Close to retirement? Don’t panic, say financial experts

By ELAINE SMITH SPECIAL TO THE STAR
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As Canadians watch the stock markets tumble, many people are panicking, and none more so than retirees and those approaching retirement as they see the value of their nest eggs plummet.

“People are freaked,” said Tracey Bissett, CFA, president of Bissett Financial Fitness in Etobicoke. “It’s terrifying for people,” agreed Kelley Keehn, the renowned Canadian personal finance author. Liisa Tatem, a money coach and CFP based in Toronto, isn’t “even bothering to look at my investments. I’m focusing on the long term.”

“Investments are like a bar of soap — the more you touch them, the smaller they get,” says Kelley Keehn, and Canadian personal finance author. (ANDREW FRANCIS WALLACE / TORONTO STAR)

The best first step you can make, say all three financial experts, is to stop panicking.

“Don’t act out of fear and panic, because that’s when you make decisions that aren’t in your best interest,” said Tatem.

Keehn says that regaining perspective is helpful during such precarious times; there have been other market crashes and the market eventually bounces back.

“In 2008-09, it felt as if the world was falling apart, but the market did recover – and when recovery comes, it often comes fast,” Keehn said. “We always feel as if this is the worst and that the market will never come back. Markets usually rebound within three to five years.”

For retirees who have their money invested in a RRIF (Registered Retirement Income Fund) and are required to withdraw from the RIF annually, the government is offering relief by reducing the percentage of the fund that must be withdrawn this year by 25 per cent.

“This is helpful, because you don’t want to withdraw money from investments at a loss,” said Keehn.

For those who are nearing retirement and were hoping to be able to live off their investments, Keehn urges them to relax.

“You won’t be withdrawing every cent out of your investments the minute you retire,” she said. “Remember, it’s not a loss of money unless you sell, so stick with your financial plan. There’s still a good possibility of recovery, based on past crises.

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Keehn reminds people nearing retirement to ensure that they have three-to-five years of retirement income invested in safe vehicles, such as GICs (Guaranteed Investment Certificates, which pay low interest, but are secure) and to have $15,000 to $25,000 in liquid investments that can be turned to cash when needed.

“You want to make sure the cash flow is there to fund RIF withdrawals without selling investments at a loss,” she said.

Each of the experts emphasizes the importance of having a financial plan and drawing on the advice of trusted financial planners and advisors during challenging times.

Tatem suggests that it might be helpful to draw up a COVD-19 savings and spending plan, because your circumstances may change if you are working from home.

“Look at where you may be able to save – if you’re not taking transit, for example,” Tatem said. “Can you sock that savings away? As you approach retirement, the more you can reduce costs, the longer you can make your assets last.

“If you are going to dip into your savings, do so in a planned way and track what you remove – this is where having a financial plan comes in handy. Also, look at the relief that is available. The government has come out with a lot of initiatives and the banks are offering a mortgage payment holiday. You can also talk to your bank about putting a line of credit in place, but be sure you only use it to support yourself during this difficult period. It’s easy to soothe yourself by shopping online, but this is really there to pay for the essentials.”

Professionals can help set you on the right track, too.

“Don’t go into a downward spiral,” Bissett said. “If you have a financial advisor, call them and talk to them to get some perspective on the situation. They have data and can also speak about past downturns. You can’t get perspective on your own if you’re freaked out.

“At times like these, really good financial advisors and planners show up for you.”

Bissett believes that it is easy to get overwhelmed during a market downturn.

“People are very emotional when it comes to money and can go to a very dark place,” she said. “It’s important to look at the facts. It all comes back to what your goals are where your financial horizon (for retirement) is.

“If it was very close, you might have to delay retirement for a time or pick up other income. What could you do as a side hustle? Perhaps it’s time to begin downsizing to cut expenses if the housing market will allow it. “

The trio of experts also agrees that it’s important to look after yourself – not just your money – at a stressful time like this.

“Make your plan and try not to dwell on it,” Tatem said. “Focus on connecting with other people, don’t lose your sense of humour and think about what you’re grateful for so you don’t get into a negative mindset.”

Correction - March 22, 2020: *This article was edited from a previous version that mistakenly referred to Kelley Keehn as a certified financial planner.*