How retirees can continue living their best life when investments have taken a hit

By David Aston Contributing Columnist
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If you’re a retiree who recently opened your investment statements for March, you’re probably feeling a bit anxious.

You have seen that your stocks have been hit hard and you realize they could fall further.

On the other hand, if you’ve followed reasonably sensible financial practices, then your retirement plan was probably built to withstand much worse conditions than what we’ve seen so far. And you’re probably keen to maintain a comfortable retirement lifestyle if at all possible.

If that’s your situation, you may want to act cautiously to bolster your finances without necessarily doing anything drastic, at least for now.

One simple but smart strategy is to find sensible ways to trim your spending once day-to-day living conditions return closer to normal. The comparison point is your expenditures before the COVID-19 crisis struck. (While you’ve been more or less forced to live frugally as a COVID-19 shut-in, that doesn’t provide a useful model for spending prudently in normal times.)

A planned trim to spending is something you can do quickly; you can cut just what you feel you need to, then loosen the purse strings later when your portfolio eventually recovers. If conditions get worse, you can cut further, but only when and if required.

While this situation doesn’t apply to everyone, it is fairly typical for average middle-class retirees to spend relatively freely while times are good and their investments are doing well, as we’ve generally experienced in Ontario over the last few years.
So now that times have gotten tougher, there’s a good chance you’ll be able to find modest cuts without great sacrifice.

One benefit of this strategy is that a relatively small spending cut can have a sizable impact in bolstering your finances, provided you’re prepared to continue with those cuts as long as tough times persist.

To understand why, it helps to review some retirement-planning fundamentals. If you don’t have a good employer pension, you rely on your nest egg to generate much of the cash flow you require to live on. You need to withdraw very conservative amounts so you can count on your money lasting for a long retirement.

A fairly standard retirement planning norm is that if you retire at age 65, you will initially need $25 in your nest egg to support each $1 of spending in the first year of retirement. (When you apply the 4 per cent sustainable withdrawal rate to $25, you get $1 — $25 times 4 per cent equals $1.)

While the relationship between spending and the current size of your portfolio will usually vary in subsequent years after you retire, you get the picture that you need a pretty sizable chunk of money in your nest egg to support each $1 of spending. So if you can cut a chunk out of spending without hurting your lifestyle too much, you can take a lot of pressure off a stressed portfolio and increase the odds your savings will last as long as you need it to.

Of course, you’re also no doubt trying to enjoy an active and fulfilling retirement. So the last thing you want to do is throw your retirement dreams out the window.

The smart approach is to be as creative and flexible as you can to find a version of your retirement dreams that fits within modestly reduced means. The objective should be to economize on areas of spending that don’t provide particular value so that you have money to spend purposefully on what is important to you.

“It’s not penny-pinching,” says Annie Kvick, a certified financial planner with Money Coaches Canada in North Vancouver. “It’s being mindful and paying respect to your finances,” she says, in comments made prior to the COVID-19 crisis.
A good place to start is to look at how you have been spending your money by category (groceries, eating out at restaurants and bars, telecommunications, recreation and entertainment, clothing etc.). Then go through everything item by item and think about how you can potentially either cut out things you don’t value that much or try to find a better deal on some of the things you do value.

How you decide what spending you can cut versus what you preserve is highly personal. But you should try to make sure that your spending continues to support a retirement lifestyle that keeps you socially engaged with family and friends, physically fit, well-nourished and mentally stimulated.

While the main target of cuts will be discretionary spending, you shouldn’t try to pare everything back to the necessities. But try to exercise some care in spending on non-essential extras like travel, entertainment and recreation, and look for ways to economize.

For example, if you like to travel (once travel is allowed), you might plan to go less often but for longer periods (thus economizing on airfare), and go in the cheaper shoulder periods instead of peak season. You might plan to rent an apartment by the week where you can make many of your meals instead of staying at hotels and always eating at restaurants (thus economizing on accommodation and meal costs).

Even if you’re on a modest budget, it is important to spend some money on the fun and fulfilling extras that help make retirement enjoyable and fulfilling. “Life is supposed to be enjoyed,” says Kvick. “It’s important to have something to look forward to, to be able to create that special moment in life, even if it’s just a small amount. We all need it.” Kvick says, at a minimum, you should try to allocate at least $5,000 for singles and $10,000 for couples to the “fun” extras.

If you’re trying to figure out levels of spending that are reasonable to aim for, here are some benchmarks that might prove useful.

Seniors in Canada spend on average about $43,000 a year for singles and $65,000 a year for couples, based on Statistics Canada household spending data that I’ve adjusted in several respects. (That includes what seniors pay in income taxes.)
If you can’t afford average spending, you can still enjoy a comfortable retirement on less. I estimate that a basic but still fulfilling middle-class retirement starts at about $33,000 a year for singles and $44,000 a year for couples. That applies to retirees 65 and older who own their own homes debt-free and includes what they pay in income taxes. It also includes $5,000 in “extras” for singles and $10,000 for couples, as Kvick recommends. Retirees who aren’t yet 65 will pay a little bit more because they don’t yet get senior tax perks like the age credit.

Renters in high-rent areas like the Greater Toronto Area (GTA) will also need to spend more. By my rough estimate, the cost of renting a modest apartment in less sought-after areas of the GTA is at least an additional $5,000 for singles (in a bachelor apartment) and $6,500 for couples (in a one-bedroom apartment) compared with costs borne by mortgage-free condo owners in otherwise roughly comparable circumstances. (Note that condo owners pay certain costs that renters don’t bear such as condo fees, property taxes and unit-specific upkeep.)

Of course, it should be acknowledged that there are many retirees with low incomes who can’t cut spending without seriously hurting their quality of life. And there are also retirees in dire financial straits, which may include heavy debt loads, who need to take far more drastic action than what we’ve discussed here.

But if your retirement finances were in fairly decent shape before COVID-19 hit, then a little bit of expense trimming can go a long way to providing peace of mind while still allowing you to enjoy your retirement.