

How advisors can help clients live for today but still save for tomorrow

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Advisors can help retirees draw up a financial plan based on conservative projections, such as a lower-than-expected return on investments, higher-than-expected living costs and living to age 100.

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Many Canadians, especially retirees, want to use their money to live life to the fullest, but they also want to save and invest for what could be a lengthy period.

This push-pull brings an important role for financial advisors, who can help clients achieve the delicate between making the most of the time they have left and making their funds last.

“It’s difficult for retirees to enjoy life to the fullest if they’re not confident that they have enough money,” says Warren MacKenzie, head of financial planning at Optimize Wealth Management in Toronto.

He says advisors can help retirees draw up a financial plan based on conservative projections, such as a lower-than-expected return on investments, higher-than-expected living costs and living to age 100.

“If the plan shows that they’ll never run out, even with these negative assumptions, then they’ll feel free to enjoy retirement without financial worries,” Mr. MacKenzie says, noting that in his experience, about 90 per cent of the retirees’ financial anxieties are unjustified.

“With the proper financial information, they’ll not waste their good years worrying unnecessarily,” he says. Meanwhile, if the plan shows they might run out, “it will also show them what to do to avoid that.”

Mr. MacKenzie says clients should calculate the “essential capital” needed to maintain their desired lifestyle and achieve their goals, including exactly what they want to leave to heirs. The rest is “surplus capital,” which can be used to live a better lifestyle, given out as “inheritance advances” or donated to their favourite causes.

Rory Tufford, investment advisor and portfolio manager at CIBC Wood Gundy in Toronto, says many people view retirement as a finish line, “or as a sort of end game.” They should instead be encouraged to see it as a new beginning or chapter.

“If properly planned for, retirement can provide the freedom to do things that weren’t available while working, such as travel, hobbies and spending time with friends and family,” he says.

People should envision life in retirement, Mr. Tufford says, noting that it isn’t a static state but has different stages, needs and costs. For most retirees, giving up their ability to earn an income removes a “security blanket” during times of uncertainty.

He creates a personally tailored financial plan to project liquid assets and net worth over time, examining spending at various ages and time periods, including “what if?” scenarios.

“It helps answer the question of how much risk to take in a portfolio and what type of investment returns are needed to achieve retirement goals,” he says.

People have peace of mind knowing they can take a dream trip or help a child buy a first home “without sacrificing their retirement lifestyle.”

Such a plan typically runs to age 100, although once the client hits 80, the projection is extended to 110. “It’s better planning too far out than too short,” Mr. Tufford says.

“Ultimately, we are trying to create an investment portfolio that allows clients to sleep at night and ... allows them to continue to live the life they envisioned,” he says.

Barbara Knoblach, a certified financial planner at Money Coaches Canada in Edmonton, says the retirement push-pull “is a question everybody is struggling with to some extent.” It begins at an early age and revolves around the conflict between immediate and delayed gratification.

“The current pandemic may have brought it more into focus as people realize that neither today nor the future is guaranteed to any of us,” she says.

The COVID-19 crisis has some people “trying to live life to the fullest right now, as tomorrow may never come,” Ms. Knoblach says, while for others it reinforces the tendency to deprive themselves.

She identifies into which part of this spectrum a client falls and then incorporates retirement saving into a holistic cash-flow plan that “suits their personality and preferences.” This means they have the best chance of adhering to it.

Ms. Knoblach tells clients to “hope for the best but prepare for the worst” and not to let today’s wants overrule a reasonable retirement preparation. She gets nervous when clients tell her they don’t expect to live long or they plan to spend less in retirement. Indeed, she’s observed that young retirees “may actually end up spending more than when they were actively working.”

Ms. Knoblach considers her role to be a “sounding board” for clients, providing guidance in their financial decision-making and monitoring their progress. The biggest challenge for people is sticking with a plan over the long run.

“Having a trusted advisor to speak to and bounce ideas off of can make a huge difference,” she says.

Meanwhile, Mr. MacKenzie says that when retirees don’t have a proper financial plan, they assume that they’ll be better able to deal with future problems if they just don’t spend their money.

“But there is a hidden cost to saving money to protect against every imagined and possible risk,” he says. For example, people forego the opportunity for “more travel and drinking better wine,” and they can’t enjoy helping their kids or charities while still alive. There could also be more income tax and probate fees to pay, increasing the probability that their heirs will quarrel over an overly large estate.

Mr. MacKenzie says advisors can also help clients separate financial and emotional issues, like selling the family cottage.

“With a proper financial plan, it will become clear whether or not the retiree can afford to do what is being considered and what the long-term financial ramifications might

be,” he says. “Then, the retiree can take the financial issues off the table and focus on the emotional side of the equation.”