CHAPTER 15

Constructing Retirement and Benefits Plans

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# PL 1. Developing Your Goals

Goals are the foundation of your financial planning and are important elements in deciding how to spend and save. They help you decide where you want to live. Whether you want to buy a new car, to pay for a sailboat, retire at a cabin near the water, or to set aside money for education, you should consider how you will plan to gather and spend your money. you are planning the cabin for your retirement in 20 years, you do not need to worry too much about short-term fluctuations in the market. But, if you want to go to university in a few years, you have to consider safer investments where there are no short-term fluctuations.

**Task:**

What are your key work and life goals? Try this short exercise.

1. Sit down with your spouse or close friend and set a timer and take five minutes for each of the questions below. Without talking, answer the following questions in developing a wish list of things you want to do in your future:

* What do I want to be/have/do when I am in the midst of my career?
* What do I want to be/have/do now?
* What do I want people to say about the management of my finances?

Here are some examples of statement which might evolve from this exercise. :

* I want to be debt free from credit cards in one year.
* I want to be able to take two years off to take care of my children full-time.
* I want to have a house in \_\_\_\_ neighborhood.
* I want to retire at 60 with an indexed annual income of \_\_\_\_\_\_\_\_\_\_ in today’s money.
* I want my net worth to be $\_\_\_\_\_\_\_\_\_\_\_\_ when I am 60.
* I would like to have a sailboat.

1. Based on your list, what are some action steps to help you implement your wish list of things you want to do? Make your statements as precise as you can.

* Buy adequate insurance
* Pay off consumer debts, especially credit cards by.... As each loan is cleared, use the payments saved to fund other goals.
* Buy a house by \_\_\_\_\_\_.
* Set up an investment plan beyond the retirement plan my organization offers.
* Start making RRSP contributions. Set up a retirement saving plan for children. Set up a plan to finance children’s education.
* Build an emergency fund of \_\_\_\_\_ to last for six months.
* Save 10%-20% of yearly income for investment.

1. Set dates to begin and review progress.

# PL 2. Developing your Investment Approach and Philosophy

Working by yourself or with your partner, you are asked to develop your investment philosophy. You can assume that you want to begin investing for retirement and, even though, you have a company pension fund, you want to develop your own investments in taking advantage of registered saving which are tax free in some countries, savings, housing, and putting money away for retirement.

In getting started, you want to build on the framework of federal and provincial guidelines governing occupational pension funds. These guidelines suggest three considerations: the ‘prudent person’ or ‘reasonable person’ principle, the need for diversification in the investment of the assets of the plan, and the requirement for a written investment policy.[[1]](#endnote-1)

*‘Prudent personal’ principle.* The ‘prudent person’ principle suggests that you would invest as if you were using someone’s money and you wanted to be cautious. So, you would “invest the assets of a pension fund in accordance with the regulations and in a manner that a reasonable and, possibly, frugal. So, investment is not gambling. It is an approach to saving and accruing income based on principles you develop in your learning.

*Diversification*. One principle you might come across in your readings it that a recommendation to diversify the investment of the assets. To some extent, this describes how a prudent or a reasonable person is expected to act in making investment decisions. Diversification in finance involves reducing risk by having a variety of investments in your portfolio. As a risk management technique, the logic is that a portfolio of different kinds of investments will, on average, yield higher returns and pose a lower risk than any individual investment found within the portfolio. You can diversify in several ways: different stocks, countries, value stock and risk stock. It is often recommended that you diversify your investments and include a variety such assets such as cash, bonds, General Investment Certificates, stocks (value or growth stock, foreign or emerging, large or small capitalization), and real estate. A reasonable or prudent person might have a balance portfolio. Developing a diversification strategy involves picking the asset classes that fit your style and needs in investing.

*What is your investment philosophy?* Develop a written statement of how you might start your investing. You might do this by answering the following questions:

What are your goals in investing? How much money might you plan to set aside each month to begin investing (can you put aside 2% (or 3%) per year?

How do you plan to invest? Do you want to begin with a xxxx directed investing or do you want to engage a broker or financial manager?

What types of investments do you want to consider (e.g., stocks, mutual funds, housing)? Why? If you consider stock investments, what types of stocks might you choose (i.e., banks, utilities) to get started? Why?

How do you plan to diversify your portfolio in the future and how diversification do you need?

What percentage of your finances do you want in various assets?

What liquid assets do you have for emergencies? What is your strategy for developing more liquidity in an emergency?

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# References

1. Tamagno, E. (2006). The management and regulation of occupational pension plans in Canada. Ottawa, Caledon Institute of Social Policy. Accessed on April 24, 2010 at <http://www.caledoninst.org/Publications/PDF/611ENG.pdf> [↑](#endnote-ref-1)