# When the next recession hits, will your clients be ready?

Planning strategies to make a bear market, *bear*able

Jim DeLouchry
DVP, Toronto - Durham

Manulife Bank

# Recession is just one of many challenges clients are facing

**1 in 3**
spend more than they make

**2/3rds Think recession is coming**

**3 in 10 aren't prepared**

**21% would need to withdraw investments**

**4 in 10**
Regret debt / impacts daily lives

**Comfort**
with mortgage size

**1 in 4**
Making poor progress with debt

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Source: Manulife Bank Debt Survey, Summer 2019

# What is the impact of recession on an indebted nation?

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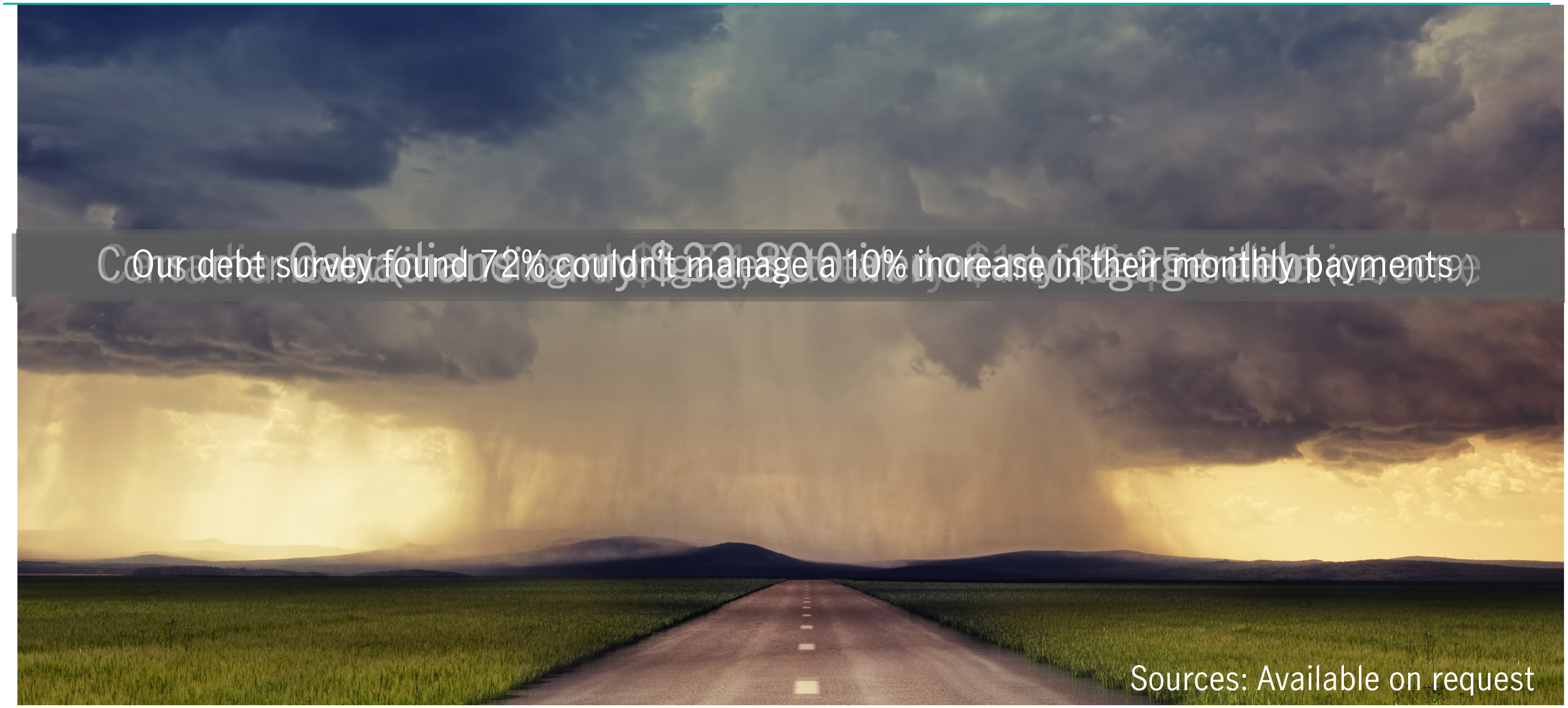

# Don’t wait for the rain to buy an umbrella

Lenders manage risk differently in recession

Cost increases with risk

Higher credit scores required

Decreases in debt servicing ratios

More focus on assigned collateral

Increase income qualifications

**The best time to apply for credit is when you don’t need it**

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# Why do you need to talk about debt?

**Every dollar** of debt **+ interest**
diverts income from your financial recommendations

# Cash flow and debt management – Change how you are measured!

**How do you want clients to measure your performance?**

1. By the performance of their portfolio?

2. By the overall advice you provide?

If your clients are used to seeing these statements..

**ABC Financial**
123 Any Street
Anytown, ON, A0A 1A1

Your advisor
Jane Dow
**ACCOUNT STATEMENT**

John Johnson
49 Dundas Street
Heretown, ON  P0P 1P1

Your account number 123-45676-90
Account type: RRSP
Statement Date: Dec. 31, 20XX

| Account summary | | |
|---|---|---|
| | Sept 30, 20XX | December 31, 20XX |
| Net asset value | $450,000 | $465,000 |
| Expenses (Fees, Commissions, Other) | This period $1,250 | Year to Date $5,000 |
| Change in the value of your account | This period: **$13,750** | Year to date **$20,000** |

What will they do if a statement looked like this?

**ABC Financial**
123 Any Street
Anytown, ON, A0A 1A1

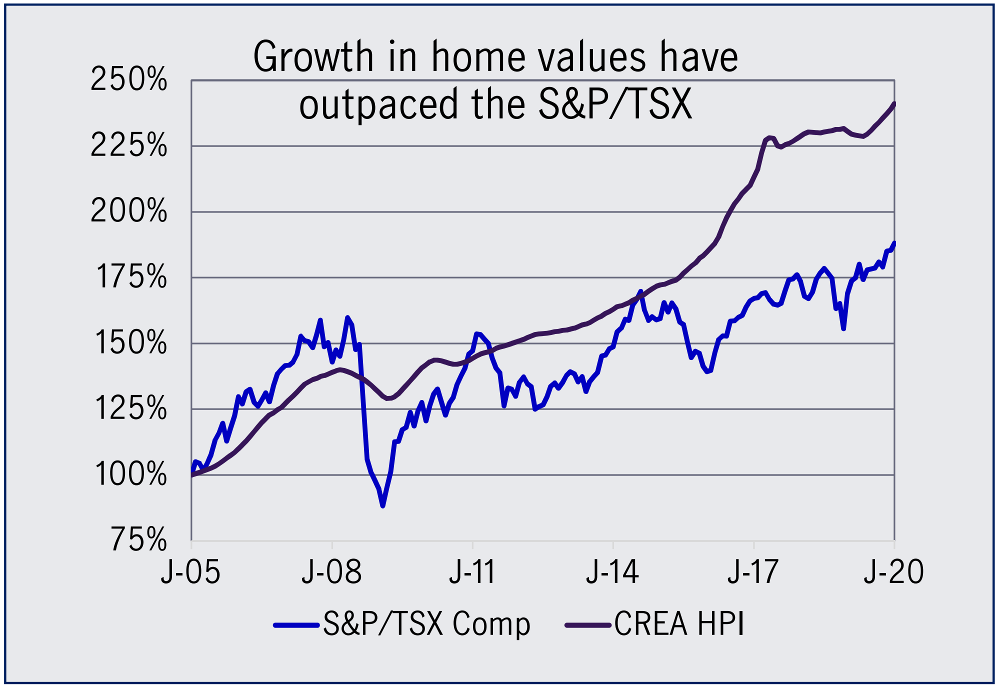
Your advisor
Jane Dow
**ACCOUNT STATEMENT**

John Johnson
49 Dundas Street
Heretown, ON  P0P 1P1

Your account number 123-45676-90
Account type: RRSP
Statement Date: June 30, 20XX

| Account summary | | |
|---|---|---|
| | April 30, 20XX | June 30, 20XX |
| Net asset value | $455,000 | $442,700 |
| Expenses (Fees, Commissions, Other) | This period $1,000 | Year to Date $2,300 |
| Change in the value of your account | This period: **-$12,300** | Year to date **-$22,300** |

# Your client’s home
# A great investment with solid growth…




Source: S&P/TSX Composite index (^GSPTSE); Canadian Real Estate Association Home Price Index Composite (01/2020)

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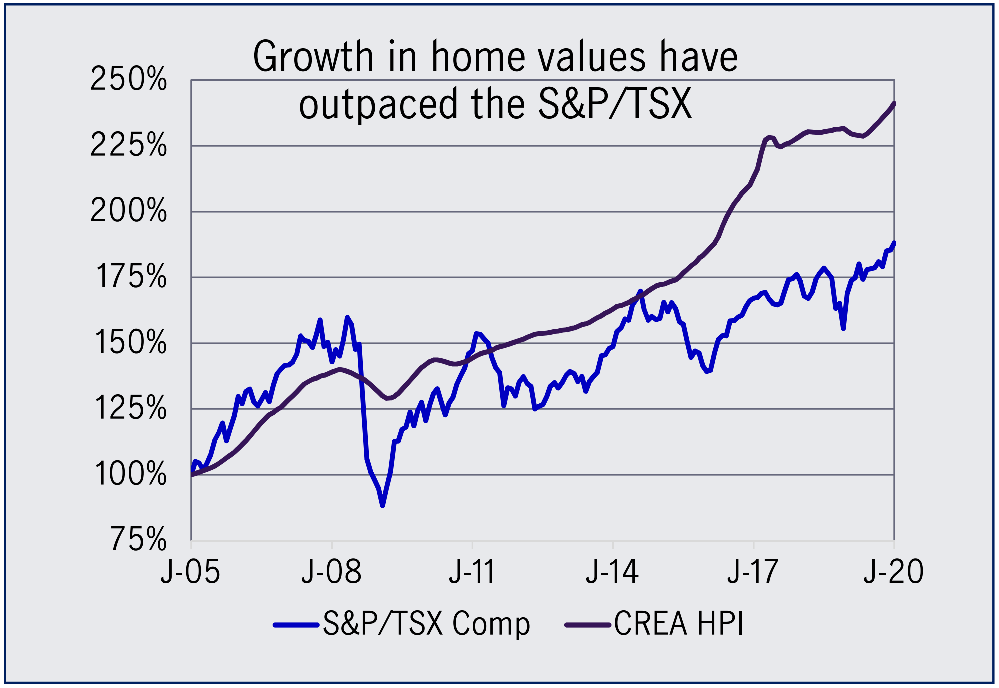
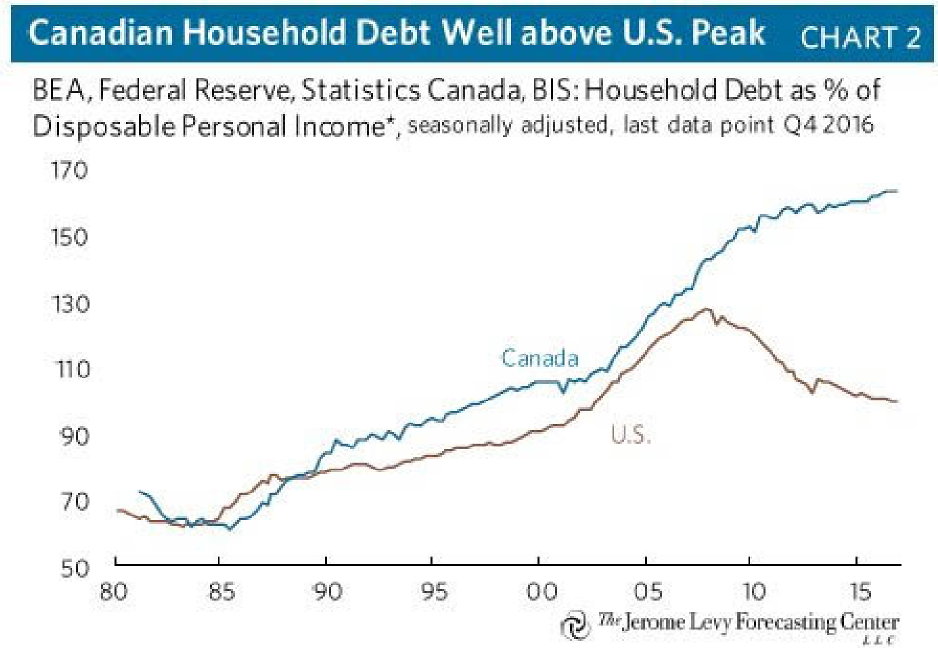
# Your client's home
# A great investment with solid growth... but at what cost




Source: S&P/TSX Composite index (^GSPTSE); Canadian Real Estate Association Home Price Index Composite (01/2020)

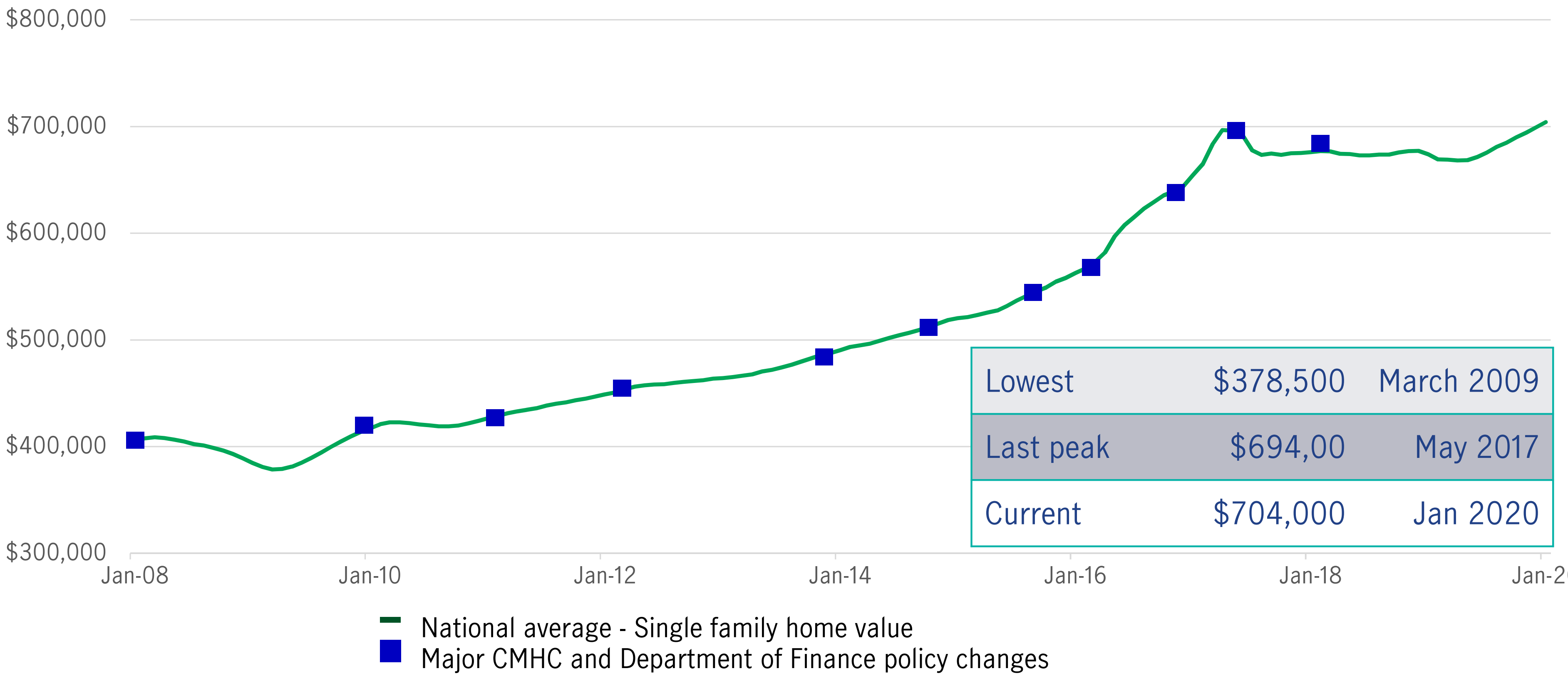



Household Debt to Disposable Personal Income was 174% in Canada Vs. 85% in the US

Statistics Canada: Q3, 2019 /US New York Fed Reserve (Apr 2019)

# Regulators continue to struggle with housing affordability & debt – borrowing is no longer easy

Single family home values and regulatory attempts to manage market risks




| | | |
|---|---|---|
| Lowest | $378,500 | March 2009 |
| Last peak | $694,00 | May 2017 |
| Current | $704,000 | Jan 2020 |

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MLS® HPI Single family homes – Jan, 2020

How excited are you... to talk about debt with your clients?

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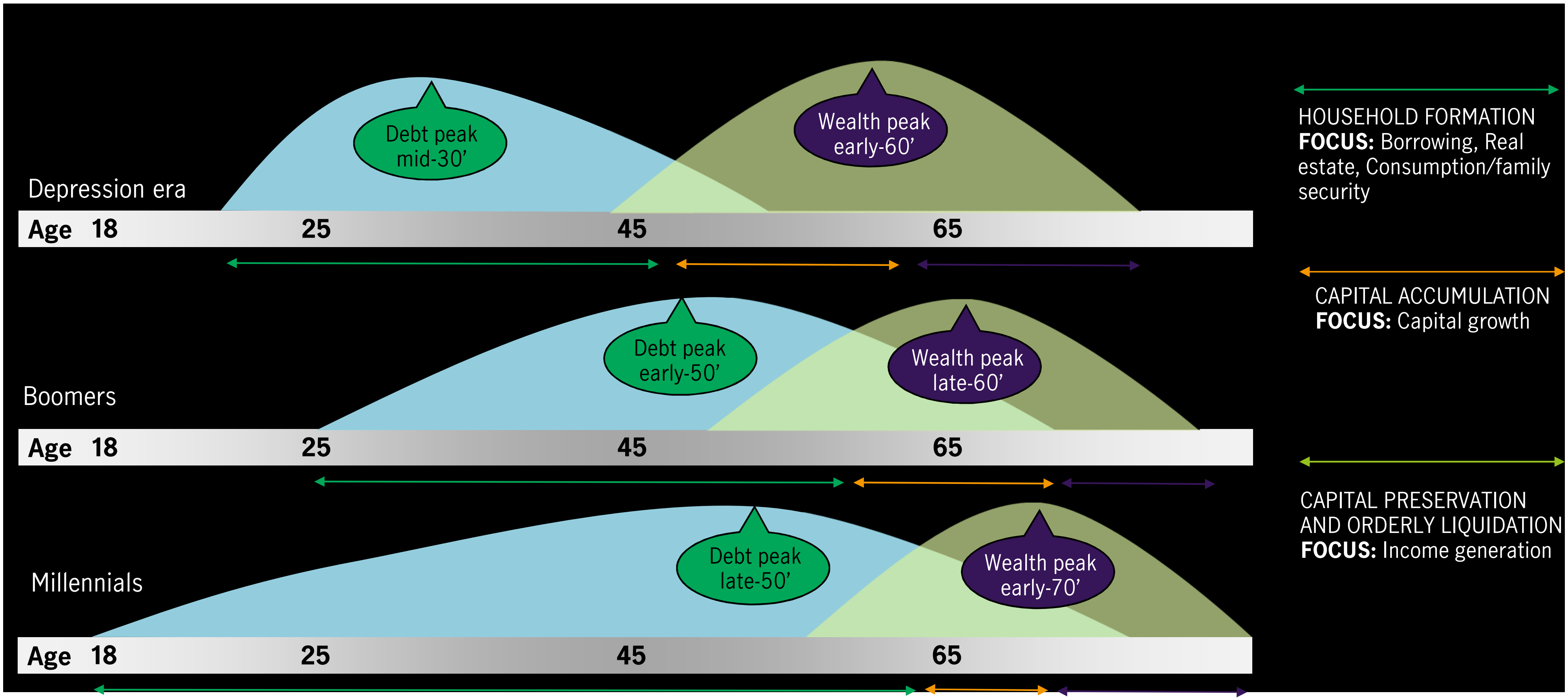
# EVOLUTION OF THE HOUSEHOLD LIFECYCLE
# – Are we still planning like debt *isn't* an issue?

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For Illustration purposes only. The Financial Wealth of Canadian Households Focus on Wealth Management, Strategic Insight/Investor Economics – May, 2017

# TIPS TO HELP YOUR CLIENTS BETTER MANAGE DEBT

# FOCUS ON PAYING OFF ONE DEBT OR MANY?

Which is more effective for debt reduction?

1. Concentrate on **one debt** then move on

2. Reduce **all debt** equally

# FOCUS ON PAYING OFF HIGH INTEREST DEBT OR SMALLER DEBTS?

Which is more effective for debt reduction?

1. Paying the **highest interest** rate debt first

2. Paying off **small balances** first

# This approach is not mathematical, it's psychology

- Concentrate on **one debt** versus all
- Pay **small balances** first vs. highest rates

**Other debt tips**

| Set realistic goals | Move freed cash to next debt | Pay minimum on other debt | Review expenses |
|---|---|---|---|

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Harvard Business Review: The Best Strategy for Paying Off Credit Card Debt; Remi Trudel DECEMBER 27, 2016Winning the Battle but Losing theWar: The Psychology of Debt Management -Journal of Marketing Research Vol. XLVIII (Special Issue 2011), S38–S50

# Other tips to help your clients better manage debt

## Having a good credit score lowers interest costs

Pay bills
on time

Never exceed
the credit limit

Spread out spending
(don't' max one card )

Don't apply for too
much credit at once.

Avoid store
credit cards

Fully pay closed
accounts
$0 balance

Don't close unused
(no-fee) credit cards.

# Bears.. and bear markets are predictably unpredictable

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Manulife One creates a tailor-made debt and cash flow plan for your client
- YOU help to determine the best use of their savings

FIVE key Manulife One uses to help clients make the most of their money

**Reduce debt faster**
Home ownership sooner

**Achieve goals sooner**
Insurance or retirement savings needs

**Borrow to invest**
Equities or rental property

**Overcome adversity**
Major expenses, job loss, illness, etc.

**Helping others**
Children education, 1st home, charity

# How does Manulife Bank help your clients today and in recession?

Greater cash flow efficiency

Flexibility to address unforeseen expenses

Lower payments with 30 year amortizations

Some debt in fixed terms with lower rates

**Worried about mismanagement?**

Recommend a smaller borrowing limit/use a mix of fixed terms

# RECESSION ON YOUR RETIREES

An example of how to effectively use Manulife One to preserve investments in retirement

# Retirement planning with average returns

- The Parkers: newly retired with a net worth of $1,250,000
- Desire an after-tax income of $80,000 with gov't benefits
- Financial plan to age 90 has a **6% average rate of return**

| Remaining Assets Age 90 | Consistent 6% Growth |
|---|---|
| Investments | $124,000 |
| Home value | $772,500 |
| Debt | $0 |
| Net worth | $896,500 |

For illustration purposes only:
Net worth: $650,000 RRSPs, $100,000 TFSAs, $50,000 non-reg., $450,000 home. Average rate of return of 6% over 25 years (inflation and home appreciation 2.1%)

# What happens to retirement planning with negative returns?

- Parkers experience **just 3 years of negative returns** yet still “average” 6% overall
- Investments are $0 at age 85: Decision - sell the home or obtain a reverse mortgage

| Remaining Assets Age 90 | Consistent 6% Growth |
|---|---|
| Investments | $124,000 |
| Home value | $772,500 |
| Debt | $0 |
| Net worth | $896,500 |

| Remaining Assets Age 90 | 3 yrs. negative - 6% (avg 6%) |
|---|---|
| Investments | $0 |
| Home value | $772,500 |
| Debt | -$363,500 |
| Net worth | $409,000 |

**For illustration purposes only:** Negative returns of -6% from ages 66-68 offset by 9% growth other years to equal average of 6%. Inflation and home appreciation 2.1%. Reverse mortgage @ 5%.

# What happens to retirement planning with negative returns?

- Parkers **use their home equity** as income instead of investments during **3 years of negative returns**
- By not making investment withdrawals in negative return years, investments are retained and debt is less

There's no certainty in future market returns ...
but there's certainly more income options with access to home equity

| Remaining Assets Age 90 | Consistent 6% Growth |
|---|---|
| Investments | $124,000 |
| Home value | $772,500 |
| Debt | $0 |
| Net worth | $896,500 |

| Remaining Assets Age 90 | 3 yrs. negative - 6% (avg 6%) |
|---|---|
| Investments | $0 |
| Home value | $772,500 |
| Debt | -$363,500 |
| Net worth | $409,000 |

| Remaining Assets Age 90 | Home equity in negative years |
|---|---|
| Investments | $174,000 |
| Home value | $772,500 |
| Debt | -396,000 |
| Net worth | $550,500 |

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**For illustration purposes only:** Negative returns of -6% from ages 66-68 offset by 9% growth other years to equal average of 6%. Inflation and home appreciation 2.1%. Home equity loan interest at 5%.

# Retirement planning with negative returns

A deeper look at the crucial five years

- Using home equity (no investment withdrawals) in negative years; investments recovered in growth years

| Ages 66-70 6% Avg. | | Investment Value |
|---|---|---|
| 66: 6% | | $814,000 |
| 67: 6% | | $820,500 |
| 68: 6% | | $825,000 |
| 69: 6% | ↓ | $823,000 |
| 70: 6% | ↓ | $805,000 |

| Ages 66-70 | | Investment Value |
|---|---|---|
| 66: -6% | ↓ | $722,000 |
| 67: -6% | ↓ | $641,583 |
| 68: -6% | ↓ | $562,939 |
| 69: 9% | ↓ | $556,000 |
| 70: 9% | ↓ | $547,000 |

| Ages 66-70 | | Investment Value | Home Equity |
|---|---|---|---|
| 66: -6% | ↓ | $759,000 | $41,000 |
| 67: -6% | ↓ | $713,500 | $85,000 |
| 68: -6% | ↓ | $671,000 | $132,000 |
| 69: 9% | ↑ | $686,000 | $139,000 |
| 70: 9% | ↑ | $701,000 | $146,000 |

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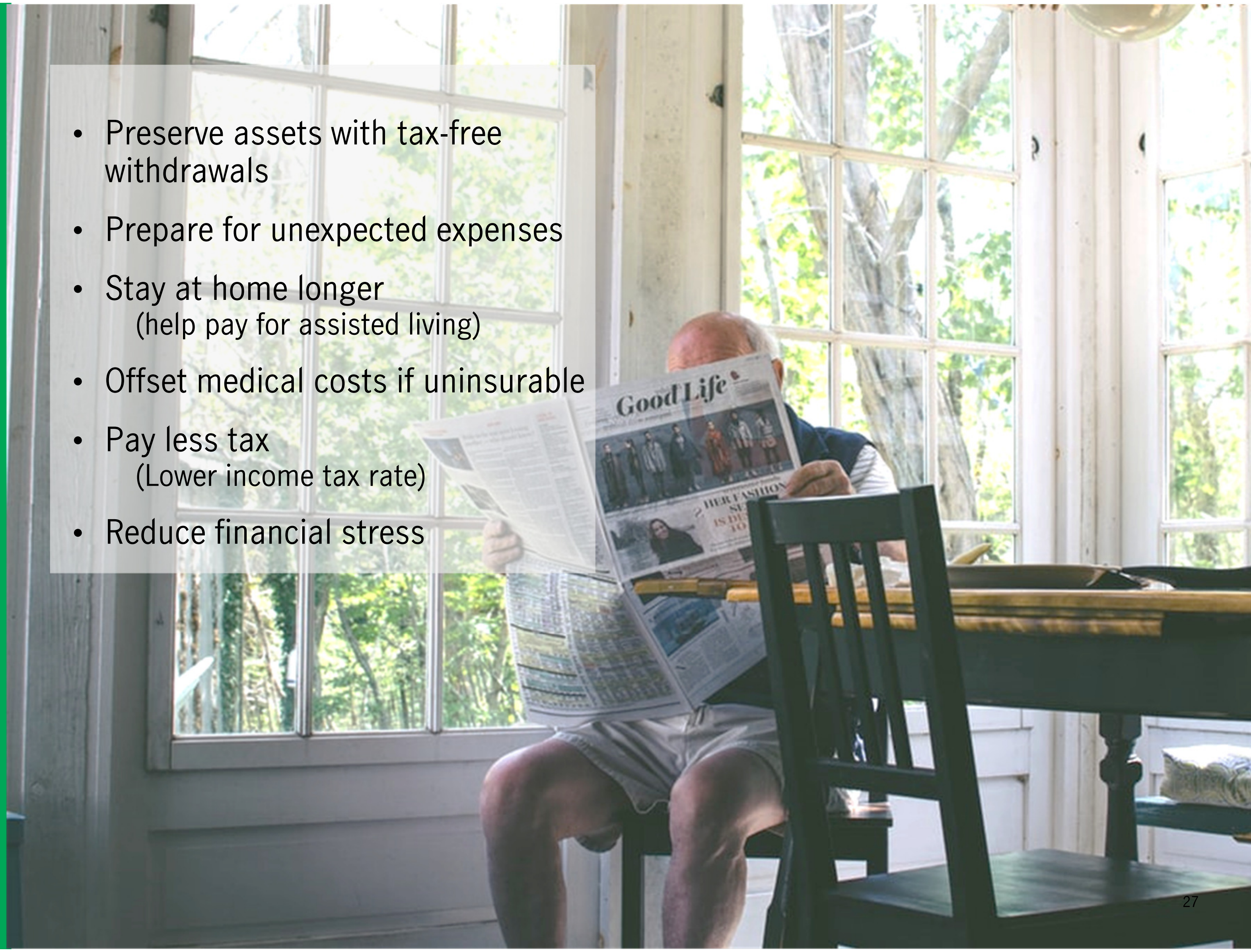
For illustration purposes only: Average rate of return of 6% over 25 years (3 yrs. of -6%, +6% and +9% for all other years). Inflation and home appreciation 2.1%. Home equity loan interest at 5%.

# Manulife One is for a better retirement… even when your clients don't immediately need it

- Preserve assets with tax-free withdrawals
- Prepare for unexpected expenses
- Stay at home longer
  (help pay for assisted living)
- Offset medical costs if uninsurable
- Pay less tax
  (Lower income tax rate)
- Reduce financial stress



# Don’t look back with regret – talk about debt before the recession hits

How often do you talk about mortgages and debt?

Does Manulife One work for every household?

Manulife Bank Select can start their journey  with advisor-based lending

The goal is to tailor a mortgage and debt to your client’s unique needs

# Recap: Why do you need to talk about debt?

Reducing debt faster and saving interest, may increase your clients ability to invest and insure themselves during their working years.

Using debt effectively in retirement unlocks all your clients assets and  may provide greater financial flexibility.

# Thank you... Questions?

**Important information**

As at March 20, 2020 the Manulife One base rate is 3.55% and the annual interest rate is 0.75%.  Both are variable rates, calculated on the daily closing balance and charged monthly.  The monthly administration fee is $16.95 ($9.95 for seniors). Rates and fees are subject to change.
Rates are as March 20, 2020.