The Canadian Institute of Financial Planning
RETIREMENT INSTITUTE

Holders of the Registered Retirement Analyst® (RRA®) designation shall maintain the highest standards of professional conduct in dealing with clients and the public. RRA licensees have obligations to the profession of retirement planning. The following provides RRA licensees a framework of principles and a process to be followed for retirement planning engagements.

REGISTERED RETIREMENT ANALYST LICENSEE: PRACTICE STANDARDS

The role of an RRA licensee in retirement planning goes beyond merely analyzing the existing financial resources of a client and determining how much must be saved in order to live his or her desired retirement life.

A professional retirement planner should be prepared to assist his or her client in developing realistic expectations regarding retirement objectives and living standards and to help ensure that the client is aware of the decisions and adjustments that they may have to make to experience their planned retirement life.

An RRA licensee should be able to help his or her client retire to their preferred retirement life—not just retire from their current way of life—by helping the client plan what they will do and how they will afford it.

RRA licensees must comply with the following Practice Standards.

STEP 1: ESTABLISH THE CLIENT-RRA ENGAGEMENT

The purpose of a client-RRA engagement is to ensure both the client and the retirement professional are aware of what to expect from the other party and to make each party aware of their responsibilities to contribute to the development of the relationship.

The RRA licensee will work with the client to define and agree on the scope of the retirement planning engagement. The details of the engagement will be documented and it is strongly recommended that a letter of engagement be used and signed by both the RRA licensee and the client.

From the perspective of the RRA licensee, he or she must spell out exactly what the retirement planning process entails and the benefits the client will realize. The RRA licensee will also detail what services he or she is able and willing to provide to the client based on his or her qualifications and/or licensing.

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The RRA licensee must disclose their responsibilities to the client, their qualifications, how they are to be compensated for the services they provide and any referral fees to be received. In addition, any potential conflicts of interest must also be disclosed to the client. Finally, the RRA licensee should identify their expectations of the client and provide a clear explanation as to why these expectations are important to the client-RRA relationship.

It is imperative that the RRA licensee get clear written confirmation from the client that they understand the process, the respective responsibilities and that the client agrees to be a willing participant in the relationship.

Together, the client and the RRA licensee should then discuss the scope of the client-RRA engagement and come to an agreement as to how decisions will be made going forward. For example, some clients prefer a hands-off approach essentially leaving it to the RRA licensee to provide them with advice and recommendations as the RRA licensee sees fit (in such cases, the RRA licensee must be mindful of the rules prohibiting discretionary trading). Other clients, to varying degrees, prefer to have some involvement in the management of their money and the decisions that are being made.

Following the establishment of the engagement, the client will be able to distinguish between what expectations concerning the engagement are realistic and what expectations are not.

Step 2: Establish Objectives and Gather Data

Establishing objectives is a fundamental step of any planning process.

The RRA licensee should help the client be as specific as possible in stating their retirement objectives and their desired life that they anticipate will result.

These objectives must be gathered and recorded and can be both quantitative and qualitative in nature.

Retirement objectives should also be realistic and objective rather than idealistic or hypothetical. Frequently, a client will state their objectives vaguely, as in the following example:

- I want to retire comfortably, at an age when I can still enjoy it.

The RRA licensee should encourage and assist the client to be more specific and reflect anticipated lifestyles, as in the following examples:

- I want to retire at age 60, with an equivalent income of $40,000 per year and travel at least once per year to Florida.
- If possible, I would like to retire before age 65, while being able to maintain my current lifestyle and to take at least one major vacation per year.

As an RRA licensee, you are helping the client paint a picture of their future life and you are offering solutions to make their preferred lifestyle achievable. Including a lifestyle perspective to planning will add a dimension to the client-RRA relationship that enhances the role of the RRA licensee.

When aiding the client in setting their objectives, the RRA licensee should encourage the clients to ask themselves questions about their expected lifestyle, as in the following examples:

- Where do I want to live when I am retired?
- Do I want to take on a second career?
- Will I keep busy with volunteer work?
- Do I want to travel, engage in any hobbies, or go back to school?

In addition to helping identify their objectives, these types of questions will help the client to prepare psychologically for retirement. In addition, the objectives themselves can become powerful motivators, giving the clients the resolve to make the current lifestyle changes that may be required to achieve their retirement objectives so that they can live their expected retirement lifestyle.

There is a distinct possibility that the client may not be able to achieve all of their retirement objectives and that in fact, some of the objectives may conflict with each other. For example, many clients want both financial security and early retirement but, it may not be possible. Therefore, the RRA licensee should encourage and assist clients to assign priorities to each objective.

Step 3: Clarify Present Status and Identify Problem Areas and Opportunities

It is important for the RRA licensee to fully understand the client's current and future financial and lifestyle expectations. The RRA licensee should also be aware or enlist assistance of qualified individuals to determine any other obligations or objectives that might interfere or conflict with the client's retirement objectives.

For a financial assessment, the client's current financial net worth and income potential can be estimated by having them fill out data-gathering worksheets. The completed worksheets can help the RRA licensee determine the client's net worth and income that are currently available to the client, how the client disposes of their current income and what resources may be available to the client to aid in funding expected retirement needs.

Depending upon the scope of the client-RRA engagement, a quantitative analysis will generally include some financial projections to assess whether the client can reasonably expect to be able to fund their expected retirement lifestyle based on their current financial position.

Not all retirement objectives can be resolved through quantitative analysis. Qualitative data (for example: personality style, personal values, family dynamics and so forth) should also be gathered and assessed to determine its impact on financial projections and retirement objectives and to aid the RRA licensee in providing appropriate, long-term solutions.

For a financial assessment, a client's need for retirement funding will be affected by the following:

- his or her estimated financial needs during retirement
- the anticipated income from employer-sponsored pension plans, Canada Pension Plan, Old Age Security program and part-time employment after retirement
- the current value of his or her retirement plan assets and other investment assets that might be used to provide retirement funds
- the remaining time until his or her retirement
- the amount he or she is currently saving towards retirement
- the life expectancy of the client and his or her spouse
- the anticipated inflation rate for the remainder of his or her life expectancy
- the anticipated rate of return on investments
- the anticipated income tax rates

While many of these factors are difficult to predict with any accuracy in the short term (for example, interest rates and inflation), if the retirement planning horizon is sufficiently long, history may provide a basis for a reasonable approximation of the future.

Despite the best efforts of the RRA licensee to develop reasonable assumptions, it is important that the client understands that no one can precisely predict the future. The best the RRA licensee can do is provide reasonable assumptions for the purpose(s) of providing direction to the client. The RRA licensee should discuss, review and document the applicable assumptions with the client. Some clients may prefer to use more aggressive or conservative assumptions, without regard to any historical norms.

Step 4: Identify Appropriate Strategies and Present Retirement Plan

After a thorough quantitative and qualitative analysis has been completed, the RRA licensee will need to identify strategies and solutions that are appropriate for the client to achieve their stated retirement objectives and achieve their anticipated retirement lifestyle.

Once the RRA licensee has determined the funding that will be needed at retirement (for example, the client may need to accumulate $400,000 by age 65, in addition to their employer's pension, CPP and OAS benefits), the RRA licensee can then develop strategies for accumulating those funds. These strategies could be relatively simple, such as contributing $6,000 to their RRSP each year or, they could be tied into inflation or salary increases, such as beginning to contribute $6,000 to their RRSP this year and increasing this amount by 5% each year.

The RRA licensee may determine that the savings required for retirement are more than the amount currently available for savings. In this case, the RRA licensee should encourage and assist the client to re-examine their retirement objectives to determine if their need for retirement funds can be reduced (perhaps by postponing their retirement or downgrading their retirement lifestyle). The client may also have to re-examine their current lifestyle to determine if additional funds can be allocated to retirement savings. The client can also re-evaluate their investment choices to determine if they can increase their investment returns, without exceeding their financial and psychological tolerance for risk, with the investment advice of the RRA licensee, if qualified to do so, or, with the advice of an investment specialist.

Recommended strategies should also consider qualitative lifestyle considerations. For example, retirees should be made aware of how changes in a person's personal situation can have an impact on their lifestyle when they stop working, such as, someone who retires from a physically active job should consider thinking of ways to remain active to avoid health issues. The RRA licensee may encourage and assist the client to prepare for the emotional transition the client may experience.

The recommendations of the RRA licensee should also include options and supporting rationale in a documented plan. The plan should be understandable to the client and allow the client to make informed long-term decisions about their retirement.

Step 5: Implement the Retirement Plan

Once the client has agreed to the strategies and solutions recommended by the RRA licensee, time frames for implementation of the action items should be agreed to and should be documented either through notes in a client file or, provided to the client in writing. It is imperative that the RRA licensee disclose any conflicts of interest that may result from the implementation of the recommended strategies and solutions.

Many people are procrastinators by nature and put off making complex decisions. The RRA licensee should encourage clients to implement strategies and solutions as soon as possible. For example, the RRA licensee can encourage his or her clients to make their RRSP contributions early in the taxation year to take advantage of the additional tax-deferred growth during the year.

The RRA licensee may provide the client with investment advice if they are qualified to do so or, the RRA licensee may suggest that the client seek the advice of an investment specialist. In the latter case, the RRA licensee, could, if qualified still have a role to play by reviewing the client’s investment choices to ensure that they are consistent with the recommended strategies and solutions.

If the RRA licensee is not appropriately qualified or licensed to implement the action items, they should provide the clients with introductions to qualified professionals when necessary. This may include estate planning specialists for blended families, tax planning and/or succession planning specialists for business owners, lifestyle or transition coaches and so on.

If there are action items that have been assigned to the client or outside professionals (e.g. healthcare professionals etc.), the RRA licensee should help with the implementation of those items by providing the client with objective advice and guidance where he/she is appropriately qualified to do so.

Step 6: Monitor and Update

The RRA licensee should discuss and determine with the client the terms of the review and monitor the client's situation accordingly.

Monitoring is an essential component of any planning process but, is particularly important in retirement planning because assumptions may not remain valid over the long planning horizon. Periodic reviews and updates are needed to evaluate progress towards the client's retirement objectives. If the client's personal situation changes, the investments are not performing as expected or, if inflation or income levels have deviated significantly from the assumptions in the original plan, the strategies may have to be modified to ensure that the retirement objectives can still be achieved.

The frequency of monitoring depends on the preferences of the client and the complexity of his or her situation. Many individuals are satisfied with an annual review, while those close to retirement or, those who may have a complicated family dynamic, for example, might appreciate more frequent monitoring and updates. For younger clients, updates every three to five years might be sufficient, unless there is a significant change in the client's situation, such as divorce, inheritance, career change or, the birth of a child.

The actual implementation of a retirement plan is the first step—ongoing review is crucial to ensure the original objectives and assumptions remain valid. The retirement plan should be reviewed to identify: material changes in the life of the client (for example, change in marital status), changes in the client's financial objectives (for example, a client wants to retire earlier than anticipated) and economic changes (for example, lower than projected rate of return on investments).

Documentation

An RRA licensee cannot prepare a retirement plan without a clear understanding of the client's resources, or without making certain assumptions (e.g. rate of inflation, income growth rates, return on investments, tax rates). Any retirement planning exercise must include full documentation of the data gathered and assumptions used to develop the retirement plan. A statement regarding the uncertainty of these assumptions should also be included.

The strategies developed in Step 3 are critical to the implementation of a successful retirement plan and should be delivered in writing by the RRA licensee.