Catch up at any age

If you feel left behind, take heart. A few simple moves can put your finances back on track

Marianne and Thomas Robinson spent much of their 30s living the good life in Ottawa. Marianne made good money as a massage therapist; Thomas prospered as a graphic designer. Money was abundant and the Robinsons enjoyed nice vacations and frequent shopping expeditions.

Then the couple (we've altered their names and some personal details) moved to Vancouver in search of a West Coast lifestyle and mild climate. They had bargained on a slow period as they established themselves in a new locale, but as the months shuffled onward, customers failed to appear and they grew nervous. The birth of their daughter Lydia filled them with joy, but also with frustration. How would they pay for the added expenses of a child? How could they find time to care for Lydia and simultaneously grow their businesses? With incomes languishing, the Robinsons resorted to living off their credit cards. Marianne, now 38, and Thomas, 43, soon owed $40,000. They felt angry and desperate. They wondered if they might need to declare bankruptcy. "It was a struggle," recalls Marianne. "When you're in that situation it seems like there's no light at the end of the tunnel."

Sound familiar? Many of us feel just as left behind as the Robinsons. We figure that by our mid-30s we'll be well on the road to financial success and by our mid-50s we'll be rolling in money. But reality is not nearly so generous. The median net worth of a Canadian household headed by somebody under 35 is less than $30,000—barely enough to buy a minivan. By the time you hit 55, you're doing better than average if you've paid off your house and accumulated more than $65,000 in RRSP savings.

It doesn't require much of a setback to derail your progress toward even those modest achievements. At 40, the struggle to simultaneously establish a career, start a family and buy a home can defeat even well-intentioned, well-educated couples such as the Robinsons. At 50, a job loss or a marriage break-up can wipe out a ➤

BY DAVID ASTON / PHOTOGRAPHY BY FREDRIK BRODEN couple of decades of savings. At 60, an underperforming stock portfolio or a simple lack of savings can make retirement look like a looming disaster. That leaves many of us asking, "How can I catch up?"

To get an answer to that question, we've quizzed financial advisers and money experts across Canada. Our key finding? No matter what age you are, there are plenty of tactics you can use to help you achieve financial success and a happy retirement. "Where there's commitment, there's lots of hope," says Nancy Zimmerman, a money coach in Vancouver, who helped Marianne and Thomas Robinson with their catch-up strategy. Read on to find out how you, too, can put your financial progress on fast forward.

THE BIG FOUR-OH-OH

If you're in your 30s or early 40s and feel that you're making no headway financially, your first impulse may be to berate yourself for being a failure. You shouldn't. "Treading water" is what Sheila Walkington, a Vancouver financial planner and money coach, calls this stage of life. Between the cost of buying a home, starting a family, paying off student loans, contributing to RRSPs, and covering day care, most couples have to paddle as hard as they can just to keep their heads above water.

Rather than fretting over the savings you don't have, it helps to look at the net worth you do have. Your net worth is the value of all your assets minus all your debts. According to Statistics Canada figures from 2005, updated by *MoneySense* estimates, Canadian families in which the major income earner is 35 to 44 have accumulated a median net worth of $160,000. Yes, that amount spans everything that both you and your spouse own. It includes the equity you've built up in your home, as well as cars, company pensions and, of course, your savings—by which we mean RRSPs, investment portfolios and any cash in the bank. Truth be told, though, you're typical of people in this age bracket if you have very little in the way of savings. (In fact, the median value of RRSPs for families in this age bracket is only $25,000.) If you're like most thirty- or fortysomethings, your net worth mostly reflects the equity you've built up in your home.

How well you stack up in the net worth sweepstakes is likely to depend on when you bought your home. If you're fortunate, you jumped into the real estate market a decade or more ago in a city such as Calgary, Saskatoon or Toronto. Prices have soared since then and your equity has shot up as a result. But if you're not so fortunate, you recently bought a home in one of those expensive cities and are struggling under the weight of a huge mortgage.

The good news is that such accidents of timing tend to even out over the long haul. Your most important asset at this stage of life is simply time. At 40, you still have 25 years to normal retirement age. And that gives you plenty of chances to get your financial house in order. Here are five strategies that can help.

Look for easy savings Most families in their 30s and 40s feel that every penny is already stretched to the limit. But if you look hard enough, nearly everybody can find at least $100 to $200 a month in relatively painless savings—and those savings can go a long way to building up your retirement nest egg.

You say it can't be done? We've listed 10 good starting points in *How to save $1,000 a year* on page 38.

Pay yourself first This simple strategy, made famous by David Chilton in *The Wealthy Barber*, takes the tedium out of saving.

"We felt like we had this secret—we weren't cutting it in life. But now we're moving ahead"

Rather than trying to budget your every expenditure and put away what's left over, you begin by figuring out how much you want to save. You then set up an automatic withdrawal plan at your bank. The automatic withdrawal whisks your desired savings out of each paycheque before you get your hands on the money. It deposits your savings in a mutual fund or a high-interest savings account. You're free to spend what's left over, without worrying about whether you're sticking to your budget.

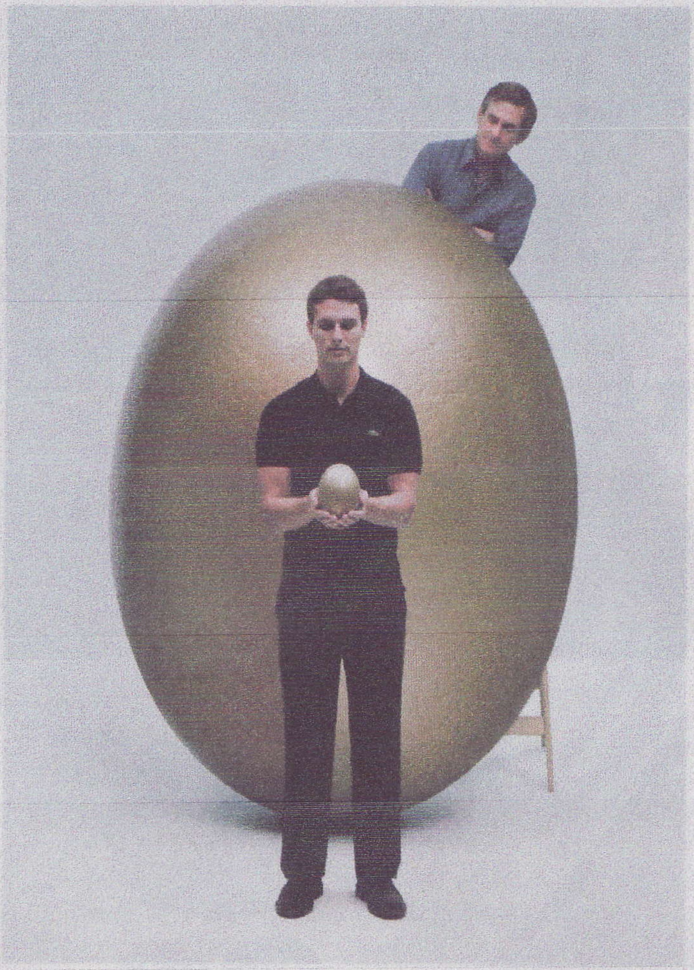
Live below your means Big promotions mean nothing to your bottom line if you spend your raises. So make it a habit to save at least half of any pay increase that you receive. When your income rises again, keep saving the earlier amount as well as half of the new increase. Do this and you'll soon be saving 10% of your income without even noticing it.

Practice premeditation Impulse purchases can eat up your paycheque. So put brakes on those purchases. Refuse to buy anything over $100 on the spot. Force yourself to go home and think about it for at least a day. Get a second opinion from your spouse on purchases over $250. While you're at it, comparison shop online and see if there's a better deal or a better product available elsewhere.

Ask for the money It's okay to devote your early career to building a reputation and gaining experience. However, by 40 you should be seeing the payoff from all that career building. Make sure you know realistic wages for your position—professional associations and recruiters often track those figures—and if your pay is below the market average don't be afraid to ask for a raise. If a raise isn't forthcoming, seek honest feedback from your boss and work at improving your shortcomings. If all of that doesn't work, it may be time to explore a new line of work.

The Robinsons had to make some hard choices to get back on track. First, they managed to reduce their spending by $200 to $300 a month by cutting back on things such as eating out at restaurants and buying expensive coffee at coffee shops. Then they looked for ways to boost their incomes. Marianne concluded that her involvement in a holistic medicine partnership wasn't paying off and found more success striking out on her own. Meanwhile, Thomas found a new source of income: teaching an evening course.

With the help of money borrowed from family, they bought a house with a rental apartment in the basement that allows them to carry a mortgage for not much more out of pocket than they were paying in rent. They added to the value of their house by renovating and doing much of the work themselves. And they've paid down their consumer debt from $40,000 to $10,000. "It feels really good," says Marianne. "Before we felt like we had this secret—we weren't cutting it in life, we were struggling," she says. "Now we're doing okay. We're moving ahead." ➤



"A lot of people feel that they have no control over whether they get a pay raise. But you do"

FIFTY BUT NOT SO NIFTY

If you're feeling left behind at 50, take heart. You have a lot of things going in your favor. Your 50s are prime earning years. They also tend to be years in which your other spending needs start to subside. The day-care costs and other child-rearing expenses that weighed you down in earlier years tend to dwindle as kids grow older and move out of the house. The end of your mortgage may also be in sight. And you've still got more than a decade to bulk up your retirement savings.

Chances are that you're doing better than you think you are. The median net worth of families with a principal breadwinner 45 to 54 is about $265,000, according to StatsCan data for 2005 updated by *MoneySense* estimates. Most of that total reflects the equity built up in your home. Savings are still relatively modest—while seven out of 10 families in this age bracket have RRSPs, the median amount of those RRSPs is only $45,000. So if you don't have a bulging bank account or huge investment portfolio by your 50th birthday, don't get discouraged. Few people do.

The strategies we discussed for 40-year-olds can help you make the most of what you have. And these additional tactics can put your savings into overdrive.

Give yourself a raise If you buy something worth a dollar, you're actually spending far more than a dollar of your income. How's that? Well, on most purchases, you have to count on paying the federal Goods and Services Tax or equivalent. In provinces other than Alberta, you'll also be hit up for sales tax. On average, that means that you must have $1.10 or so in your wallet to make your $1 purchase. And let's not forget that the $1.10 that you're handing over to the cashier is paid out of your salary after income taxes. If you're a typical middle-class or upper middle-class Canadian, you probably had to earn about $1.50 before income tax to generate that $1.10 after income tax. So that $1 purchase you just made is actually eating up $1.50 of your before-tax income.

Depressing, isn't it? But there's a more optimistic way to look at things. Just reverse the math above. It turns out that every dollar that you don't spend is the equivalent of earning an extra dollar and a half. If you can avoid spending $1,000 a year, you've given yourself the equivalent of a $1,500 pay increase.

The easiest way to give yourself a whopping raise is to look for ways you can do things yourself, rather than hiring someone else to do them for you. Paint your own house, cook your own steak, cut your own lawn and build your own deck, and you've awarded yourself the equivalent of several thousand dollars in extra salary.

Walkington, the financial planner, says she worked with one couple who was spending $400 a month on dog walkers. "To me it was frivolous, but to them it was important," says Walkington. She explained to her clients that the amount they were spending on dog walkers was sufficient, in itself, to fund a decent retirement. Finally, the couple relented and started walking their dogs themselves.

It's not old, it's vintage Hey, you're getting bit older, so why shouldn't your possessions? Another way to bulk up your dollar line is simply to make a point of keeping possessions longer, rather than replacing them with every shift of fashion. Keeping a Honda Civic EX for 15 years instead of buying a new model every five years can put $20,000 in your bank account, according to *Consumer Reports*. Waiting a year or two before buying the latest computer or iPod will usually save you at least 20% off the prices paid by early adopters.

Seize the opportunity Chances are that you will finish paying off your mortgage at some point in your 50s. That's a huge achievement—and it can provide you with a golden opportunity to redirect what you've been paying on the mortgage into your RRSP and other retirement savings. Do that for a few years and the results are eye-popping. Take the case of a 55-year-old who has an RRSP worth only $50,000. If she is paying $10,000 a year in mortgage payments, and finishes paying off her mortgage on her 55th birthday, she can realistically plan to quadruple her savings to $200,000 at 65 simply by redirecting into her RRSP what she used to hand over to her bank in mortgage payments.

Get real about investing Of course, to get good results from your portfolio, you have to be realistic about the stock market. Many fiftysomethings try to catch up in one big swoop. They bet their accumulated savings on a single hot stock or business opportunity. By and large, this is not a good idea. Remember the painful math of ➤

high-risk investing: if you lose half of your money, you have to double what's left to simply get back to where you started.

A better way to make up lost ground is to bump up your investing returns by cutting unnecessary fees. You can see one method for doing this by visiting www.moneysense.ca and looking at our Couch Potato portfolio. But the same cost-cutting notions can be applied in many ways. Simply moving to low cost mutual funds and avoiding unnecessary trading can easily reduce your investing fees by a full percentage point a year. If you have a $100,000 portfolio, that means you can add $10,000 to your bottom line over the next decade—without doing a minute of extra work.

Recharge your career If you've been in your job a long time, you may feel stuck in a rut. If that's the case, you're probably not getting great raises. Look for ways to take on new roles and responsibilities. Volunteer for assignments. Consider applying to internal postings for other positions, even if those new positions are at the same level as your current job. Offer to share the benefit of your experience freely with your colleagues. At this advanced stage in your career, you may not want to consider jumping to a new employer, but you should be prepared to do so if the opportunity is clearly better.

Being realistic about your work demands the courage to face up to the facts. A 49-year-old Vancouver woman we'll call Diane Newman was 40 when she realized that the tiny marketing agency she had founded five years previously was simply not going to turn into the success she had hoped. "The business was not financially viable and it takes a while to come to that realization because you have a lot of ego invested," she says. Newman had accumulated about $7,000 in debt and taxes and had no money to pay. "It was incredibly stressful," she says. "I had sleepless nights."

With the help of Sylvia Lim, a Vancouver financial planner and author of *Finances After 55*, Newman developed a catch-up plan. She shut down her business, landed a better paid job as an employee, set up a multi-year plan with Canada Revenue Agency to pay her back taxes, and reduced her spending. "Facing up to that situation and having a plan gave me incredible relief," she says. She became devoted to bargain-hunting and buying staples in bulk.

In the nine years since facing up to reality, Newman has significantly increased her income and has gone from owing money to having a positive net worth. She works hard at being valuable to her employer, has negotiated good raises and has changed employers twice to get ahead. "A lot of people think getting pay increases is beyond their control," she says. "But you have a lot more control over it than you think."

SIXTY AND OUCH

Maybe it was a bad investment, or a nasty divorce, or simply the financial challenge of raising your family, but it's not uncommon for people to hit 60 and realize they have little saved for retirement. "You have five years to get a grip," says Walkington, the planner. "It's about managing expectations. What is it going to cost in retirement? Am I willing to do those things? If not, what's the second best choice."

It helps to put things into perspective. The median net worth for families with major income earner age 55 to 64 is $450,000, according to Statistics Canada figures for 2005 with subsequent increases estimated by *MoneySense*. Some 77% of people in this age group live in their own home and those homes have a median value of $220,000, but four out of 10 homeowners are still paying off their mortgage.

At this stage of life, much of your financial well being is likely to be determined by whether you're fortunate enough to be covered by an employer pension plan. Only about 60% of families in the 55 to 64 age group enjoy a company pension, but among those who do, the median value is $260,000. A company pension is by far the single biggest asset for many of these families.

If you don't have a company pension or a paid-off house, it's time for action, but not for panic. No matter where you are now, these three tips can put you on the track to a decent retirement.

Know the numbers Conventional wisdom says you'll need 60% to 70% of your pre-retirement income to live comfortably after you finish working. Do the math and it's easy to conclude that you have to accumulate a million dollars in savings simply to make ends meet in old age.

Fortunately, those numbers should be taken with a large grain of salt. Yes, if you want to travel extensively, golf every day and maintain a second home, you may need a million-dollar investment portfolio. On the other hand, if you simply want to go on living much as you are now, you need far less. Malcolm Hamilton, an actuary at Mercer, a Toronto benefits consulting firm, says most Canadians who retire at 65 need to replace only about 50% of ➤

HOW DO YOU STACK UP TO OTHERS YOUR AGE?

AT ABOUT 40 YEARS OLD
CANADIAN FAMILIES WITH MAJOR INCOME RECIPIENT AGE 35 TO 44:

- Median net worth: **$160,000**
- Percentage who own principal residence: **68%**. Median value: **$240,000**
- Percentage of homeowners with a mortgage on residence: **81%**. Median value owed: **$115,000**
- Percentage with RRSPs: **63%**. Median value: **$25,000**
- Percentage with employer pension plan: **48%**. Median value: **$35,000**

AT ABOUT 50 YEARS OLD
CANADIAN FAMILIES WITH MAJOR INCOME RECIPIENT AGE 45 TO 54:

- Median net worth: **$265,000**
- Percentage who own principal residence: **74%**. Median value: **$225,000**
- Percentage of homeowners with a mortgage on residence: **60%**. Median value owed: **$90,000**
- Percentage with RRSPs: **68%**. Median value: **$45,000**
- Percentage with employer pension plan: **52%**. Median value: **$120,000**

AT ABOUT 60 YEARS OLD
CANADIAN FAMILIES WITH MAJOR INCOME RECIPIENT AGE 55 TO 64:

- Median net worth: **$450,000**
- Percentage who own principal residence: **77%**. Median value: **$220,000**
- Percentage of homeowners with a mortgage on residence: **39%**. Median value owed: **$70,000**
- Percentage with RRSPs: **69%**. Median value: **$65,000**
- Percentage with employer pension plan: **60%**. Median value: **$260,000**

Source: Statistics Canada, *Survey of Financial Security 2005*, with subsequent increases in value estimated by *MoneySense*

HOW TO SAVE $1,000 A YEAR

WANT TO BOOST YOUR SAVINGS WITH A MINIMUM OF PAIN? HERE ARE 10 GOOD PLACES TO START.

1. Cut out—or cut back on—restaurant meals and expensive coffees. One less latte a day can put $900 more in your pocket over the course of a year.

2. Brown bag your lunch twice a week. Assuming that you can make a lunch at home for $3, while a restaurant lunch would cost you $8, this habit alone can save you $500 over the course of a year.

3. Switch to an ING, President's Choice or other high-interest savings account. You can make 3% or more on your savings a year, rather than next to nothing, which is what most standard bank accounts pay.

4. Raise the deductible on your car and home insurance. You're not going to claim for small stuff anyway and choosing a $5,000 rather than a $500 deductible can slash your insurance costs by as much as 40%.

5. Buy a cheaper car. Better yet, reduce the number of cars you own. According to the Canadian Automobile Association, an average car driven for a moderate number of kilometres will cost you about $10,000 a year when you factor in the cost of the car, gas, insurance and repairs. So going from two cars to one could solve your financial problems in a single step.

6. Don't buy extended warranties on relatively inexpensive products such as cameras or microwave ovens. Most extended warranties cost far more than you will pay on average for repairs. The only time an extended warranty makes sense is if the cost of fixing a product would devastate your budget.

7. Turn down unnecessary insurance. It makes no sense to take out life insurance policies on your kids. Most accidental death insurance is also a waste—it covers you only in the extremely unlikely event that you die from one of the accidents stipulated by the policy. It's far smarter to buy life insurance that covers you no matter what the cause of your death.

8. Speaking of life insurance, do yourself a favor and avoid whole life policies. Term policies, which cover you for a set period, such as 10 years, are far less expensive. An insurance broker can help you compare products from many companies.

9. Get a better credit card. Several cards, including the TD Gold Select Visa and the President's Choice Platinum MasterCard, charge no annual fee and offer lots of nifty extras. You can compare cards by visiting the Financial Consumer Agency of Canada (www.fcac-acfc.gc.ca) and searching for "credit cards."

10. Lower your investment costs. Most Canadians pay way too much for investing advice. If you have a $100,000 portfolio invested in a typical array of high-cost mutual funds with 2.5% management expense ratios, you're paying $2,500 a year for investing advice—even though most actively managed funds don't keep up with the market. Switch to low-cost index funds and you can easily save $1,500 a year. (For more on how to do this, visit moneysense.ca and check out our Couch Potato portfolio.)

their pre-retirement income to enjoy a comfortable retirement.

Hamilton says you will be able to get by on 50% of your working income because you will no longer have many of your current expenses in retirement. Your kids will be raised, your mortgage paid. You will no longer be saving for retirement and, because your income will be lower, you'll be playing less in tax. "You have a whole bunch of expenses in midlife you don't carry into retirement," says Hamilton.

The government money that you will receive in retirement can go a long way to covering your retirement expenses. Canada Pension Plan (CPP) and Quebec Pension Plan (QPP), as well as Old Age Security (OAS), pay seniors a maximum of about $16,600 a year, or about 37% of the median earnings of Canadians employed full-time, based on Statistics Canada income figures from 2005 with an adjustment for subsequent inflation. For the average wage-earner, that is a good start on the way to reaching Hamilton's 50% target. In fact, typical Canadians who retire at 65 and live at their pre-retirement lifestyle don't need the huge nest eggs often advocated by financial advisers, says Hamilton. "If an average Canadian couple had $200,000 each and retired at 65, they would be fine in the sense of living at the modest standard of living they had most of their working lives," he says.

Plan a second career If you're unwilling to live on what government hands out, you can always supplement your retirement income by working, preferably at something you enjoy. One client of Walkington's works part-time as a ski instructor. Another works at a building supplies store.

Take stock At 60, it's time to get your finances in shape for retirement. Debt of any kind is bad—you don't want to be struggling to pay off your mortgage on a limited income. Risk, too, should be avoided. As you near 60, consider reducing the proportion of stocks and increasing the level of GICs or bonds in your portfolio to cushion you against the risk of a big drop in stock markets around the time you retire. As a general rule, you should put 40% to 60% of your portfolio in bonds and GICs, although a lower proportion can work if you expect to receive generous amounts of fixed income from a company pension plan. Keep the remainder of your money in a diversified mix of stocks, ideally held through low-cost mutual funds or exchange-traded funds (ETFs).

Theresa Chou, a 62-year-old hairdresser in Vancouver, had to overhaul her life to get her own retirement plan in order. She had raised two children as a single parent and had managed to buy a condo with a small down payment about seven years ago. While she benefited from the subsequent run-up in Vancouver condo prices, she wasn't able to cover her mortgage payments out of her income and was accumulating mounting debts. As she looked at her finances, it was clear that she had to take action before her debt spiraled out of control, so she sold the condo three years ago. "The hardest part was to sell my condo," says Chou (whose name we've changed). But doing so enabled her to pay off all her debt and put away a bit of money.

With the help of Walkington, she has learned to budget effectively. That and a frugal lifestyle has allowed her to save at least $300 a month on a modest income of about $30,000 a year. Her total savings now stand at about $75,000 and she is looking for ways to augment that bankroll. She started making jewelry as a hobby and is now selling to local stores. Her hope is to continue making jewelry part time past 65 to supplement her savings and government pensions. "I may never be on Easy Street. But I certainly feel that I will be able to support myself." M