
We have **80** business partners across Canada.

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Important notes

Borrowing to invest is suitable only for investors with higher risk tolerance. Your clients should be fully aware of the risks and benefits associated with investment loans since losses as well as gains may be magnified. Preferred candidates are those willing to invest for the long term and not averse to increased risk. The value of your client's investment will vary and is not guaranteed, however they must meet their loan and income tax obligations and repay their loan in full. Please ensure clients read the terms of their loan agreement and the investment details for important information. Clients are encouraged to seek professional tax advice.

Manulife Bank of Canada solely acts in the capacity of lender and loan administrator, and does not provide investment advice of any nature to individuals or Advisors.

Thank you

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strong reliable trustworthy forward-thinking