What are the financial threats that our generation will face?

Walking along the streets of Tottenham, Beeton and Alliston, comprising the Township of New Tecumseth, and now Thornton, where I live, I notice that baby boomers are everywhere-people in the age 50-65 range. Being in the field of financial services since 1983, it is automatic for me to ponder, "I wonder how these people are going to financially survive 3 or more decades of retirement with interest rates nearly non-existent on term-deposits and stock market volatility making returns unpredictable at best?" Why 3 decades you may ask? Because 30 years is the life expectancy of a 65-year-old couple. And because of advancements in medical care, these couples will likely have a better quality of life during retirement than did their parents. What are the financial threats that our generation will face?

The three main threats to living a long and comfortable retirement are: outliving your money due to longevity, cost of living increases and market risk.
Longevity means there is increased pressure on people's portfolios to provide sustainable income for 30 years or more. A longer quality of life means that people will be active longer than expected, raising issues around financially maintaining that lifestyle, the inheritance their children will receive, their estate tax issues, and their long-term care and medical costs.

Inflation, the second threat, seriously erodes purchasing power over time. At three per cent inflation, purchasing power may be reduced by as much as 45 per cent over a 20-year period.

The third threat, market risk, is a double-edged sword where the combination of market volatility and the actual sequence of returns (returns of -8 during the first year of investment, -10 during the second year of investment and 39 during the third year of investment average 21 but yield significantly worse results than getting a 7 return during each of those same three years) can seriously weaken or destroy the sustainability of a portfolio. Suffering a significant downturn in the market around the time income from investments is needed for retirement expenses, will result in a reduction of capital and less income available in the future.

Guaranteed Minimum Withdrawal Benefit plans are designed to provide investors with a guaranteed income stream for life with the potential for capital appreciation. These plans also provide minimum guarantees on net deposits, the potential for creditor protection and probate free transfer on death. These plans provide investors, age 65+, a lifetime income equal to 4.25 of the accumulated value of the income base, - a notional capital amount based on the invested capital. This income base amount may be increased by 5 bonuses and resets over time (locking in market gains every 3 years but never locking in losses), in the investment period prior to retirement, creating a higher, adjusted income base which the 4.25 is based upon. Investors have the security that the guaranteed income amount will not be influenced by market downturns. The plan can be set up to provide an ongoing, lifetime income for a surviving spouse without cancellation of the contract.

Automatic reset options exist to permit investors to lock-in increased values (but never adjust downwards) every three years. These serve to increase the income base (both prior and after retirement), bonus base and or the death benefit guarantee. Investors' income is thus shielded from market losses while being able to benefit from market gains. This permits the income base to grow, providing an enhanced income stream in the future.

Guaranteed Minimum Withdrawal Benefits have the dual advantage of preserving capital while preserving a retirement income stream.