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WEALTH MANAGEMENT

Common Financial Guidelines for Planning Your Retirement

Preparing for retirement can be a very stressful experience, with so many factors that you need to consider. How much money will I need to maintain my standard of living? How much will I want to travel? How long will I live? What if I outlive my money?

There's so much uncertainty, that financial rules of thumb for planning your retirement have become very popular – following them relieves at least some of that uncertainty. It is important to understand the assumptions, and the limitations of these guidelines, so that you understand whether they are relevant for your particular situation.

'You Need 70% of Your Pre-Retirement Income in Retirement'

This popular guideline incorporates the fact that you will not have certain expenses in retirement that you had while employed, like commuting costs and buying clothes for work. You also won't be saving for retirement anymore. However, there are some personal factors that can make this more of a myth than a guideline, including:

- whether you own your home and your mortgage is paid off
- whether your children are financially independent or you are still helping fund their university education
- your own personal goals for retirement – your personal income replacement factor could be significantly lower, or higher, than 70%

A better way to estimate how much retirement income you will need is to track your current expenses and then adjust for the changes in your lifestyle once you retire, such as an increased budget for vacations and hobbies. There are tools and apps that you can use to help you categorize and summarize your current spending. However, check with your bank first, as using third-party tools that automatically download transactions from your bank accounts may violate your online banking agreement and expose you to liability if there are unauthorized transactions in your accounts. Many banks provide their own tools to help you manage your finances, or you can download the transactions and use spreadsheet software to create your own summary.

Once you have your recurring annual budget amount, adjusted for lifestyle changes, you should also budget for expenditures that do not occur annually, such as purchasing a new car or major house renovations. If, for example, you plan on purchasing a new car every eight years, you should factor in an annual "car replacement fund" over that period to give you a more comprehensive budget amount. Similarly, you should budget a certain annual amount as a fund for major home repairs – you might not need that money in every year, but planning for bathroom and kitchen renovations, new furnaces and roofs should still be built into your retirement budget, so that they don't end up being a nasty surprise when they happen! Budgeting a percentage of the purchase price of your home, or a specific dollar amount per square foot, are common ways to do this. As with all rules of thumb, these should be adjusted for the age of your home and how often you want to renovate it.

The '4% Rule'

One of the most commonly-cited rules for estimating how much income you can withdraw from your investment portfolio without risking running out of money is "the 4% rule." This rule comes from a study conducted by William Bengen and first published in The Journal of Financial Planning in 1994.[1]

Bengen explored the concept of "portfolio longevity" – how long your investment portfolio would last if you withdrew a specific percentage of it in the first year of retirement – and then adjusted that amount for inflation in each successive year. He tested this against the stock market returns for a person retiring in each year from 1926 to 1976, and for initial withdrawal rates from 1% to 8%. With an initial withdrawal rate of 4% the portfolio lasted more than 33 years – even for those worst-case scenarios of retirees who lived through the Great Depression or the 1973–74 recession.

The rule provides a simple answer to how much you need to save for retirement or how much retirement income you can take from an investment portfolio, but there are some important assumptions behind this rule. His sample portfolio in the data above was 50% invested in U.S. common stocks and the remaining 50% invested in intermediate-term Treasury Bills, and it was rebalanced annually. That may be more risk than some retirees are willing to assume.

Bengen did explore this issue in his study, comparing the returns from various portfolio mixes of stocks and fixed income assets. While the 50/50 split seemed to be optimal in terms of maximizing the longevity of the portfolio, increasing equity portion of the portfolio to 75% increased the value of the estate passed on to the heirs, while having minimal impact on the portfolio longevity.

Bengen updated the study in 2006 and concluded that 4.5% was the safe initial withdrawal rate. Whether it is 4% or 4.5%, this can give you a good guideline for how much you will need to have saved by retirement to feel confident that you will not run out of money. Once you have calculated your budget based on the retirement lifestyle that you want, and subtracted what you expect to receive from the Canada Pension Plan, Old Age Security and any defined benefit pension plan, you can divide that net amount by 4% and have a reasonable target for your portfolio at retirement.

The '100 Minus Your Age' Rule

You often hear that our tolerance for risk in our investment portfolios should decrease as we get older, theoretically since you will have less time for your portfolio to recover from a financial catastrophe, which is where the "100 minus your age" rule comes in to play – the proportion of your investments invested in equities should be 100 minus your age, with the remainder invested In safe, fixed income assets, such as bonds. So a 40 year old should have 60% of their portfolio invested in equities, while a 70 year old should have a portfolio with only 30% equities.

However, with the increase in life expectancy since this rule was introduced, and with the historically low returns on fixed income investments, retirees will risk running out of money by following this rule. Some advisors have adjusted the rule to "110 minus your age," or even "120 minus your age," to address the

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1 ***Determining Withdrawal Rates Using Historical Data*** (www.retailinvestor.org/pdf/Bengen1.pdf, 1994)

increase in life expectancy, while another study[2] evaluated the minimum and maximum returns for various portfolio mixes against the "100 minus your age" portfolio over a 50-year period. This research found that the "100 minus your age" portfolio consistently underperformed against both the minimum and maximum returns for two constant mix portfolios: 60% equity / 40% bonds and 70% equity / 30% bonds. This is consistent with Bengen's conclusions. While every individual's tolerance for risk is very personal, the link between that risk and the expected return on the portfolio is very clear.

In summary, these common guidelines can be a good starting point for thinking about your retirement, and how prepared you are for it, but each situation is unique and therefore understanding the assumptions and limitations of the guidelines is important.

MANAGEMENT

Diversity and Inclusion: Proven Returns for Innovation and Business Performance

Canada has recently experienced the lowest jobless rate in almost 40 years. On the one hand, that's great for the economy overall. On the other hand, if you are an employer looking to fill positions or do transition or succession planning, this is a real challenge! New and expanding research, however, is really helping to broaden the traditional management and line leader (think revenue line) roles in consideration of non-traditional or alternative employees.

Just this past December, the jobless rate was 5.6%. That means that of all the people in Canada eligible to work or in the job market, 94.4% of Canadians were employed. The expectation from the Canadian government is that the jobless rate may climb higher but will remain, on average, only at 6.3% until 2022 (this is as far into the future as the government is willing to forecast).

Many organizations, including most universities and big research groups in Deloitte, McKinsey, and others have been conducting longitudinal studies on diversity and innovation, bottom line performance, and customer experience satisfaction. The results are pretty startling and fairly homogeneous – making it difficult to challenge their validity in the face of so many different, repeated studies with the same results. In summary, here are a few thought starters that emerge from that research, which may help you if you are considering succession plans, expansion, or even just continued growth in your organization.

Diversity and Innovation

According to a Deloitte study published in January 2018, increasing the gender and other major diversity markers in your employee base enhances innovation by 20%! Can you imagine adding that much organic innovation to product development, customer experience, or internal infrastructure maintenance – just by making sure that your workforce is more diverse? They also determined that overall innovation risk can be reduced by as much as 30% if you include a cognitively diverse perspective in addition to demographic

2 Robert Zingale, *Debunking The '100 Minus Your Age' Rule Of Thumb* (https://seekingalpha.com/article/322363-debunking-the-100-minus-your-age-rule-of-thumb, January 26, 2012)

diversity. The reason, they report, is because solving complex problems requires the consideration of evidence, options, outcomes, people, process and risk. Cognitively diverse populations approach their complex challenges differently. Having them work on your problem together decreases the risk of falling into thinking traps.

In a study ranging multiple years, Deloitte also discovered that diverse and intentionally inclusive teams, over time, were six times more likely to be innovative and agile, and twice as likely to meet or exceed set financial targets.

Diversity and Business Performance

In a 2017 study, McKinsey Consulting engaged in a wide-ranging global diversity study of large organizations with more than 500 employees. Their repeated results were astounding. According to the repeated study, gender diversity accounted for a 21% outperformance in Earnings Before Interest and Taxes (EBIT) margin and a 27% outperformance margin in long-term value creation to their nearest likely competitors who did not actively practice gender diversity in their hiring practices. This is an interesting result because McKinsey was very careful to state that they only compared organizations within the same culture or country, as every country area was not equivalent in their baseline.

Further to organizational performance, McKinsey also noted that in companies where executives were more balanced in gender roles, there was approximately 9–10% outperformance in line roles. Adding a better gender balance to sales leadership contributed to revenue performance without adding any additional bonus or performance incentives to those lines.

Markers of Success

Both studies, as well as work done by Catalyst and post-secondary institutions, conclude that there are behaviours within an organization that can drive the increase of diversity and inclusion. Chief amongst those are commitment from leadership and formal definitions and agreements.

1. **Leadership:** Time and again, the behaviours of leaders and their consistent attitudes drive perception and behaviour in the organization. In companies where leaders intentionally and outwardly demonstrated a commitment to both cognitive and demographic diversity, 70% of employees reported that they felt included. In addition, 17% reported perceived team performance increases, 20% reported increased decision-making quality and 29% reported better collaboration.
2. **Definitions and agreements:** Companies that outperformed in both studies had a defined inclusion and diversity priority based on the drivers of their business growth strategies. This included attracting and retaining talent for long-term success. They did not rely on standard or static definitions from consultants (or the dictionary!) but tailored their statement to their own business drivers. This way, everyone in the organization could see the value and benefit of working in a diverse and inclusive way.

Getting Started

Getting started includes awareness of the principles of inclusion and some reflection on how that manifests in the behaviours (conscious and unconscious) of leadership from the board down to the line or admin manager. Inclusive behaviour includes a commitment to: fairness, respect, valued belonging, empowerment, growth opportunities, and a safe and open workspace. Highly inclusive leaders repeatedly display the following characteristics: commitment, courage, cognizance of bias, curiosity, cultural intelligence, and a commitment to collaboration. If you are a leader or board member, would others describe you this way?

Formal statements and accountabilities tied to your business's strategies for growth and sustainment are the next steps. This includes hiring, compensation, and internal growth opportunities for people and products.

Conclusion

It isn't easy and may require a mindset shift, but considering how your organization handles cognitive and demographic diversity may help you improve up to 30% over your next competitor, expand your employee pool in a shrinking Canadian labour group, and increase your ability to innovate and grow – all by changing the way you think, not by paying more money or adding perks or increases.

TECHNOLOGY

Privacy and Online Behavioural Advertising

Online behavioural advertising (OBA) is becoming an increasingly popular form of advertising. If your business engages in OBA, it is important to understand the privacy risks associated with this practice.

If you have ever surfed the internet to look up a particular topic such as "Caribbean vacations" or "laptops" only to find that this same topic reappears in advertisements on other websites, then you likely have been the target of OBA.

While there are many benefits to OBA and online advertising generally, such as allowing businesses to compete with international and online companies, it carries with it certain privacy risks that businesses should be mindful of when engaging in this type of advertising.

What is Online Behavioural Advertising?

The Office of the Privacy Commissioner of Canada (OPC) defines OBA as "tracking consumers' online activities, across sites and over time in order to deliver advertisements targeted to their inferred interests."[3]

As people use the internet, they leave behind a rich trail of personal information. Some of this is deliberate, such as the posting of photos and comments. However, other times it is not. Through the use of certain technologies, businesses can keep track of your web browsing activity such as search terms used, web pages visited, advertisements viewed, articles read, purchases made and even your location. Businesses are tapping into this abundant source of information and using sophisticated data analytics to build personal profiles of individuals in order to deliver specific advertising to them that is tailored to their interests.

Privacy Issues

In Canada, the *Personal Information Protection and Electronic Documents Act*, SC 2000, c 5 [(PIPEDA) or equivalent privacy legislation in certain provinces] governs the collection, use or disclosure of personal information.

Personal information is defined as "information about an identifiable individual" [s. 2(1)]. The OPC has stated that it will generally consider information collected for the purpose of OBA to constitute personal information.[4]

3 Guidelines on Privacy and Online Behavioural Advertising published December 2011 (2011 OBA Guidelines).

4 2011 OBA Guidelines and the OPC's Policy Position on Online Behavioural Advertising published December 2015 (2015 Policy Position).

Pursuant to privacy legislation, an individual's consent is required for the collection, use or disclosure of personal information. Privacy legislation does recognize that the form of consent can vary. For example, express (opt-in) consent is typically appropriate for sensitive information and implied (opt-out) consent for less sensitive information. The OPC has stated that implied consent may be a reasonable form of consent for OBA, provided that certain conditions are met including, but not limited to:

- making the individual aware of the practice in a clear and understandable manner before collection occurs; and
- providing them with the ability to easily opt out of the practice with immediate and persistent effect.[5]

However, the OPC has cautioned that its 2011 OBA Guidance does not render opt-out consent the default for all OBA and that a careful consideration of all the circumstances must be taken into account. On April 7, 2015, the OPC published its findings that a mobility company's Relevant Advertising Program (RAP), which consisted of using customers' network usage and account / demographic information to serve targeted advertising, violated PIPEDA.

While the RAP providers did not have access to information that identified particular customers, and while the company gave customers the option to opt out of the RAP, the OPC nevertheless found that "the sheer breadth of information being used or contemplated for the RAP… renders such information more sensitive when compiled" and therefore express opt-in consent was appropriate for the use of such sensitive information.

In addition to the sensitivity of the information, the OPC also considered the reasonable expectations of the company's customers. It found that the company used its customers' information for the purpose of delivering its primary paid services and therefore its customers would reasonably expect it to obtain express opt-in consent for the use of their information for the new secondary purpose of OBA.

As a result of the OPC's findings, class action lawsuits were launched in Ontario and Quebec against the mobility company and its affiliate claiming $750 million in damages for, among other things, breach of privacy (the tort of intrusion upon seclusion) arising from the unauthorized use of consumers' personal information for the RAP.

Business Takeaways

The following four strategies will help businesses comply with their obligations under privacy law when engaging in OBA.

Obtain appropriate consent (express or implied). Given the OPC's findings against the mobility company, businesses using OBA should consider whether seemingly innocent, non-identifying pieces of information they are collecting could be considered sensitive information when compiled together. If so, this would require express consent.

Provide clear information regarding OBA practices. Privacy legislation requires that businesses obtain *meaningful* consent. Accordingly, businesses should provide users with clear information regarding their OBA practices. This should include what information is collected for OBA, how it is collected and what it is used for. This information should be easily accessible – such as by way of advertising icons – rather than buried in a website's extensive privacy policy.

Provide user-friendly opt-out mechanisms. Businesses using OBA should provide users with a user-friendly ability to opt out of the OBA practice. Again, this could be in the form of advertising icons placed directly on the advertisement which, if clicked, provide a choice to opt out.

5 2011 OBA Guidelines and 2015 Policy Position.

Safeguard information. Once information is collected, businesses should have in place adequate physical, organizational and technical measures for safeguarding the information that are appropriate to its level of sensitivity.

HUMAN RESOURCES

Building a Learning Ecosystem Is Possible, Even in a Small Organization

Ecosystems for employee development don't require fancy technology or expensive custom development. What you need is a thoughtful plan and a culture of collaboration.

What Is a Learning Ecosystem?

Simply put, a learning ecosystem is an environment in your business that allows your employees, and possibly your customers, to learn and collaborate in the development of knowledge and capability. In large organizations this usually involves learning management systems, classroom training or eLearning, and other talent development systems.

But what if you are a small organization with a small but committed group of people and less capability to embrace large, expensive systems or measures? Not to worry! You can still develop a culture of learning and collaboration. There are some key factors to deciding what and how to implement a system, but it doesn't have to be expensive or complicated.

Start With 'Why'

What value are you trying to create with your learning culture? Who is your primary learner? You may immediately say, "the employees," but consider their motivations for learning. Are they trying to do their jobs better? Learn about new products or innovations? Change processes or approaches to problems? Manage and motivate? All of these are different contributors and reasons for learning. You may want to create a "persona" for your different categories of learners. A persona is a characterization of your employee and what they see, think, and encounter on a regular basis – both the challenges and the opportunities. Starting with why they want to learn will help you to curate materials or suggest places for them to go to begin their learning journeys.

The second why, of course, is the benefit to your business. Providing an opportunity to build a culture of learning and collaboration will help to foster growth and better understanding of your market and keep your people engaged longer. Think about what you want to accomplish from the perspective of product knowledge, sales capability, safety, leadership or other important elements you want to strengthen within your business.

Once you've got an idea of who you are building for, it's time to determine what you are going to curate, build, acquire, and collaborate on to get the best opportunities for your people. Learning happens when people have questions or curiosity (or both). Most adult learners need to build on their own experiences by tearing down a little of what they pre-conceived about the subject or problem and opening a space to consider alternatives or new information.

Find a Place to Curate

So, building a learning ecosystem starts with having a place where your employees can share curiosity, lessons, advice and knowledge. This might be a regular meeting, a spot (electronic or physical, depending on the type of business you have) where they can post valuable information and collaborate, and making these sharing opportunities a regular part of your management coaching and reporting sessions. It can be as simple as creating a space in regular update meetings and assigning a rotation for people to show their work: what they've learned, or some insight into an existing product, customer or process. You can curate this in a SharePoint site, a dropbox, or a collaboration site. Include links to relevant and related ideas.

But What to Include …?

There are plenty of free resources likely available to you within your industry: product updates, manufacturing news, operational effectiveness blogs. There are also white papers and likely research if you are in a professional or technical business. Place these in your ecosystem with links to the original site so that people can explore further if they like. You may even wish to bring in someone you work with – like your accountant, HR contractor, or product sales specialist – to conduct a lunch-and-learn or presentation to your team on a topic relevant to your business. Most professionals are happy to come and speak on their specialized knowledge. Just make sure you focus on what the employees will find useful and what helps them solve problems.

Additionally, you might want to look outside of your industry. Even if you aren't in their field, many professional associations have free or reasonably priced books, updates, and thought leadership that could apply to your company. For example, CPA Canada has an extensive collection of management and leadership resources that span much farther than just the accounting profession.

You may want to include publicly-available learning activities and resources as well. For example, if you live in Toronto or in one of the larger metropolitan areas in Ontario, you can get a learning service from **lynda.com** for free as long as you have a library card! That's right! Your local library is a great source for learning. Lynda (now owned by LinkedIn) is a fantastic source of video-based learning for many office applications, project management, some finance and leadership applications and even sales and business planning fundamentals. If you aren't in a place that has this in the library system, you can access **lynda.com** through LinkedIn, or straight from the Lynda site, for a reasonable price.

If you want a more organized learning experience, you can try MOOCs (massive open online courses) through a site like Coursera or EdX. These are open courses with timings and facilitators to help guide coursework. A huge selection of courses can be found in these places, usually presented by major universities or well-known experts in the field. Quite a good list of these places and courses is the MOOC List (**www.mooc-list.com**), which can help you find the right courses for your employees or yourself.

The key to an ecosystem is that it is a *system*. You should think about your employees, your organizational goals, and your cultural aspirations for your organization. Pair this with a place for sharing and collaborating on development and problem solving. Finally, don't forget to go outside of your own profession or core industry to gather and curate learning materials that will help you solve problems or challenges from a different perspective.

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