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A Professor Retires by Commuting His Defined Benefit Pension

John Ambrose, CFA 416-203-8139

8/26/2010

Experience

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John Ambrose, P.Eng., CFA

- Started MD Private Trust,
  - AUM $2 billion for 80,000 doctors
- Chair, Banting Research Foundation
- VP Citibank, corporate finance
- Governor, University of Toronto
- Rotman School of Management
- Started Ambrose Investment Counsel in 2003
- B.A.Sc., M.Sc. (Aerospace), M.B.A.
- Chartered Financial Analyst

What You Want & Need

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- **Retire happily without worry**
- **Feel valuable**
- **Safe home**
- **Take care of the kids now**
- **Take care of the kids later**

How We Help You

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- Build a strong team of excellent investment, law and tax advisors
- Develop novel solutions to handle your special situation
- Reduce anxiety from volatile markets for those without an income
- Enjoy your retirement

Our Strong Team

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- **Experienced estate lawyers:**
  - **Roberta McGill of Cassels Brock & Blackwell LLP**
  - **Janet Sim of Osler, Hoskin & Harcourt LLP**
- **Experienced tax advisors:**
  - **Rachel Gervais, BDO Canada LLP**
- **Experienced portfolio manager:**
  - **John Ambrose**
- **Strong custody**
  - **TD Waterhouse (Canada) Inc.**
- **Strong Audit process**
  - **Grant Thornton LLP**

Managing A Portfolio Relies on These Parts

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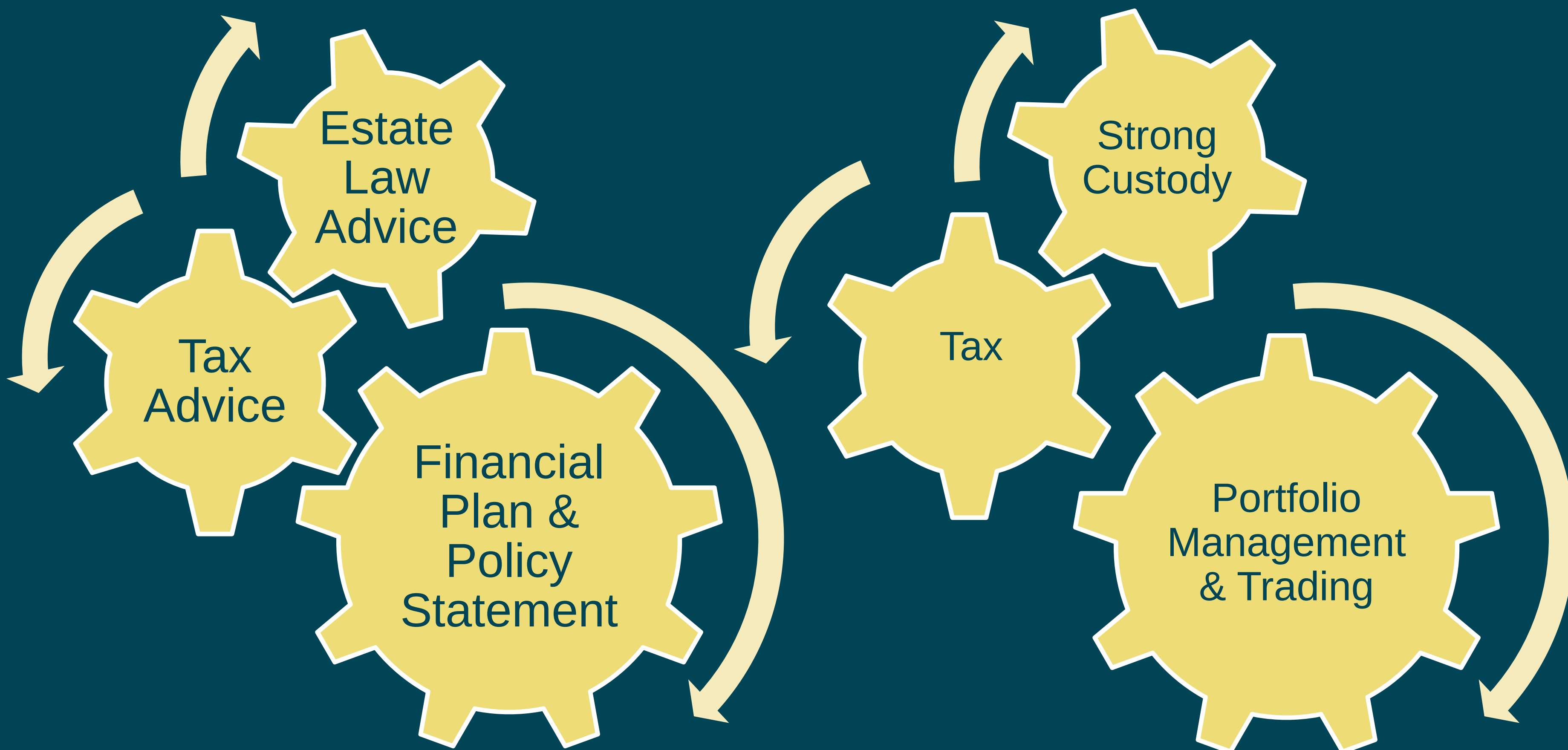

TD Waterhouse
Institutional Services

Role as Custodian and Safety

Role:

- Custody client accounts – all types offered (personal, corporate, registered)
- Execute trades on all exchanges – Canada, United States, International
- Perform account maintenance – Modifications, deposits, withdrawals
- Provide the investment counsellor with trade authorization only
- Withdrawals can ONLY be sent via:
  - Electronic funds transfer to the bank account enrolled during account opening with the same name of the account holder
  - Cheque in the name of the account holder – must be requested in writing

CIPF and Strength of TD Waterhouse and TDBFG:

- All accounts are covered by the Canadian Investment Protection Fund (CIPF)
- Financial security of the TDBFG, guarantees each account above CIPF coverage
- International TD presence with TD Waterhouse UK, TD Bank and TD Ameritrade

Satisfied Clients

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- Retired Professor Emeritus
  - Liberated pension with the lump-sum option, created estate
  - Plan to reduce debt, simplify assets
  - Started new hobby business
- Professional & family
  - Used inheritance to start a new wine business
  - Now bottling first production
- Doctor & family
  - Created a new professional corporation to defer taxes
  - Plan to repay debt, build estate

Defining a Few Terms

Talk to the Pension Department

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University of Toronto Pension Plan:

- **Pension Benefit = RPP + SRA**
- **RPP under the ITA: Register Pension Plan under the Income Tax Act**
- **SRA: Supplemental Retirement Arrangement**
- **Joint & Survivor Pension, e.g. 60%**
- **Lump-sum Option**
- **Commuted Value**

Outside the University:

- **LIRA: Locked-in Retirement Account**
- **LIF: Life Income Fund**
- **Taxable Account**

Two Choices of Retirement Flows

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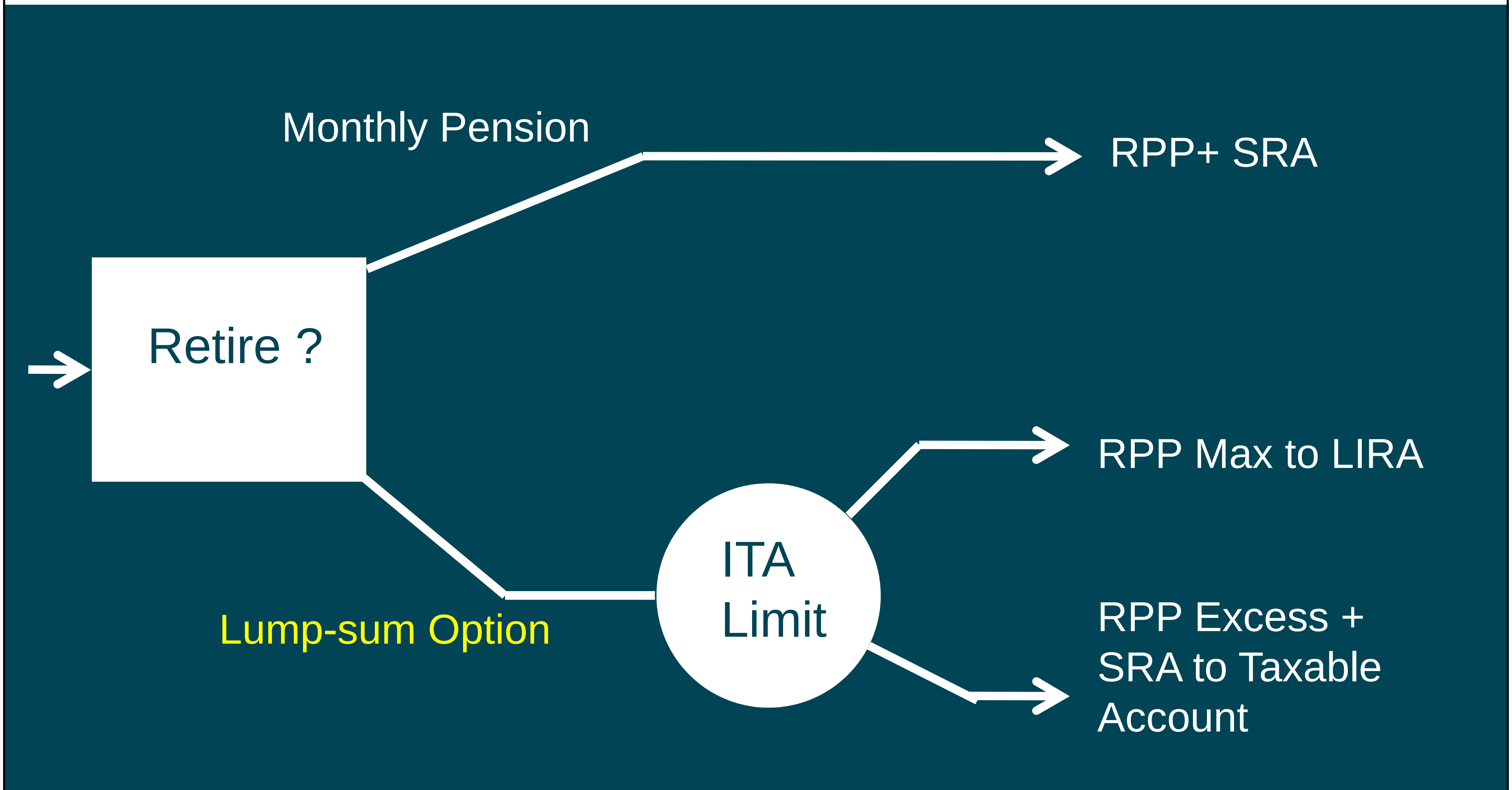

Benefits of The Lump-sum Option

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- **Lump-sum option:**
  - **Present value of future benefits into LIRA, taxable account**
  - **Active control of investments with associated market risk**
  - **Choice of deferral of taxable income**
  - **Choice of timing and amount of income**
  - **Choice of special withdrawal**
  - **Remaining capital to beneficiary or estate**
- **Monthly Pension Plan:**
  - **Defined benefit for life of annuitant**
  - **60% benefit for life of annuitant's surviving spouse**
  - **Nothing for estate**

Lump-sum Option is Ideal for Some Professors

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200 Retiring Professors at the University of Toronto

Parallel Coverage Is Ideal

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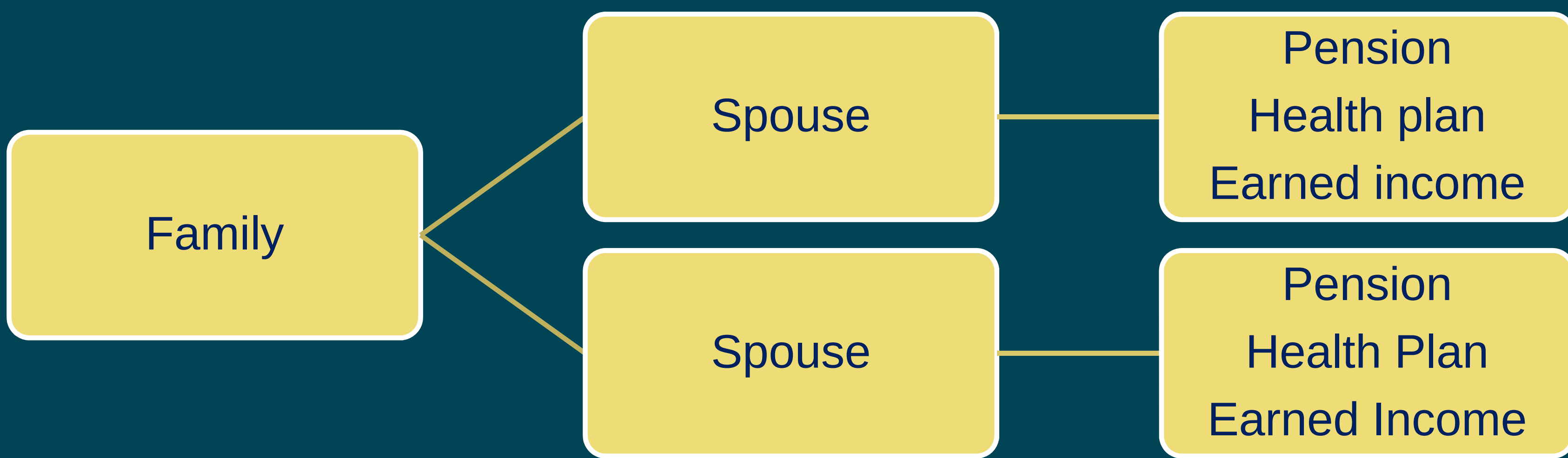

Ideal Client

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- Family has two incomes
- Family has two defined benefit pension plans
- Family has two health plans
- Annuitant has second earned income after retirement
- Family wants to actively manage estate
- Family has estate lawyer, tax advisor and investment manager

Comparing Two Choices for the Retiring Client

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- **Choice #1:** Accept the normal monthly pension , or
- **Choice #2:** Take the "Lump-Sum Option."

Method of Evaluation

- Estimates the accumulated future after tax value at the end of each year for each choice subtracting all current and deferred tax liabilities.
- Collapses the tax-deferred LIRA and pays deferred taxes.
- Adds investment returns at a constant annual rate of 6% before tax.
- Does not subtract any management or other fees listed in slide 31.
- Forecasts hypothetically; does not subtract any living expenses.

Key Assumptions Common to Both Choices

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- Life expectancy for the male pensioner is 20 years, 23 years for his wife.
  - Source: http://www.canadianbusiness.com/tools/21287
- Pension benefit escalates at 1.5% p.a.
- Spousal benefit is 60% after pensioner dies.
- Management fees and other fees on slide 33 are excluded.
- Income tax rate ranges from 30% for smaller withdrawals to 40% for larger withdrawals such as collapsing the LIRA.
- Fixed annual investment return of 6% p.a. before tax or 4% p.a. after tax.
- Wealth from income accumulates without living expenses.

Risks to Choosing the Pension Benefit

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- Pensioner and his wife die before 20 years and 23 years respectively without saving the full benefit for their expected life spans.
- Pensioner and his wife die without having an estate for their children from the proceeds of the pension.
- Pensioner will not have capital from his future pension benefits to start a business today.
- Pensioner spends too much on a monthly basis.
- Terms of the University Pension Plan change reducing the benefits to pensioners.

Risks to Choosing the Lump-Sum Option

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- Client and his wife live longer than the pension expected life span and do not receive the extra pension benefits.
- Investment returns are inadequate to pay for retirement expenses.
- Owner of custodian holding the client portfolio goes bankrupt.
- Client spends too much especially from the taxable portion.

The Normal Pension

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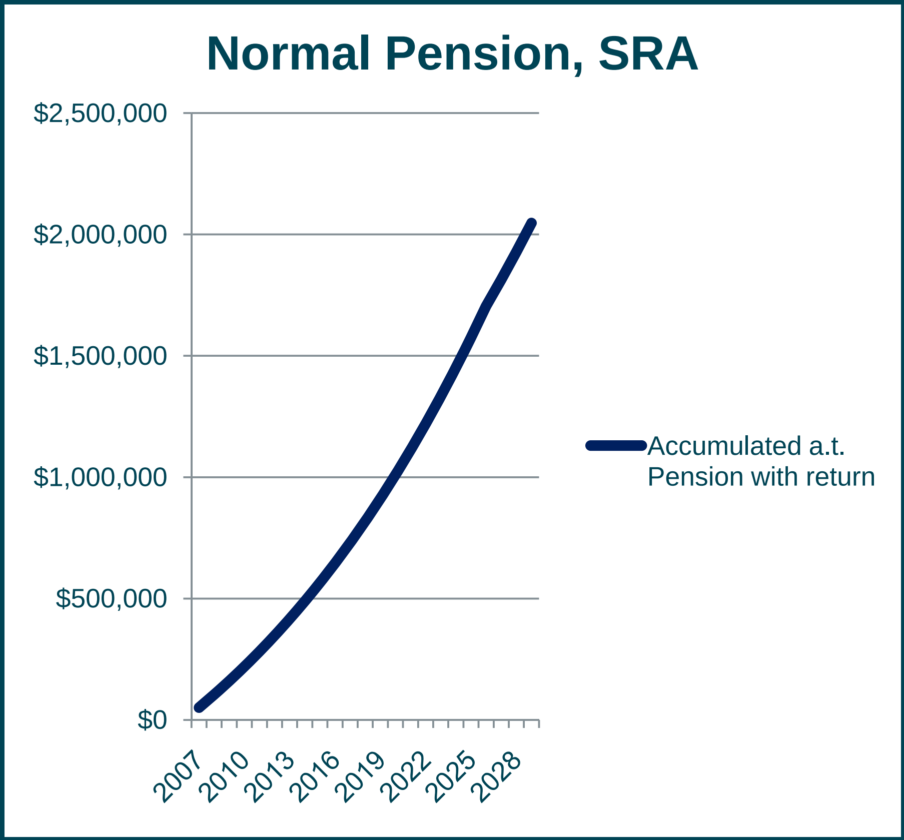
- Valued annually after taxes paid
- Monthly payment $6,000 before tax with pension & SRA
- 60% spousal benefit
- 0% after both die
- Tax paid at an average 30%
- After tax return averages 4% p.a.
- No consumption of wealth
- Age 62, 20-year life span for male pensioner, 23 years for wife
- Total value in 2029 is $2.1 million



Note: Past results do not guarantee future performance.

The Lump-Sum Option

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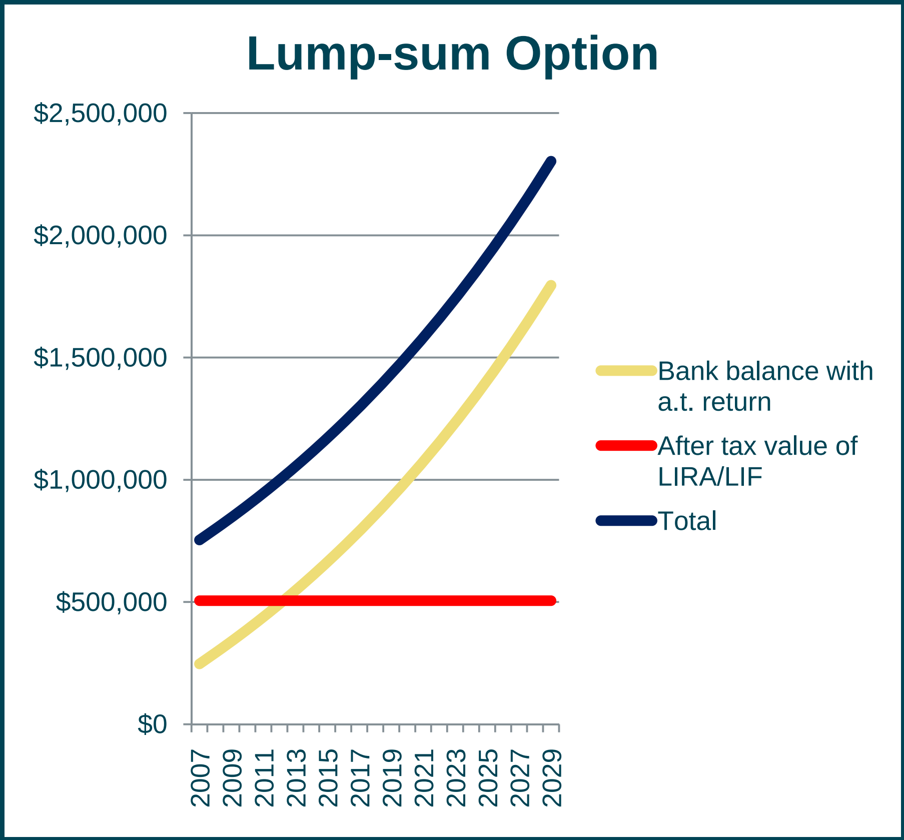
- Valued annually after taxes paid
- #1 payment to LIRA/LIF
  - Tax-deferred
  - Return 6% before tax
  - Withdraw at 6% p.a.
  - Tax of 40% if collapsed
- #2 payment for SRA,RPP surplus
  - Taxed at 30%
- After tax return averages 4% p.a.
- 20-year life span, 23 years for wife
- Total value in 2029 is $2.3 million



Note: Past results do not guarantee future performance.

Results from Comparison of Two Choices

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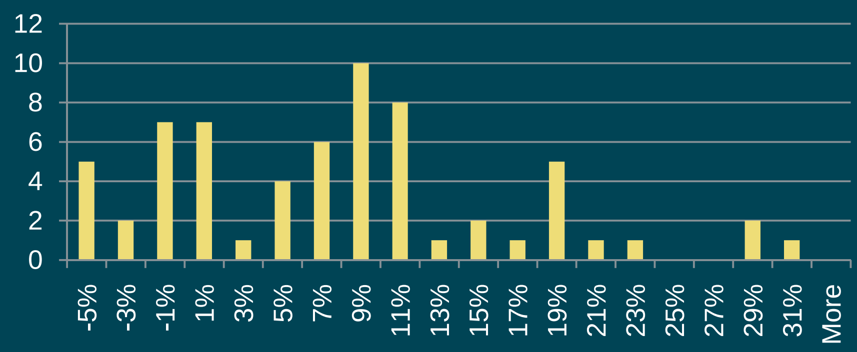
- **Lump-Sum Option shows higher future value for until actuarial life expectancies of 23 years for both pensioner and wife.**
- **Normal Pension Option shows a higher value at longer life expectancies than actuarial expectations.**
- **Normal Pension Option shows higher future value if the average annual return in the Lump-Sum Option is less than 4.5% p.a. before tax.**

Annual Market Returns 1940-2005 for S&P 500 Total Return Index $C



Median return: 7.05%
years above 6%: 35
years below 6%: 29

Source: Global Financial Data

IC/PM is Different

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- **Stock broker:**
  - **Client decides on suitability**
  - **Client chooses to buy or sell**
  - **Commissions from transactions**
  - **Regulated by Investment Industry Regulatory Organization of Canada**
- **Investment Counsellor/Portfolio Manager (IC/PM):**
  - **Client delegates to manager**
  - **Manager chooses to buy or sell**
  - **Fees based on assets**
  - **Regulated by Ontario Securities Commission**

Asset Mix Policy is Job #1

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- **Asset Mix:**
  - **blends cash, bonds and stocks**
  - **instead of high equity**
- **Criteria:**
  - **Investment time horizon**
  - **Risk-tolerance**
  - **Need for income**

Performance During the Market Crisis

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- **Asset mix is the #1 decision**
- **Equity is volatile**
- **Bonds are less volatile**
- **Policy asset mix favours bonds**
- **The benchmark is a blend as shown in next slides 25, 26, 27**
- **Investment management agreement specifies benchmark**
- **Performance and benchmark exclude management, other fees**

Note: Past results do not guarantee future performance.

The Client's Blended Benchmark

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1. **The Income/Growth Registered benchmark blends 5% of the 91-day t-bill plus 55% of the DEX Universe Bond Index plus 25% of the S&P/TSX Composite Total Return Index plus 15% of the S&P 500 Total return Index in $C.**
2. **The Investment Management Agreement for the client's account specifies the blended benchmark formula as a particular weighting of basic market benchmarks.**

Note: Past results do not guarantee future performance.

The Blended Benchmark: Income/Growth Registered

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Basic Asset Classes	Client's Weighting in the Blended Benchmark
Cash	5%
Canadian Bonds	55%
Canadian Equities	25%
United States Equities	15%
International Equities	0%
The Blended Benchmark	100%

We call this particular blended benchmark the "Income/Growth Registered" benchmark as specified in this particular client's Investment Management Agreement.

Benchmark Information for The Basic Asset Classes

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1. **The Canadian Equity benchmark is the Standard and Poor's (S&P) / TSX Composite Total Return Index.**
2. **The U.S. Equity benchmark is the S&P 500 Composite Total Return Index in Canadian dollars**
3. **The International Equity benchmark is the Morgan Stanley Capital International EAFE (Europe, Australia and Far East) Total Return Composite Index net of with-holding taxes in Canadian dollars.**
4. **The Canadian Fixed Income benchmark is the DEX Universe Total Return Bond Index (formerly the Scotia Universe Total Return Bond Index).**
5. **The Income/Growth Registered benchmark blends 5% of the 91-day t-bill plus 55% of the DEX Universe Bond Index plus 25% of the S&P/TSX Composite Total Return Index plus 15% of the S&P 500 Total return Index in $C.**

Note: Past results do not guarantee future performance.

Overcoming Temptation for Quick Returns

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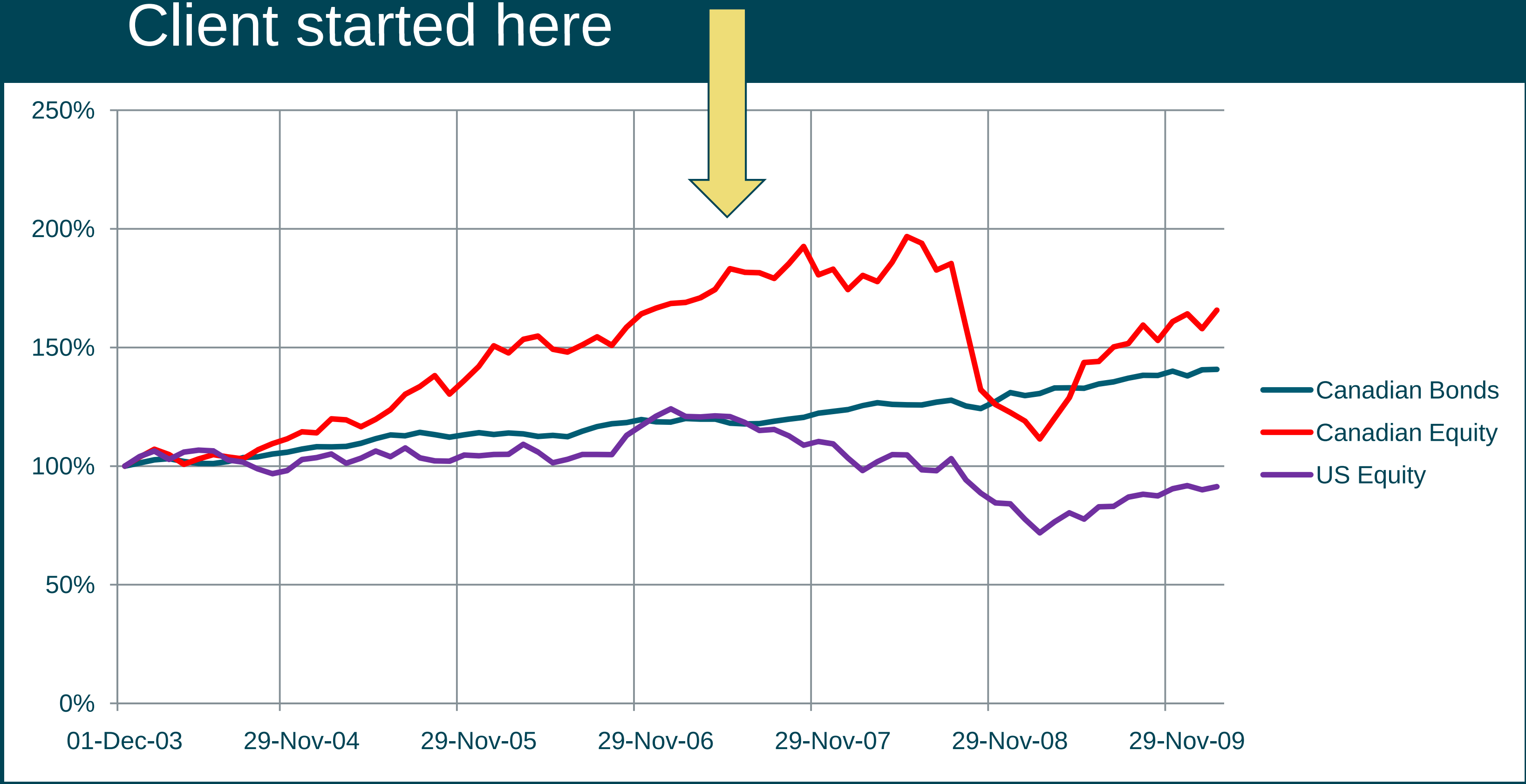
Client started here



Note: Past results do not guarantee future performance. Graph for Canadian Bonds is the DEX Universe Bond Index, for Canadian Equity is the S&P/TSX Total Return Index, for U.S. Equity is the S&P 500 Total Return Index in $Canadian.

Investment Performance for the Income/Growth Registered Portfolio

3-year returns p.a. gross of fees as at July 30, 2010

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$Canadian	Client	Benchmarks	Rank	# Globefund competitors	Median
Cdn. Equity (1)	-1.8%	-2.6%	#3	37	-4.64%
U.S. Equity (2)	-6.9%	-8.0%	#4	41	-9.03%
Int'l. Equity (3)	-9.5%	-10.9%	#12	49	-12.01%
Fixed income (4)	7.2%	7.0%	#5	30	6.01%
Blended (5)	1.8%	2.4%	#1	27	-1.39%

Note: Past results do not guarantee future performance. See slide 27 for benchmarks.

Methodology to Compare the Relative Performance in slide 29

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- Source is www.globefund.com that compares 13, 278 funds in different classifications. We use specific classes of these public funds as a comparison for our client's relative investment results for each of the basic asset classes.
- The Median is the return of the middle ranked fund.
- Canadian Equity compares the client's Canadian Equity portfolio total returns with the 37 Canadian Focused Equity Funds larger than $500 million in assets under management after fees in Globefund.
- U.S. Equity compares the client's U.S. Equity portfolio total returns in $Canadian with the 41 U.S. Equity Funds larger than $500 million in assets under management after fees in Globefund.

Methodology to Compare the Relative Performance in slide 29

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- Source is www.globefund.com
- International Equity compares the client's International Equity portfolio total return in $Canadian with the 49 International Equity Funds larger than $100 million in assets after fees in Globefund.
- Fixed Income compares the client's Canadian fixed income portfolio total return with Canadian Fixed Income Funds larger than $1 billion in assets after fees in Globefund.
- Blended represents the Income/Growth Registered portfolio from slides 25, 26 and 27.
- Blended compares the total return of the client's portfolio including all asset classes from slide 26 with the 27 Canadian Equity Balanced Funds larger than $500 million in assets after fees in Globefund.

Prudent Asset Mix

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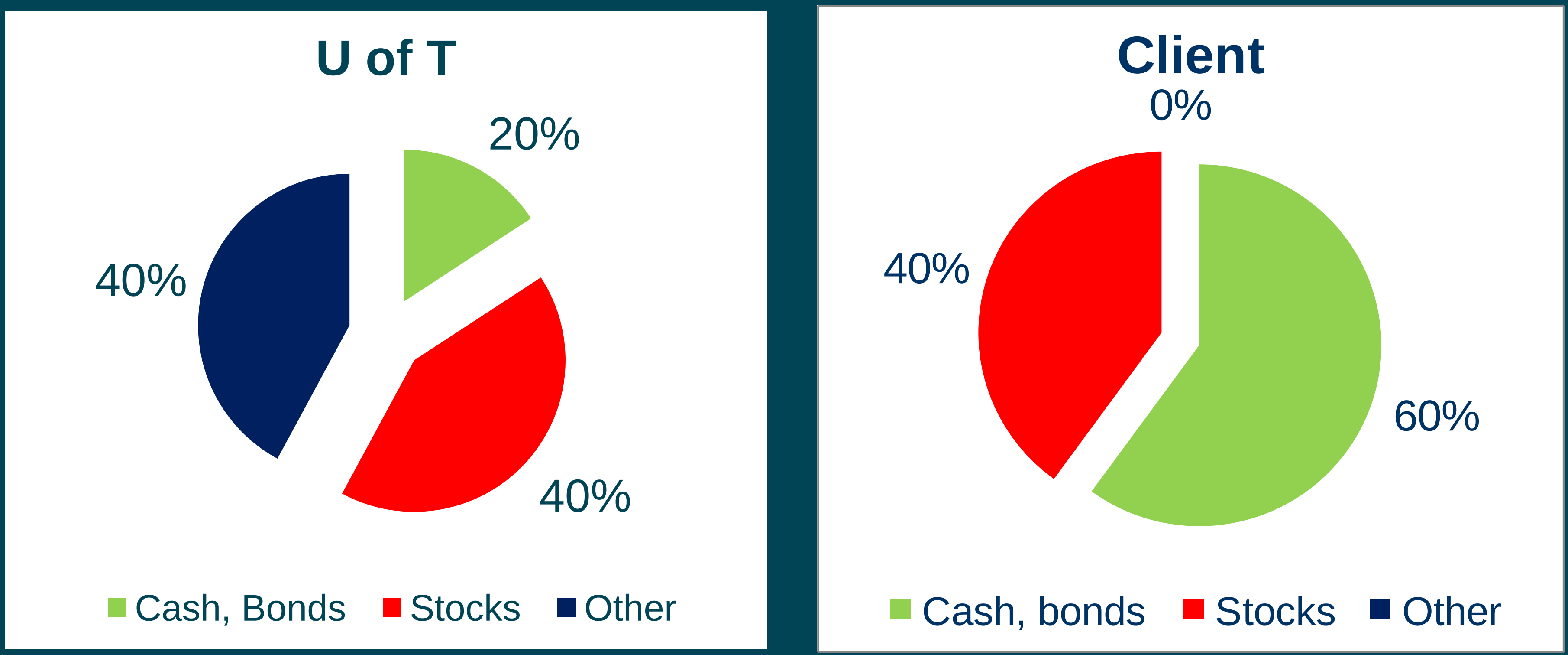

100-Year Horizon

10-Year Horizon

Note: Past results do not guarantee future performance. Source UT Pensions 2009 Annual Report.

Fees
Excluded from this analysis

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- **Investment Management Fees:**
  - **1.25% on first $2 million of Assets Under Management**
  - **0.75% on next $3 million**
  - **Negotiable beyond $5 million**
- **Trading commissions: institutional rates paid by client**
- **Mutual fund management fees: paid by client, institutional rates**
- **Custody fees: 0.2% paid by client**
- **Legal advice: negotiated with independent lawyer**
- **Tax advice: negotiated with independent accountant**

Call now and we can talk.

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- Timing is good now to retire and have us manage your retirement:
  - Interest rates are low so the Lump-sum Option value is high
- Perhaps you want to travel without worrying
- Perhaps you want to start a small business
- Call John Ambrose at 416-203-8139