

# Retirement Planning Resource

A Complete Guide to Creating & Managing  
Your Retirement Plan



# Getting Ready for Retirement

CFAL is a Bahamian owned, fully integrated financial services company whose success is driven by a dynamic team of qualified professionals guided by CircleVision®, a commitment to provide the highest level of service to our clients by providing personalized financial planning that looks in every direction, every day.

CFAL is the leading source of financial planning intelligence anywhere in The Bahamas. Our extensive expertise in the financial industry, strategic alliances and proven performance differentiates CFAL from our competitors.

CFAL offers a complete spectrum of financial services:

- *Brokerage*
- *Corporate Advisory*
- *Investments*
- *Pension Administration*
- *Register & Transfer Agents*

We are pleased to provide this complimentary retirement guide, as part of our commitment to public education on the importance of financial planning.

We look forward to meeting with you personally to discuss your retirement goals.

# Retirement Planning Resource Table of Contents

Your Complete Income Retirement Planning Guide / Page 1

    What Does Your Retirement Look Like? / Page 1

    Steps to Self Analysis - A Financial Review / Page 2

        The Price of Procrastination / Page 3

        How Much Is Enough? / Page 5

        How Long Will Your Money Last? / Page 6

        Steps for Saving For Your Retirement / Page 6

Understanding Your Employer Based Retirement Plans / Page 9

    How are my Funds protected? / Page 11

        Role of the Trustee / Page 11

        Role of Auditors / Page 11

Getting Started On The Road to Retirement / Page 12

    How CFAL Can Help / Page 12

# Your Complete Income Retirement Planning Guide

1

Retirement is the time to relax and enjoy our golden years. A secure and comfortable retirement requires smart planning and strategic investing. Saving your money and starting now is the only way to prepare for your future.

Bahamians should anticipate their future needs well in advance for two key reasons. First, we are more active and live longer after retirement. Many of us can expect to live 30 years or more while in retirement. Second, fewer companies are providing traditional pension plans, and those that do are contributing less. In fact less than half of all Bahamians are earning retirement benefits from their employer.

Many Bahamians also mistakenly believe that National Insurance will meet all, or most retirement needs.

If your employer does not offer a retirement plan or if you are self-employed, the responsibility of choosing retirement investments becomes a critical life choice. Understanding the basics of investing is a critical first step needed to prepare for retirement. A comfortable retirement usually requires:

- *National Insurance*
- *A structured pension plan*
- *Personal savings and investments*

Saving for the retirement you desire is ultimately your responsibility. Whether you are 18 or 58 now is the time to start taking steps towards a better, more secure future.

The purpose of this guide is to:

- *Help you analyze your current financial position*
- *Assist you in developing a Financial Retirement Plan*
- *Provide you with the basic tools to maximize your retirement savings*
- *Instruct how you can become financially independent during retirement*

## What Does Your Retirement Look Like?

It has often been said that if you do not know where you are going, any road will take you there. As with many things in life getting started is the greatest challenge. The best way to start saving for your retirement is by setting goals. Right now you may be focused on raising your children or developing your career. Creating a long-term strategy based on specific goals will further strengthen your life today and security for later in life. Although we all have individual goals in life, many of us look forward to goals like:

- *Remaining healthy and active*
- *Having resources to travel and learn*
- *Enjoying our family and friends*

We all know retirement is coming but few of us factor it into our short-term goals. You should. A secure retirement should be one of your important life goals. Careful planning today will help ensure your personal retirement goals become reality. If you want to live comfortably in retirement, your goals need to support whatever you value in life today which include:

- *Career*
- *Relationships*
- *Education*
- *Health*
- *Leisure Activities*
- *Other things of importance*

Some people assume a certain sum of money will provide enough financial stability during retirement. For example, \$100,000 sounds like a lot of money, but is it enough for you to live on after retirement for the rest of your life? It is important to consider things like how long you think that you might live in retirement, what health expenses you may have, and how you want to spend your time and money.

If you start saving for retirement now, you stand a better chance of having enough money to reach your financial retirement goals.

Of course, the sooner you start the better. See our "Price of Procrastination" chart on page 3 for further guidance.

## Steps To Self Analysis - A Financial Review

Once you have set your goals, the next step is creating a financial plan. There are some things in life you can leave to chance, but when it comes to retirement, you have to plan to succeed.

To begin the planning process, think about how you would like to spend your retirement. Do you want to travel the world, take care of your grandchildren, or simply relax? It is also important to consider any future medical costs and other essential living expenses like rent, home maintenance, insurance, groceries, utilities and entertainment.

You may wonder where the money for all this will come from. It will come from your savings. There's one simple trick to saving for any goal: spend less than you earn. That's not easy if you have trouble making ends meet or if you find it difficult to resist spending whatever money you have in hand. Even people who make high incomes often have difficulty saving. But CFAL has some suggestions that can help.

### Calculate your net worth

Your net worth is simply the total value of what you own (assets) minus what you owe (liabilities). It's a snapshot of your financial health.



## The Price of Procrastination

3

### Start at Age 25

Monthly Savings	7% Annual Return	9% Annual Return
\$200	\$ 524,963	\$ 936,264
300	787,444	1,404,396
400	1,049,925	1,827,528
500	1,312,407	2,340,660
600	1,574,888	2,808,792

### Start at Age 35

Monthly Savings	7% Annual Return	% Annual Return
\$200	\$243,994	\$ 366,148
300	365,991	549,223
400	487,988	732,297
500	609,985	915,372
600	731,983	1,098,446

### Start at Age 45

Monthly Savings	7% Annual Return	9% Annual Return
\$200	\$104,185	\$133,577
300	156,278	200,366
400	208,371	267,155
500	260,463	333,943
600	312,556	400,732

### Start at Age 55

Monthly Savings	7% Annual Return	9% Annual Return
\$200	\$ 34,617	\$ 38,703
300	51,925	58,054
400	69,234	77,405
500	86,542	96,737
600	103,850	110,100

## How is it calculated?

Step 1:- Add up the approximate value of all of your assets including:

- *Personal possessions*
- *Vehicles*
- *Home*
- *Checking & savings accounts*
- *Cash*
- *Investment (stocks, bonds, real estate)*

Step 2:- Add up all of your expenses:

- *Bank loans*
- *Credit card loans*
- *Mortgages*
- *Car loans*
- *Outstanding bills*

Step 3:- Subtract your assets from your liabilities and the balance is your net worth.

If your assets are greater than your liabilities, then you have a positive net worth position and you can start to save or increase your savings for your retirement. If your assets are less than your liabilities, then you have a negative net worth position. Unfortunately, in The Bahamas this is all too common. If you find yourself in a negative net worth position, you have three choices: cut expenses, increase your income, or both. You should review your net worth on an annual basis to monitor your financial health.

We have provided the following chart for you to calculate your cash flow analysis at your leisure.

### Cash Flow Analysis

A) Gross Income: \$

#### Less:

Tithes: \$

Debt: \$

Other: \$

B) Total Expenses: \$

C) Net Spendable Income: \$

(Net Spendable Income = A - B)

#### Living Expenses

Housing: \$

Food: \$

Clothing: \$

Transportation: \$

Medical: \$

Insurance: \$

Children: \$

Gifts: \$

Entertainment: \$

Miscellaneous: \$

D) Total Living Expenses \$

Cash Flow Margin \$

(Cash Flow Margin = C - D)

## Eliminate or reduce debt

Consider increasing your monthly car loan or mortgage payments. The more you pay, the sooner you clear the debt.

Pay more than the minimum. Credit card companies make money on interest, so they lower your minimum payments as your balance decreases. Don't fall for that trick! This means you end up paying more for your purchases and extends the time it takes to pay off the debt.

Brown bag it. If you regularly buy your breakfast and lunch, consider bringing it from home one or two days a week and use that extra money to increase your retirement contribution. (You can save approximately \$50 per month.)

Every month, eat one less dinner in a restaurant or see one less movie in a theatre. You'll be surprised at how much you will save. (A savings of at least \$40 per month.)

Avoid the temptation to make unnecessary purchases of consumer goods. (Do you really need that extra pair of black shoes or another pink blouse?)

Try an automatic savings deduction. If you don't have the money in your hands, you will be less tempted to spend it. Most of us don't miss it when we do this.

Consider taking a second job to increase your monthly income.

Improve your job skills or education to improve your job prospects.

Change your spending habits. Once you've made the commitment to get out of debt, you may need to adjust your spending habits.

## How Much Is Enough?

Now that you have a better understanding of your retirement goals, you must estimate how large your retirement nest egg will need to be, and how much you need to save. This is a critical step!

### How interest adds up when paying the minimum

Balance	Total Cost	Total Time to Repay
\$1,000	\$2,590	17 years and 3 months
\$2,500	\$7,733	30 years and 3 months
\$5,000	\$16,305	40 years and 2 months

*Assuming a 17 percent interest rate and a minimum payment of 2% of the balance.*

The vast majority of people never do this, yet it is very difficult to save adequately for retirement if you don't have a rough idea of how much you will need.

While individual needs may vary depending on lifestyle and income, a general rule of thumb applies to everyone. Financial experts generally estimate that to live comfortably in retirement, you'll probably need an annual salary of at least 70% of what you earned just before retiring, multiplied by the number of years you think you'll be retired.

For example, Anthony expects he'll be earning about \$50,000 per year when he retires at age 65, and that he'll live about 20 years in retirement. If that's the case, he'll need at least \$35,000 in retirement savings for each year he lives in retirement (\$35,000 is 70% of \$50,000). If he expects to live 20 years, Anthony will need approximately \$700,000 before factoring in inflation! And his calculations aren't necessarily going to afford him a life of luxury, like traveling often or supporting a vacation home.

For that lifestyle, he may need to replace at least 100% of his pre-retirement income. Keep in mind you will receive a retirement benefit from National Insurance, provided that you have contributed for a minimum of three (3) years. For most people, National Insurance only provides a maximum of \$750 a month, assuming

you earn at least \$400 per week, and have accumulated at least 1500 credits.

When calculating how much you need to save for your retirement; you should factor in this income. Using this figure as a guide, you can begin to invest or increase your retirement savings either through employer sponsored plans, personal investing, or both.

You should contact a financial advisor to help you design an effective strategy to achieve your long-term financial goals and satisfy your retirement lifestyle needs.

## How Long Will Your Money Last?

It is a good idea to estimate how much money it will take to live out a long retirement. See the table on the next page for an indication of how long your savings might last.

## Steps For Saving For Your Retirement Personal Savings

The most important and reliable source of your future income is the money you save, the investment choices you make, the house you own or the inheritance you might receive. How you live and what you can afford to do when you stop working all depends on the steps you take today toward saving and investing for tomorrow.

## How long will your money last?

Starting with this much	Monthly draw for 10 Years	Monthly draw for 20 Years	Monthly draw for 30 Years
\$50,000	\$535	\$337	\$222
\$100,000	\$1,069	\$674	\$443
\$150,000	\$1,604	\$1,011	\$665
\$200,000	\$2,138	\$1,349	\$886
\$250,000	\$2,673	\$1,686	\$1,108
\$500,000	\$5,345	\$3,372	\$2,216
\$750,000	\$8,025	\$5,055	\$3,330

*Based on 5.5% annual yield compounded quarterly. Investment performance can dramatically affect these numbers. Inflation can also seriously affect the value of the withdrawals.*

If you want greater financial security, pay yourself first. This means routinely setting aside a reasonable portion of your pay check each month so it won't be used up by other needs and temptations.

If you can get in the habit of saving 10% of your income, especially when you're young, you'll likely have far more financial freedom and choices later on.

### Personal Investment

One of the biggest struggles when deciding to invest for your future is finding the money to invest now. You are not alone in this challenge. Don't be fooled into thinking you can always make up for lost ground later when your financial

obligations are fewer. The following factors should be considered when contemplating personal investments:

#### You Still Need to Be Concerned With Inflation

Unfortunately there is no escape from inflation. The price of everything has increased, and this trend is expected to continue. Luckily there is something you can do to help protect yourself. Keep a portion of your retirement savings invested where it has the potential to participate in the growth of the economy.

#### Manage your risk

There are two main ways to manage risk. First, diversify within each category of

investment. You can do this by investing in pooled arrangements such as mutual funds, index funds (i.e. stocks) and bank products sold by reliable professionals.

These investments typically give you a small share of different individual investments and will allow you to spread your money among many stocks, bonds and other financial instruments, even if you don't have a lot of money to invest.

Your risk of losing money is less than if you buy shares in only a few individual companies. Distributing your investments in this way is called diversification. Second, you can reduce risk by investing among categories of investments. Generally, speaking, you should put some of your money in cash, bonds, some in common stocks and other investment vehicles.

In summary, diversification is as important an investing practice for retirees as it is for people who are still working. One of the most effective ways to diversify is with asset allocation.

Diversification lets you manage your risk in a particular investment or category of investments and decreases your chances of losing money.

### Asset allocation and retirement

How you divide your assets in your portfolio among different types of investments — equities fixed income and

cash — is known as your asset allocation. Financial experts agree that asset allocation is the single most important factor in determining portfolio performance.

**Equities or Stocks** — represents a share of ownership in a company. They have historically earned higher returns than other asset classes, but are the most riskiest class of investment.

**Fixed Income** — such as bonds is a debt security issued by a company or the Government. A bond investor lends money to the issuer and in exchange receives interest payments and the principal amount at maturity. Fixed income securities typically offer less return potential than stocks, but they may also be less risky.

**Cash Equivalents** — are short term, highly liquid investments that usually offer the lowest return and are the least risky of the asset classes.

The right mix of these asset classes will depend on many factors: how much time you have until retirement, your life expectancy, other sources of retirement income, how much risk you are willing to take, and how healthy your current financial picture is, among others.

For very young investors with twenty years or more to accumulate retirement funds, you might invest more heavily in stocks than bonds and cash.



As you get older and enter retirement, you will reduce your exposure to stocks and increase your holdings with more bonds and cash.

The table below provides age specific guidance regarding asset allocation.

Regardless of where you choose to put your money – the key to saving for retirement is to make your money work for you. To maximize your personal retirement plan, one rule applies: the sooner you start, the more time you have, the less money you have to put away, and the more your money can grow.

## Understanding Your Employer Based Retirement Plans

Less than half of all Bahamians belong to some form of pension plan as they provide a needed supplement to National Insurance.

If you are in a company sponsored pension plan stay there, your employer will normally be meeting a higher proportion of the cost of providing your pension benefit. Employer based plans come in one of two varieties, and some employers provide both.

### Asset Allocation and Retirement Account

Your Age	% of high growth investments (e.g. stocks)	% of low risk fixed investments (e.g. bonds and cash)
20	85%	15%
25	80%	20%
30	75%	25%
35	70%	30%
40	65%	35%
45	60%	40%
50	55%	45%
55	50%	50%
60	45%	55%
65	40%	60%

*This chart does not take into account tactical allocation.*

**Defined Benefit Plans** — These plans pay a lump sum upon retirement or a guaranteed monthly benefit. The amount of payout is typically based on a set formula, such as the number of years you have worked for the employer times a percentage of your highest earnings on the job. Usually, the employer funds the plan commonly called a Defined Benefit (D.B.) pension plan, though in some plans employees also contribute.

This form of pension plan is being phased out due to the high cost to the sponsoring company.

**Defined Contribution Plans** — Unlike a defined benefit plan, this type of savings arrangement does not guarantee a specified amount for retirement. Instead, the amount you have available in the plan to help fund your retirement will depend on how long you participate in the plan, how much is invested and how well the investments perform over the years. The

government is expected to introduce pension legislation, which will protect your account assets from misuse by the employer. In many defined contribution plans, you are offered a choice of investment options, and you must decide where to invest your contributions.

This approach shifts much of the responsibility for retirement planning to you, the employee. Thus, it is critical that you choose to contribute to the plan as soon as you become eligible (usually after working full-time for a minimum period) and that you choose your investment options wisely.

**Vesting Rules** — Any money you put into a retirement plan out of your pay, and earnings on those contributions, always belong to you. However, contrary to popular belief, employees don't always have immediate access to the money their employer puts into their pension fund or

#### Benefits of a Regular Investment Plan (\$250 per month)

Years	6%	8%	10%	12%	14%
5	\$17,442	\$18,369	\$19,359	\$20,417	\$21,549
10	\$40,969	\$45,736	\$51,211	\$57,510	\$64,767
15	\$72,704	\$86,509	\$103,617	\$124,895	\$151,447
20	\$115,510	\$147,255	\$189,617	\$247,314	\$325,291
30	\$251,128	\$372,589	\$565,121	\$873,741	\$1,373,243

*Clearly, it does not pay to wait. If you haven't started investing yet, why wait another minute. Time is money.*



their defined contribution plan. Under most plans, you have to work for a certain number of years before you become “vested” and can receive benefits. Vesting periods are often 5 years, but can go as high as 10-15 years in some instances. Some plans vest in stages. Other defined contribution plans vest immediately (you have access to your employer’s contributions the day the money is deposited). Be aware of the vesting rules in your employer’s plan. Make sure you know when you are vested. Changing jobs too quickly could mean losing your employer’s matching contributions.

## How Are My Funds Protected?

Before you place your hard earned dollars in any investment vehicle, it is important that you know who your funds are entrusted to, and what the responsibilities of those entities are. We have compiled the following duties of the major players involved:

### Role of the Trustee

The role of the Trustee is very important. The Trustee is entrusted with the responsibility of ensuring the best interests of the Trust beneficiaries are carried out. This includes:

- *Making sure the investment manager and those parties involved in the administration of the fund are acting in accordance, and*

*performing prescribed duties defined in the governing documents of the investment product.*

- *The Trustee also plays the role of a custodian: the assets of the Trust are placed in their protective custody, further safeguarding the monies of its investors.*
- *The Trustee must keep records and accurate accounts, and make these documents available to the Trust beneficiaries at their request.*

### The Role of the Auditor

The role and independence of an outside auditor or chartered accounting firm is essential to good reporting practices. Investors must have confidence in financial statements. The independent auditor determines whether annual financial statements are in compliance with prescribed international standards. In the Bahamas all auditors must be licensed members of BICA (Bahamas Institute of Chartered Accountants). In order to practice in the Bahamas auditors must have a professional accounting qualification. Additionally, BICA has adopted the International Federation of Accountants.

- *Auditors examine and test accounting reports, ledgers, invoices, internal controls and other data.*
- *The independence of auditors is very important. When an auditor finds a substantial error, misrepresentation*

*or disagrees with the company on an accounting matter, it must ensure the problem is corrected or that it is noted in the auditor's report.*

If you have any doubts or questions relating to the safety of your investment, seek professional assistance. You can contact your local regulatory authority to ensure that those parties that are selling investments to you are in fact licensed to operate in your jurisdiction.

## Getting Started On The Road To Retirement

Saving for your retirement is critical, and it's a responsibility that rests solely with you. We hope this booklet is a useful starting point but that you will continue to educate yourself about managing your money and investing. A route you may wish to consider is using the resources and expertise of a professional financial planner. Remember, the sooner you start saving and planning for your retirement, the more certain you can be about your future financial well-being.

## How CFAL Can Help

**Group Retirement Plans** — The experienced CFAL team works one-on-one with employers and human resource managers to identify their employees' needs and help design a tailored group retirement plan. In today's increasingly

competitive workplace, companies need to offer the best benefits in order to attract and keep the most qualified employees on their team.

**Blue Marlin Retirement Plan** — Not all companies are able or willing to provide their employees with retirement benefits. Realising the need for Bahamians to take control of their own retirement planning, CFAL has designed a comprehensive trust fund available to all Bahamians. The plan is flexible in its design, allowing you to decide how your savings are invested. Its portability guarantees your retirement savings are there for you, no matter where life takes you.

**Pension Consultation** — CFAL advisors also provide extensive pension consultation for groups and individuals to help you ensure you are on the right track towards the kind of retirement you deserve.

CFAL is here to help you meet and exceed your retirement goals. Our approach is to examine every possibility to meet your specific needs and expectations. We call this CircleVision®. It means we never stop looking for solutions and opportunities that are exactly right for you. In every direction, every day.

**Make a critical life decision now! Call 242-502-7010 to schedule your FREE initial retirement consultation with a CFAL CircleVision® advisor.**



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