Savings and Debt:
Navigating Cashflow Concerns with Clients

If you aren't talking to your clients about debt, who is?

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Deeply Serving our Canadian Customers

Our Transformational Journey

A look back at what challenges clients were facing before Covid-19

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1 in 3
spent more than they earned

2/3rds Thought recession was coming

3 in 10 felt unprepared

21% would need to withdraw investments

4 in 10
Regret debt / impacts daily life

Comfort
with mortgage size

1 in 4
Made poor progress with debt

Source: Manulife Bank Debt Survey, Summer 2019

How do you determine a path, no one has been down before?

Historically low interest rates have borrowing (mortgages) affordable

Work from home has made suburbs, rural areas attractive

Travel restrictions boosting recreational property market

25% plan to buy a home in next 2 years

#1 reason for moving: My home is no longer suitable (i.e. size, location)*

Survey’s highest rankings: mortgage is “good debt” & Real estate is a good long-term investment*

*MPC: Rapidly Evolving Expectations in the Housing Market (sept 2020)

2020 Debt Survey

35% of Canadians admit they were financially unprepared for the pandemic

37% say COVID-19 has increased their debt loads

53% are carrying a credit card balance (-7pts from Fall 2019 survey)

Fewer report that their spending is outpacing their income

Financially prepared, or not, Canadians dive into home ownership...

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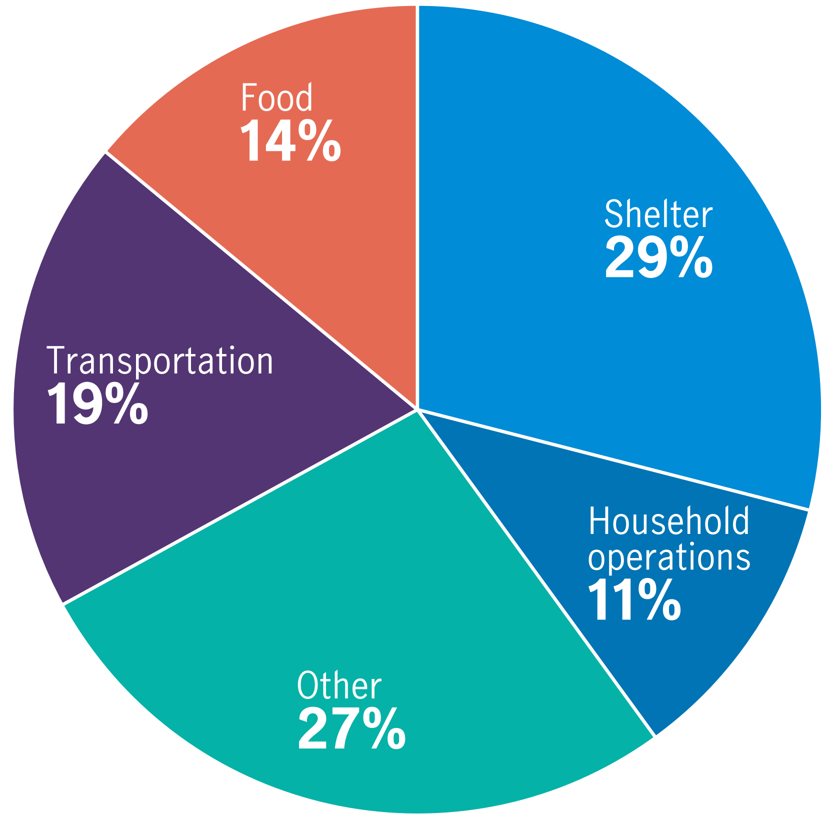
How much of your income goes toward your **housing costs?**

Over **40%** of income goes to housing costs*

Shouldn't your banking solutions be tailored to *reducing* these costs?



*Source: Statistics Canada: *2015, Household spending in Canada*
***Tradingeconomics.com: Canada Household Saving Rate 1981-2018*

Rate (in isolation)

- **There are 3 major components to mortgage freedom**
  1. Interest Cost
  2. Principal
  3. Time (amortization)

- **If you borrowed $100,000, which costs less?**

3% over 25 years

3.25% over 20 years

Rate (in isolation)

- You could save thousands in interest
- If you borrowed $100,000, which costs less?

3% over 25 years	3.25% over 20 years
$42,000	$36,000

- So why are mortgage owners fixated on the lowest rate?

Opportunity cost of reduced Flexibility

Without access equity, homeowners are forced to obtain and manage more costly financing

74% select a fixed rate...

<50% make it to maturity**

>25% Equity in home (88% of Canadians)

*MPC Dec. 2016: Annual state of residential mortgage market in Canada/**MoneySense: July 2016: Lower your IRD mortgage penalty

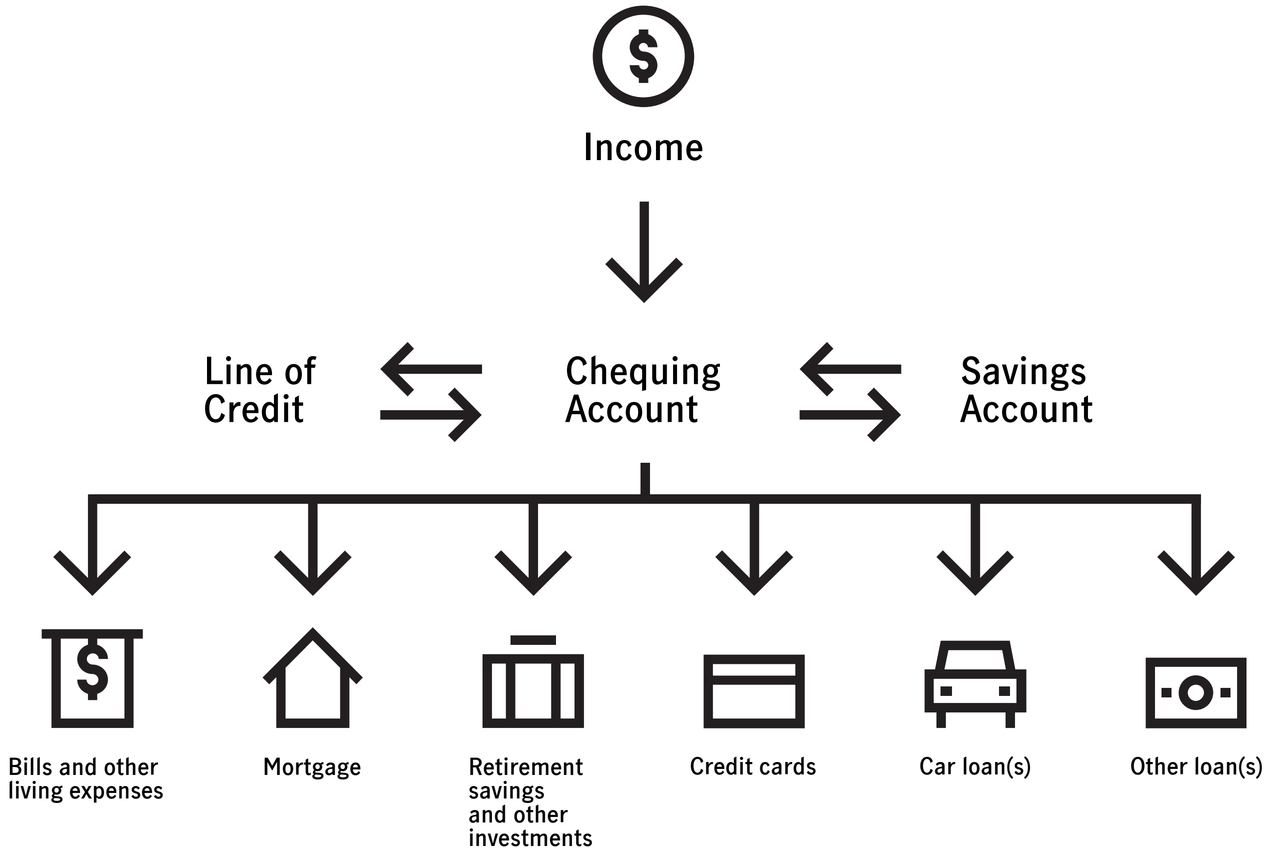
Why do you need to talk about debt?

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

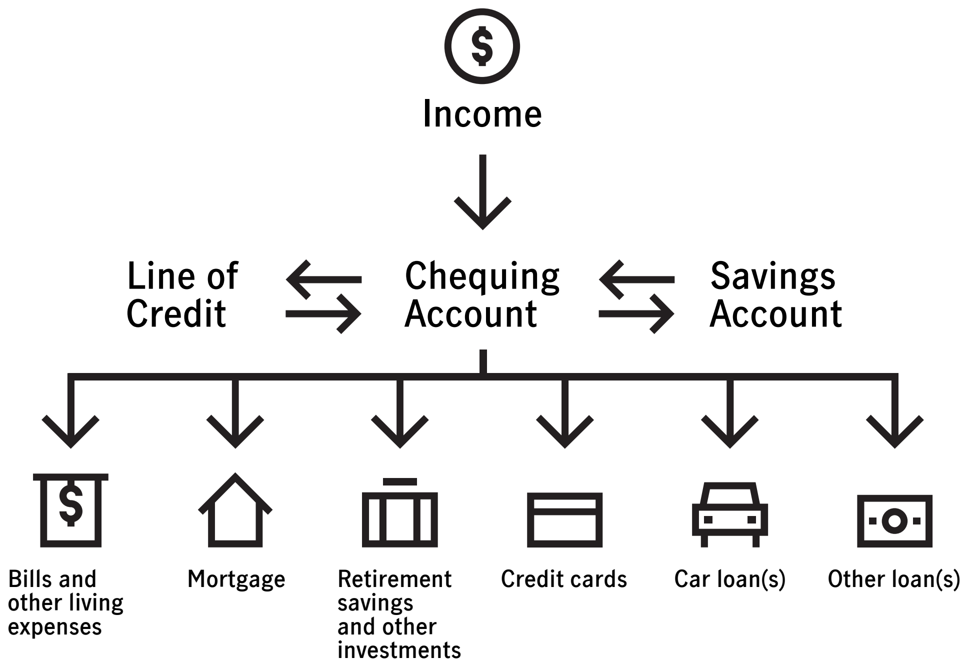
Today's banking is inefficient

Banks are in the business of making money... the way they sell financial products and manage employee performance can lead to sales cultures that are not always aligned with consumers' interests."

– FCAC commissioner Lucie Tedesco



Today's banking is inefficient – and expensive



1. You should be able to pay down your debt as fast as you want
2. Mortgages are about more than the rate
3. You should be able to access the equity in your home anytime

Unify debt to save interest with their current banking structure

Current debt	Outstanding balance	Interest rate	Monthly payment
Mortgage	**$200,000**	**3.8%**	**-$1,200**
Line of credit	$15,000	4%	-$225
Credit Card #1	$4,000	18%	-$110
Credit Card #2	$2,000	19%	-$65
Total Debt	**-$221,000**		**-$1,600**
Other monthly household expenses			**-$4,200**
Monthly household income (after-tax)			**$6,300**
Total surplus cash flow for financial plan			**$500**

For illustration purposes only.

Unify debt to save interest with their current banking structure

Unifying debt and savings	Balance	Payment
Current Debt:	-**$221,000**	
APPLY All savings accounts:	$10,000	
TOTAL Debt (Unified at 4.45%):		**-$211,000** -
Interest per month		**$785**
Monthly household expenses		-$4,200
Total monthly household income (after-tax)		$6,300
NEW surplus cash flow (old surplus was $500)		**$1,315**
Debt repayment		
Investments (RRSPs, TFSAs, etc.)		
Protecting wealth		

ADVISOR AND CLIENTS DETERMINE FINANCIAL GOALS

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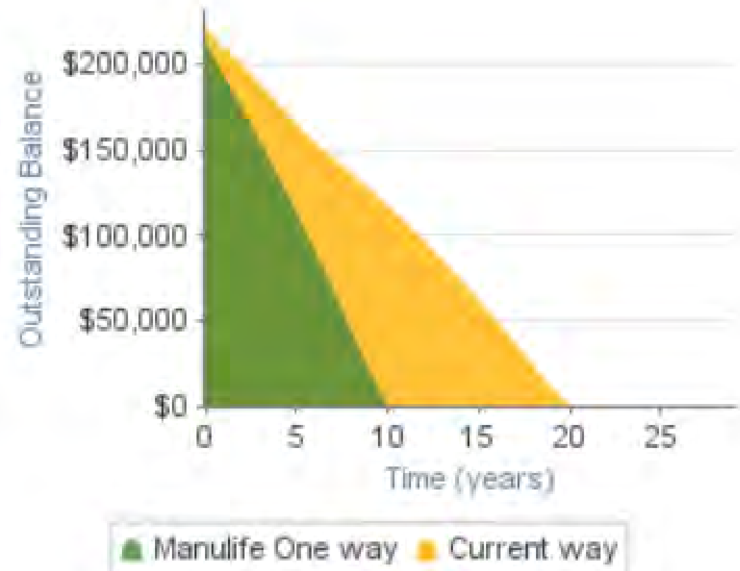
Your Manulife One number is: **$55,085**

Based on the information you provided, with Manulife One you could save **$55,085.15** in interest costs and be debt-free in **9 years, 10 months**.

That is **10 years, 0 months** earlier than with your current way of managing your finances.



A different perspective on how we treat real estate in retirement

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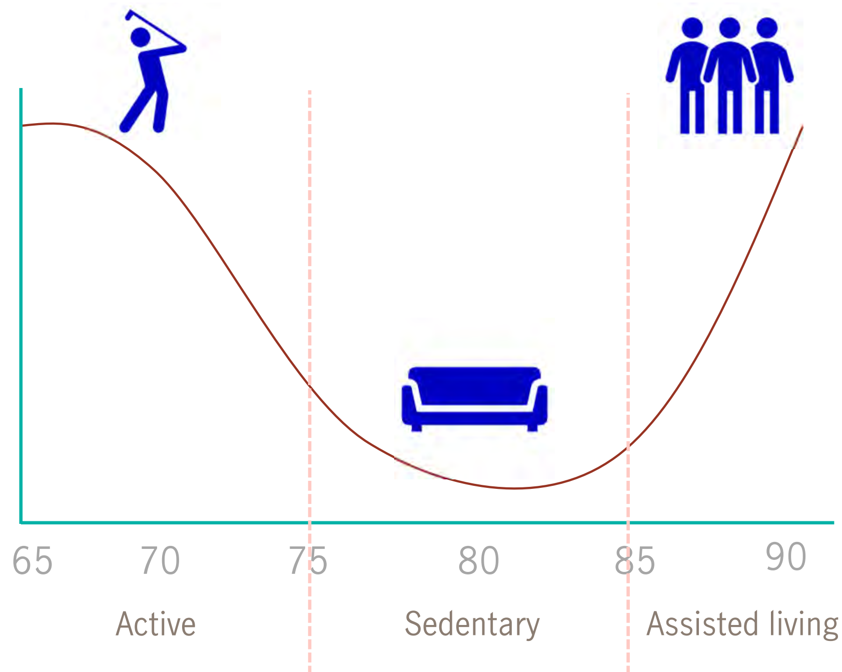
When you retire, what are your income sources?

- Government programs
- Personal savings
- Company pensions / Annuities / Private Pensions
- Corporate dividends
- Life insurance cash values
- Part-time employment income
- Inheritance, lottery, Other?

How well can your income support a "retirement smile"

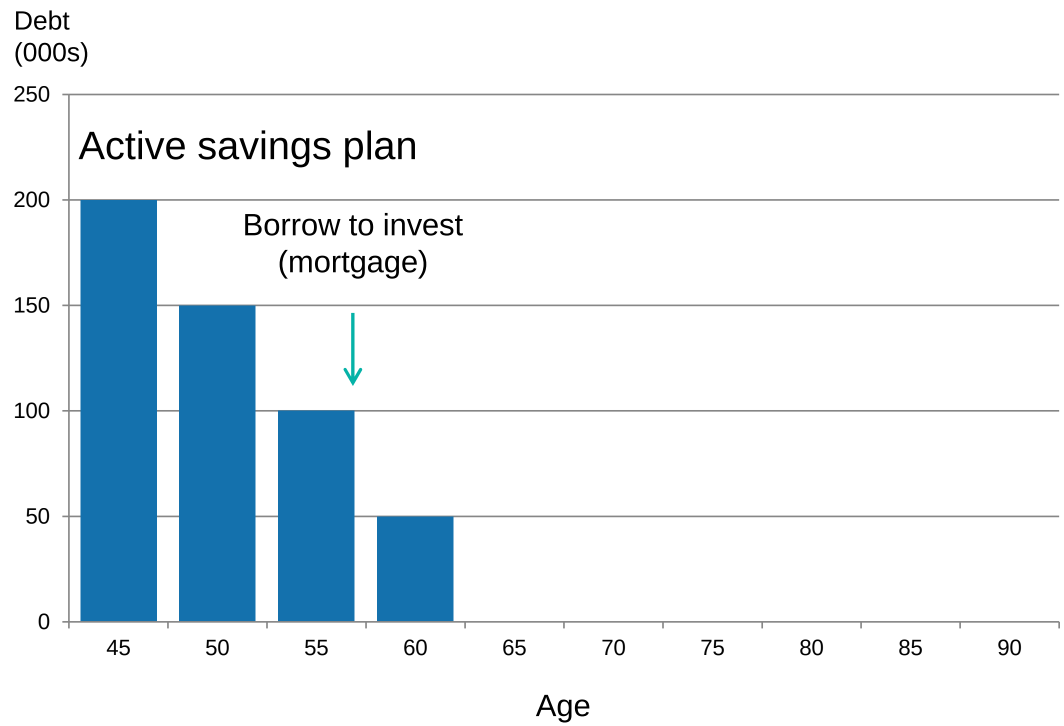


Consider your home as part of your retirement savings

Pre-retirement

- A “forced” savings account
- It’s tax efficient.
    - Unlike most investments, you don’t pay tax when selling your primary home
- Your home is a big part of your social life with family and your community

Home ownership as a savings vehicle



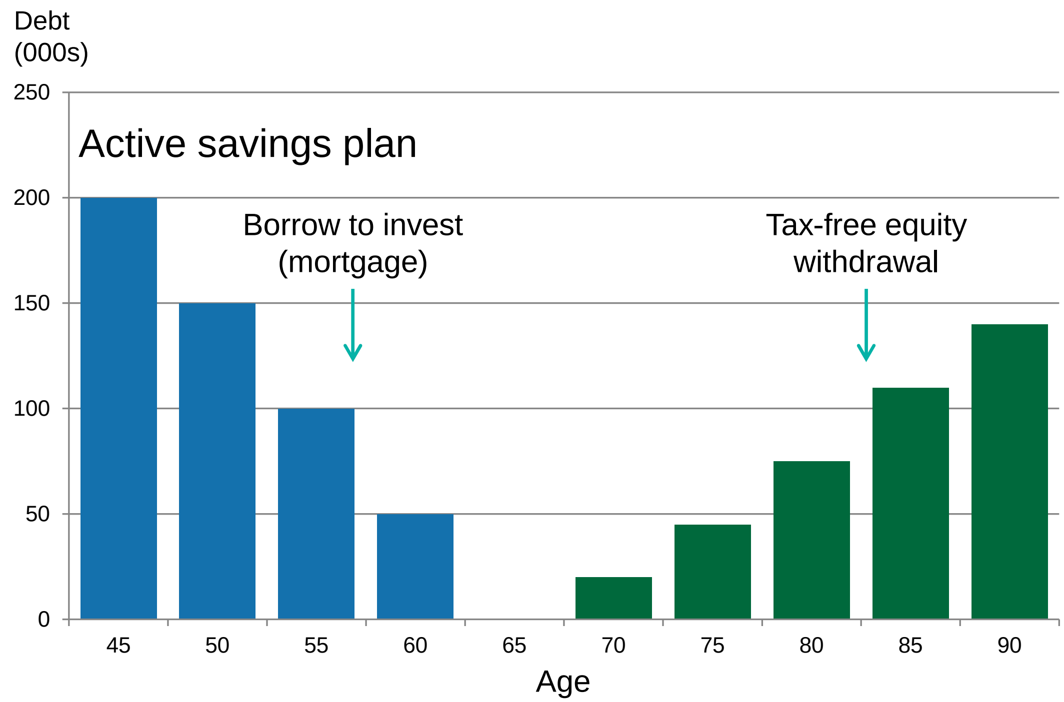
Retirement redefined

In retirement:

- Create tax-free monthly cash flow
- Help keep your investments (RRSPs/TFSAs, etc.) growing
- Be ready for financial surprises

Make real estate an active asset for life

Home ownership as a savings vehicle



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Fear of outliving savings results in making decisions you may not want to do

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Why are mortgage referrals good for your business?

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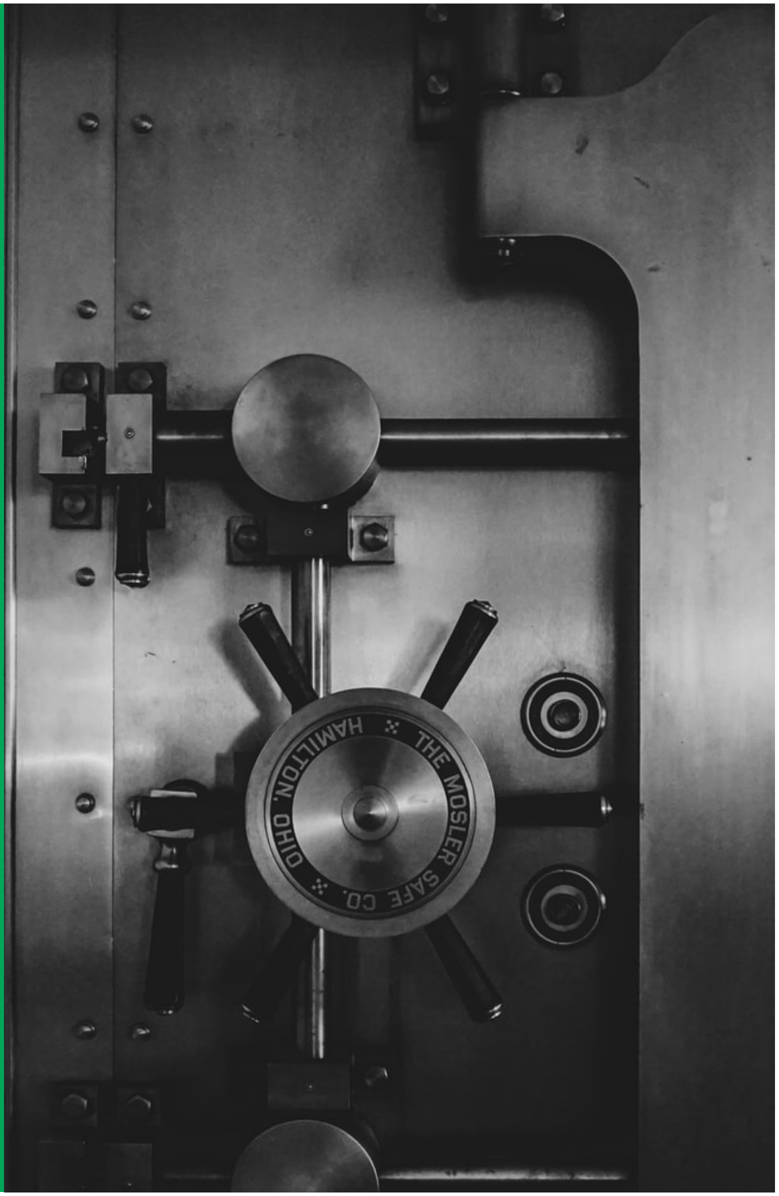

When lenders control the cash flow, it's tougher for **you** and **your clients** to get ahead

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Why are mortgage referrals good for your business?

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Grow assets
& influence faster

Be better prepared to weather market changes

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Home equity provides flexibility for large purchases and unforeseen events

For every $1 withdrawn, it could cost you:

RRIFs/Pensions
$0.20 to $0.54

Equities[†]
$0.10 to $0.27

These costs are based on how much tax* you may pay on investment withdrawals

Home equity withdrawals
$0.03 to $0.04

No tax but you pay interest on assigned line of credit

Lost opportunity cost:
Once withdrawn, it can no longer produce future income

Retirement dreams	Cost	RRIF withdrawal		Tax-free Home equity	
		Tax on withdrawal**	Lost opportunity cost: 4% growth for 10 years	Annual Interest Cost (4%)***	Cost of servicing interest for 10 years (4%)***
Mediterranean cruise	$12,000	$2,900	-$7,100	$480	$4,800
Kitchen renovation	$30,000	$7,250	-$17,900	$1,200	$12,000
Unforeseen events					
Car dies – needs replacing	$25,000	$6,000	-$14,900	$1,000	$10,000

[†]Equities reference in this illustration are non-registered *For illustration purposes only: Current combined federal and provincial marginal tax (Based on incomes between $12,000 to over $201,000). Borrowing rates for home equity lines of credit are typically Prime +1%. **Marginal tax rate is 24.15%. ***Annual line of credit cost is a variable rate of 4%.

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What if...?

The markets drop?

The roof starts to leak?

The car breaks down?

One of us gets sick?

We want to travel?

Our assets deplete too quickly?

The kids (or grandkids) need money?

Thank you

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Important information

Manulife Bank of Canada is a member of the Canada Deposit Insurance Corporation.

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