Retirement planning ‘gets real’ when you turn 50

GAIL JOHNSON
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With their mortgage paid off and no other debt, Greg and Jody Mathieson describe their financial situation as “fairly comfortable.” The residents of B.C.’s Sunshine Coast, who are 50 and 49 respectively, are on track to retire at 60, assuming they put aside significant annual savings from here on in. The avid cyclists are even contemplating closing the door on their consulting careers (his in engineering, hers in management) sooner if they can swing it. There’s just one nagging concern: What if they outlive their money?

“We worry about the money running out if we live for a long time,” Ms. Mathieson says. “We pride ourselves on being fairly thrifty compared to others when it comes to things like cars, clothing, eating out and new technology, but we do tend to spend on travel and have some significant charitable obligations. We struggle with balancing living for now – like taking a ski trip at Christmas – with saving for the future. We particularly struggle with trying to keep our monthly spending down so we can save more. We never seem to have as much saved annually as we’d like.

“Our biggest financial concern is having enough for retirement, particularly for an early one,” adds the mother of one. “With no pension, we have to plan for the worst-case scenario – living to 100.”

Those in their 50s and early 60s all tend to ask the same question: Will I have enough to live on once I retire?

“For many people, the early 50s seems to be an age when retirement gets real for them,” says Regina fee-for-service financial planner Bruce Q. Thompson, with Money Coaches Canada. “It seems to go from being an item on the wish list to being an item on their long-range calendar. About three seconds after retirement gets real for them, the most common concern by far is will they have enough? Will they be okay?”

Interestingly, this concern transcends socioeconomic status, Mr. Thompson notes: “The physicians have the same concern as the bakers,” he says. “Their expectations for their retirement are likely quite different, but the concern is the same.”

Whether their kids have fled the nest or returned home again, members of this demographic typically want to learn more about the Canada Pension Plan and whether

they should take it early, Mr. Thompson says, as well as about Old Age Security and the related clawback. It's also extremely common for people in this age range to start paying more attention to their investments. Could we be doing better? Are we taking on enough risk? Are we taking on too much risk? Should we be making changes given the current market volatility?

"Many do not realize that the answers to these questions are not found by studying the stock and bond markets or the economy or the world's geopolitical instability; the answers to these questions are best found by answering the question: What rate of return do you need on your investments in order to accomplish your goals? That rate of return can only accurately be arrived at by going through the financial planning process," Mr. Thompson says.

"The most important thing that is often overlooked in this age group is having a comprehensive financial plan," he adds. "Many consider their investments and/or their RSP [retirement savings plan] to be their financial plan. That's a bit like saying that the lumber stacked on your new lot is your new home. A financial plan includes an investment strategy as one of its elements but is certainly not limited to just an investment strategy."

So what else would a comprehensive plan include? To begin, it would encompass a thorough assessment and documentation of people's current financial position with respect to present and expected future income, assets, debt, insurance policies and estate planning (wills, health-care directives and power of attorneys). It would also feature a detailed assessment of how they currently spend their money.

"This is to identify if any funds are falling through the cracks that could be put toward their goals," Mr. Thompson says. "It also provides an excellent starting point from which to determine what their retirement cash-flow needs will be rather than simply using a rule of thumb, like 70 per cent of preretirement income."

He also suggests people scrutinize their investment portfolio to assess its tax-efficiency and associated fees, and whether the overall asset mix is appropriate for their financial situation and the timing of their future cash-flow requirements.

Other strategies include analyzing insurance needs (including whether they're overinsured) and paying off debt – which Mr. Thompson describes as the "original tax-free savings." It's a move that financial experts all agree on.

"Ideally you would want to head into retirement with no debt," says Assante Wealth Management certified financial planner Tina Tehranchian, who's based in Richmond Hill, Ont. "In reality, more and more Canadians are having trouble paying off their mortgages and debts before retirement. A CIBC poll conducted by Harris/Decima in 2012 revealed that nearly 60 per cent of retired Canadians hold some form of debt.

“Proper financial planning ensures that disciplined pay-down of debt and accumulation of wealth in the years leading to retirement will result in the buildup of a sufficient nest egg heading into retirement years,” she says. “Given the historically low interest-rate environment we’re in, this is an ideal time for paying down debt, as a bigger proportion of your mortgage payment can be applied toward principal than if interest rates were higher.”

Taking on even more debt in your 50s and 60s is a definite no-no. “The risk of carrying debt into retirement is that you will be living on a fixed income, and if interest rates rise, you’ll be faced with the rising expense of servicing your debt at higher interest rates, which can severely impact and lower your standard of living,” Ms. Tehranchian says.

Long-term tax planning is an area that people often overlook, specifically “the ticking time bomb of capital-gains taxes and taxes on RRSPs and RRIFs [registered retirement income funds] on the second death [in a couple], which can seriously shrink one’s estate,” Ms. Tehranchian says. With proper planning, she says it’s possible to reduce or even eliminate taxes on death.

“One such strategy is purchasing joint last-to-die life insurance that would pay a death benefit on the second death when the ultimate estate taxes are payable,” she says. “This type of policy is much more affordable the younger and the healthier the couple are.”

Another factor that people tend to play down is the very real possibility of needing long-term care. It’s a potentially exorbitant expense that needs to taken into account.

“While most people think the biggest risk they face in retirement is market risk, the risk of needing long-term care and the cost of this type of care can rapidly deplete a retirement portfolio that may have seemed adequate otherwise,” Ms. Tehranchian says. “Proper financial planning and risk management would help protect against the risk of needing to provide for home or facility care during retirement years.”

If all of these financial considerations seem daunting for fiftysomethings, Mr. Thompson reminds that it’s never too late to starting making smart money moves that will have long-term benefits.

“This is the ideal age for people to start organizing their ducks, when there is still time to make meaningful changes to what they’ve been doing, if necessary,” he says.