How to keep financial anxiety from rising in your sunset years

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Special to The Globe and Mail
Published Wednesday, Nov. 11, 2015 5:00AM EST

Of all the places in Canada to retire, B.C.'s Salt Spring Island ranks right up there in terms of desirability. Beth and Patrick Mitchell chose the Southern Gulf Island for its active arts community, vibrant food culture, decent weather and numerous services, including a small hospital. The former Vancouver residents couldn't be happier. They just hope they have enough money to last them until they have both drawn their last breath.

"We've been here for about six months, and we absolutely love it," says Ms. Mitchell, 68, a former adult educator. "We were ready for less city and more of what we loved most about the quiet, simplicity and social intimacy of island life."

The couple took their retirement planning very seriously. In the years leading up to their retirement, they read books, attended seminars, crunched numbers and sought professional advice from a fee-only financial planner. Now that they're living the dream, the two have realized that financial planning doesn't end once you've left your desk for good.

"Looking back, I recognize that retirement issues and planning variables turned out to be considerably more complex than what we had imagined – or had been in denial about – when we were still immersed in the world of employment and career," says Ms. Mitchell, whose 66-year-old husband worked as a property manager. "It's a dynamic process. There are always new possibilities and new constraints. … The details are really important: You have to be on top of your spending, pre- and postretirement.

"We know we have to be smart about our resources and lifestyle choices," she adds. "We're into voluntary simplicity. The last thing you want to do in retirement is spend lots of time worrying about whether or not you'll be okay."

Once people stop receiving a regular paycheque, many become that much more attentive to – and anxious about – their investments, says certified financial planner Karin Mizgala, co-founder and chief executive officer of Money Coaches Canada.

"If the markets are gyrating, it can be very concerning to the retiree group," Ms. Mizgala says. "Because they no longer have employment income, psychologically that changes their relationship to their investment portfolio. It's far more important to their overall sense of security, and when markets go through inevitable fluctuations, it can cause even more emotional stress for retirees."

Once people retire, their portfolios may need retooling in terms of asset allocation. "Maybe their investment portfolio was appropriate for preretirement years but now people may need to adjust to make it more appropriate," Ms. Mizgala says. "You also need to look at what is the best, most tax-optimized and efficient way to draw down your portfolio."

It gets a lot more complicated than just tax-free savings plans (TFSAs) and registered retirement savings plans (RRSPs), she says. There are nonregistered accounts, pensions, registered retirement income funds (RRIFs), Canada Pension Plan and Old Age Security. "And there are all sorts of different rules and regulations to navigate. The most critical place to do planning is around the drawdown strategy."

Unfortunately, there isn't a simple rule to follow for this. Rather, it depends on individual cash-flow needs and tax implications. "There's a lot of heavy planning in this stage," Ms. Mizgala says. "I do a lot of hand-holding still with clients at retirement."

It's crucial for retirees to know exactly how much money is coming in and how much is going out; never is it more important for people to live within their means. And with more and more Canadians entering retirement in debt, the last thing they should be doing is add to it.

Although people often assume that their spending will decrease as they age, with activities such as travelling and golf becoming less frequent, expenses can go up in later years because of declining health. Costs related to long-term care or home care can be tremendous. Ms. Mizgala cautions that while a lot of people plan on using their home as their nest egg, the choice isn't always so obvious when the time comes.

"People can be very unrealistic about downsizing and tend to underestimate the emotional attachment they have to their home," she says. "When they're 50 or 60, they may say they'll [later] downsize, move out of the city and have more modest circumstances. But, and I saw this with my own parents, when they get to be 75 they say, 'Nah, I don't want to move, I like my home, I like my neighbourhood and my garden, and my friends are close.'

"What I try to do for clients is run various scenarios of using their equity from their home," she adds. "I'm not a big fan of reverse mortgages because they can be very expensive for people. These are things that need to be very, very well thought through."

Other considerations come into play for retirees, including whether they can help out their adult children. In cities such as Toronto and Vancouver where housing prices are increasingly out of reach for first-time buyers, some want to assist their grown children get a foothold in the market. Things can get more complicated in the case of second marriages where people have two sets of children and grandchildren to consider.

Fee-only financial adviser Ngoc Day, with Macdonald, Shymko & Co. in Vancouver, says retirees need to determine their priorities, especially if they have every intention of retaining their preretirement lifestyle.

“You always have to go back to your goals and prioritize your objectives,” Ms. Day says. “Being aware of what you’re spending on and what your spending patterns are will help you decide if you need to forgo something to reduce expenses. What can happen if you haven’t got a clear budget or a clear idea of what you’re spending on is people may feel afraid that they’re not going to have enough to live on, and they feel stuck. They don’t know what to do about it and they feel depressed. It can get them into that place where they’re throwing up their hands thinking they can’t do anything about it.”

Ensuring that your portfolio is working for you is important. Doing something drastic with your investments isn’t.

“Sometimes what happens is a person has not had any experience investing, and then when they retire they become fearful that they will run out of money so they go plunging in and invest in things they have never done before, with no experience, no knowledge,” Ms. Day explains.

“They’re driven by fear. … That’s a real concern, especially because we have an interest rate that is so low and so we have low yield. People are feeling like, ‘I used to make 10 or 11 per cent and now it’s down to 3, 4 or 5 per cent.’ So there is a drive or a reach for yield that gets them into spaces and investments that are beyond them. They have to be very aware of their own limitations and comfort level and get impartial guidance on what risks are involved.”

One area that’s often overlooked by this group is having “the talk” – letting your loved ones know what your estate desires are.

“In retirement not only do you have to think about investments and enjoying your life, you’ve got to think about the downside: What about Alzheimer’s or dementia?” Ms. Day notes. “What if you lose capacity? Who will act for you? Do you have an estate plan in place and mechanisms in place so that the surviving spouse is not having to deal with your estate being frozen or things being overly complicated on top of dealing with grief?

“These things all have to be very clearly talked about,” she adds, “so that people’s wishes are known and there’s no misunderstanding once they’re gone.”