Cash Wedge Strategy

AGF SOUND CHOICES

Take the guesswork out of retirement income planning

A Registered Retirement Income Fund (RRIF) is a registered account designed to provide income flow in retirement. After the RRIF is open, the investor must withdraw the minimum annual payment (MAP)* from the RRIF in each of the subsequent years, so it's important that these investments continue to grow, while providing enough income to meet retirement income needs. For many, the greatest challenge in managing a RRIF is keeping assets liquid enough to meet the RRIF withdrawal obligation while continuing to grow their savings.

The cash wedge strategy

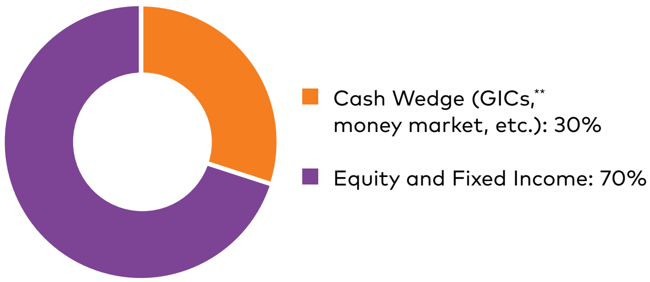
The cash wedge strategy uses a combination of low-risk, interest-generating investments coupled with equities and fixed-income securities structured in a way to fund the MAP so an investor doesn't have to make untimely redemptions should there be a market downturn.

As withdrawal percentages increase over time, the portfolio can be rebalanced and the cash wedge replenished from the gains made from the rest of the portfolio.

This is to help ensure the investor has enough cash to meet their required annual RRIF withdrawal obligations.

How the cash wedge strategy works

- Allocate a portion to a combination of laddered GICs,** money market funds and low-risk, income-oriented investments to create the 'cash wedge'
- Invest the remainder to a balanced mix of equities and fixed-income investments
- Fund the minimum annual payment (MAP)* withdrawals from the cash wedge
- Replenish the cash wedge over time with dividend earnings and profits from the growth investments



* The RRIF minimum annual payment is based on a set formula that takes into consideration their age (or their spouse's age in the case of a spousal RRIF), and the market value of the account on January 1 of the withdrawal year. This is calculated by multiplying the market value of the account on December 31 of the previous year by a percentage provided by the government that increases with the age of the annuitant

**Funds, unlike GICs, are not insured by the Canada Deposit Insurance Corporation or any other deposit insurer, nor guaranteed by any entity

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20240307-3424535

In this hypothetical example, each investor has $100,000 in RRIF assets that are invested in a different way. Over four years, those investments have an average annual return of 3.12% due to a market set-back in the first year. (For simplicity, we have used a GIC** return of 1% for years one to four.)

Investor A

Age	Start-of-year balance		GIC** return		End-of-year balance pre-withdrawal		RRIF MAP*		End-of-year balance
72	$ 100,000	+	1.00%	=	$101,000	-	7.48%	=	$93,445
73	$93,445		1.00%		$94,380		7.59%		$87,216
74	$87,216		1.00%		$88,088		7.71%		$81,297
75	$81,297		1.00%		$82,110		7.85%		$75,664

- invests the entire amount into a GIC** earning interest at a rate of 1% each year
- has depleted almost 25% of the initial investment

Investor B

Age	Start-of-year balance		Balanced return		End-of-year balance pre-withdrawal		RRIF MAP*		End-of-year balance
72	$100,000	+	-10.00%	=	$90,000	-	7.48%	=	$83,268
73	$83,268		7.50%		$89,513		7.59%		$82,719
74	$82,719		7.50%		$88,923		7.71%		$82,067
75	$82,067		7.50%		$88,222		7.85%		$81,297

- invests the entire amount in a portfolio of equity and fixed-income securities
- still has more than $80,000

Investor C

Equity and fixed-income (70% of assets)						GIC** (30% of assets)					Total assets				
Age	Start-of-year balance		Balanced return		End-of-year balance pre-withdrawal	Start-of-year balance		GIC** return		End-of-year balance pre-withdrawal	End-of-year balance pre-withdrawal	RRIF MAP*	RRIF withdrawal	Cash wedge (GICs) after withdrawal	End-of-year balance
72	$70,000	+	-10.00%	=	$63,000	$30,000	+	1.00%	=	$30,300	$93,300	7.48%	$6,978.84	$23,321.16	$86,321.16
73	$63,000		7.50%		$67,725	$23,321		1.00%		$23,554	$91,279	7.59%	$6,928.10	$16,626.27	$84,351.27
74	$67,725		7.50%		$72,804	$16,626		1.00%		$16,793	$89,597	7.71%	$6,907.92	$9,884.61	$82,688.98
75	$72,804		7.50%		$78,265	$9,885		1.00%		$9,983	$88,248	7.85%	$6,927.48	$3,055.97	$81,320.68

- withdraws the minimum annual payment (MAP)* from the cash wedge, keeping 70% of the funds invested in a portfolio of equities and fixed-income securities
- like Investor B, still has more than $80,000 but was able to achieve this result with only 70% of the assets outside of the protection offered by the GIC.** Once the cash wedge is close to being depleted, the portfolio can be rebalanced and the cash wedge replenished from the gains made from the rest of the portfolio

Source: AGF Investments. **Performance returns presented are hypothetical and for illustrative purposes only. It does not represent actual performance nor does it guarantee future performance.** Assumptions were made in the calculation of these returns including 1) GIC return of 1% for years 1 to 4 and 2) balanced portfolio returns of -10.00% in year 1 and 7.50% in years 2, 3 and 4. Any taxes due, trading costs and other fees associated with the portfolios are not included and trading prices and frequency implicit in the hypothetical performance may differ from what may have actually been realized at the time given prevailing market conditions.

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To learn how a cash wedge strategy can help fund your RRIF withdrawals, contact your financial advisor.

Publication date: March 8, 2024.

SOL059 02-24-E

20240307-3424535