



# Riding the Silver Wave

Building retirement portfolios to combat a higher cost of living



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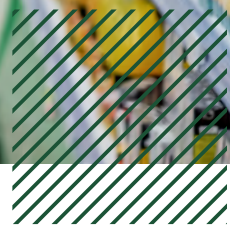
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## At a glance

- While retirees tend to focus on longevity from a health and wellness perspective, they may be neglecting another important aspect – financial risk, and the adequacy of retirement savings to meet the rising cost of living during their golden years.
- Fixed income yields are meaningfully higher than we have seen in over a decade, but they still may not be a one-ticket-solution to meeting the needs of Canadians.
- To adapt to the current investment landscape, it is important to build diversified portfolios to increase the success and stability of outcomes.
- Over the years, TD Retirement Portfolios have evolved to include a broader range of assets such as private assets and private credit, so that they are better able to achieve a range of objectives such as inflation protection and downside management, throughout the market cycle.

As we age, our priorities change. A child's top priority may be getting a new bicycle or the latest tech gadget. A teenager's may be following the hottest styles and working hard for good grades. Retirees tend to focus on longevity from a health and wellness perspective. The challenge with retirees however is that they may be neglecting another important aspect of retirement – financial risk, and the adequacy of retirement savings to meet the rising cost of living during their golden years.



## An expensive time

It is no secret to anyone paying for groceries at the supermarket or gas at the pumps, that despite headline inflation falling within “policy range” for central banks, inflation continues to hit home in the form of higher prices. While Guaranteed Investment Certificates (GICs) and bond rates have increased somewhat in recent years, this has been insufficient in meeting the needs of Canadians. The cost of living has increased substantially, up to almost 30% based on our analysis for essential products and services, implying that an estimated 5% nominal interest rate (an interest rate that doesn’t include the effects of inflation and taxes) is required at minimum to keep up with rising costs.

### Standing Still Means Moving Backwards The hidden cost of inflation

Categories	2019	Cost Increase*	2024
Food and Dining Out	\$20,000	32.0%	\$26,400
Transportation	\$15,000	21.6%	\$18,240
Elderly at Home Services	\$35,000	35.4%	\$47,390
Nursing Homes	\$30,000	21.5%	\$36,450
<b>Total</b>	<b>\$100,000</b>	<b>28.5%</b>	<b>\$128,480</b>

\*Measured by CPI increases from Jun 2019 to Jun 2024. Sub-indices are used to capture category level cost increases. Transportation was derived from CPI Canada. Due to data availability, all other sub-categories are extracted from U.S. CPI. The budget assumes a hypothetical \$100,000 expense allocation in 2019 for CPI baskets more related to people in retirement. Source: FactSet as of Jun 30, 2024.

The challenge now for retirees is not just to preserve capital, but to ensure that their nest egg continues to accumulate sufficiently during retirement to offset regular withdrawals and the erosion of purchasing power through inflation and a higher cost of living.

# How the timing of market ups and downs impact wealth preservation

Returns matter, and so does their sequencing – when they happen during an investment time horizon. When you consider the same set of returns but reverse the order, the result is quite different. In other words, investors who achieve stronger returns and avoid losses early in retirement achieve a higher accumulated value for their portfolio than those who achieve the same strong returns, but later in their investing cycle. Experiencing drawdowns early on in retirement years can be detrimental to long-term wealth preservation.

When investing for retirement, its key to ensure that there is sufficient growth potential to maximize investment returns early on, while minimizing volatility and risk of loss. Selecting the optimal decumulation strategy is critical to accomplishing this, particularly when forced to make withdrawals due to the higher costs of living, when inflation erodes capital value and when unforeseen market volatility is experienced.

**Sequence of Returns: Does it Matter?**  
**Avoiding negative returns early in retirement is critical**



Year	1	2	3	4	5	6	7	8	9	10
<b>Scenario A</b>	14.0%	8.0%	9.0%	1.5%	9.0%	9.0%	7.0%	9.0%	-6.0%	-11.0%
<b>Scenario B</b>	-11.0%	-6.0%	9.0%	7.0%	9.0%	9.0%	1.5%	9.0%	8.0%	14.0%

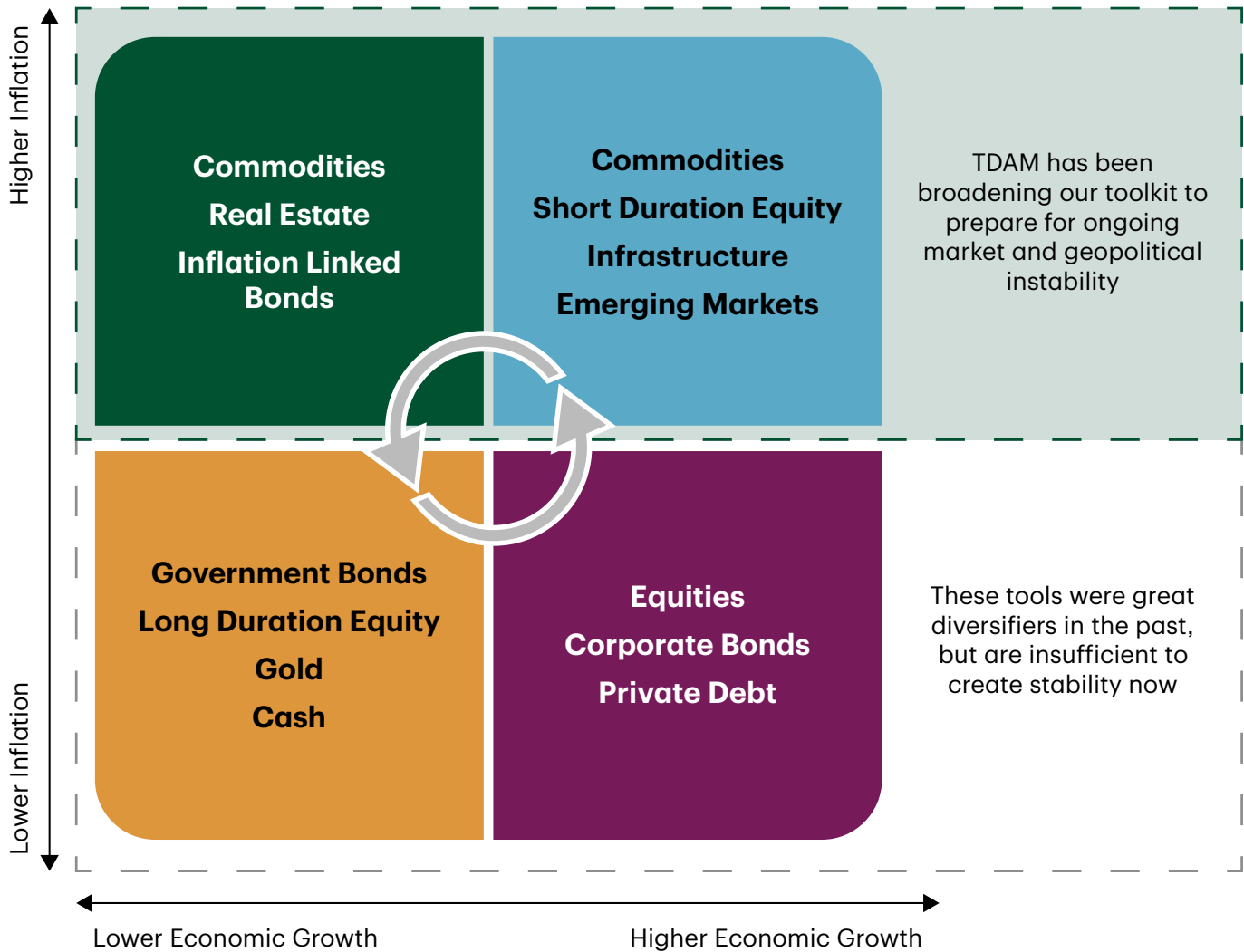
For illustrative purposes only.  
 Note: Both portfolios start with \$1,000,000 in year 0 and make annual withdrawals of \$50,000. Both portfolios experience the same average annualized return and has the same number of calendar years, but experience returns in reverse order.

# Our retirement approach – TD Retirement Portfolios

Fixed income yields are meaningfully higher than we have seen in over a decade, but they are not a one-ticket-solution to meeting the needs of Canadians. Higher fixed income yields alone are insufficient and have created an illusion of security. This is why it is so important for TD Asset Management Inc. (TDAM) to adapt to the current landscape and build more diversified portfolios to increase the stability of outcomes.

While aging Canadians require more stable investment options, we cannot ignore investment growth and the impact of inflation eroding their buying power. This requires the right tools, and an evolution of the toolkit, to perform well in each scenario.

## Delivering More Stable Outcomes Requires a Multi-asset Approach



For illustrative purposes only. The above strategies are examples and are not exhaustive. Growth and inflation data points are quarterly. 2023 data are Bloomberg consensus estimates.

TD Retirement Portfolios have a broad and comprehensive range of assets that behave differently in different market environments, helping navigate the rapid changes in investment regimes. Up to 2020, inflation was well-contained, and growth was low and steady, and a traditional balanced 60/40 portfolio worked. But now inflation volatility is back in the equation, and investors need the “whole pie”.



Over the years, TD Retirement Portfolios have evolved to include a broader range of assets, such as private assets and private credit, so that investors are better able to achieve a range of objectives such as inflation protection and downside management, under varying market conditions, throughout the market cycle. By using stochastic analysis to replicate the unpredictability of real-life market events and probabilities, we are better prepared to forecast the potential return, volatility, drawdown, and recovery of the Portfolios under a broad range of scenarios.

## Evolution of Retirement Strategies

**Multi-asset approach to perform in a variety of market conditions**

Fixed Income 33% - 54%	Equity 37% - 50%	Private Assets 8%	Private Credit 0% - 4%	Liquid Alternatives 4% - 5%
<b>Income &amp; Recession Protection</b>	<b>Growth, Inflation Protection &amp; Downside Management</b>	<b>Growth, Income &amp; Inflation Protection</b>	<b>Income, Inflation Protection &amp; Idiosyncratic Returns</b>	<b>Inflation Protection &amp; Idiosyncratic Returns</b>
<ul style="list-style-type: none"> <li>• Short Term Bonds</li> <li>• Canadian Core Plus</li> <li>• Long Government Bonds</li> <li>• Global Income</li> <li>• Global Unconstrained</li> </ul>	<ul style="list-style-type: none"> <li>• Equity Collar Strategies</li> <li>• Global Focused</li> <li>• Global Low Vol</li> <li>• Dividend Growth</li> </ul>	<ul style="list-style-type: none"> <li>• Commercial Real Estate</li> <li>• Infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>• Commercial Mortgages</li> <li>• Private Debt</li> <li>• Global Private Credit</li> </ul>	<ul style="list-style-type: none"> <li>• Commodities</li> <li>• Multi-Strategy Liquid Alternatives</li> </ul>

For illustrative purposes only.

# Flexibility

## Flexibility and optionality: a winning combination

Retirees are living longer but are faced with mounting inflationary costs and the desire to leave a legacy. Economic and market environments may change, but the goal of the Portfolios remains consistent: to construct portfolios comprised of a broad range of assets that help navigate the rapid changes in investment regimes. We have delivered this outcome over the past decade because of the deep bench strength of experienced individuals within the TDAM Asset Allocation Team, as well as the tools that we have developed. ■

# Stability

### Connect with TD Asset Management



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