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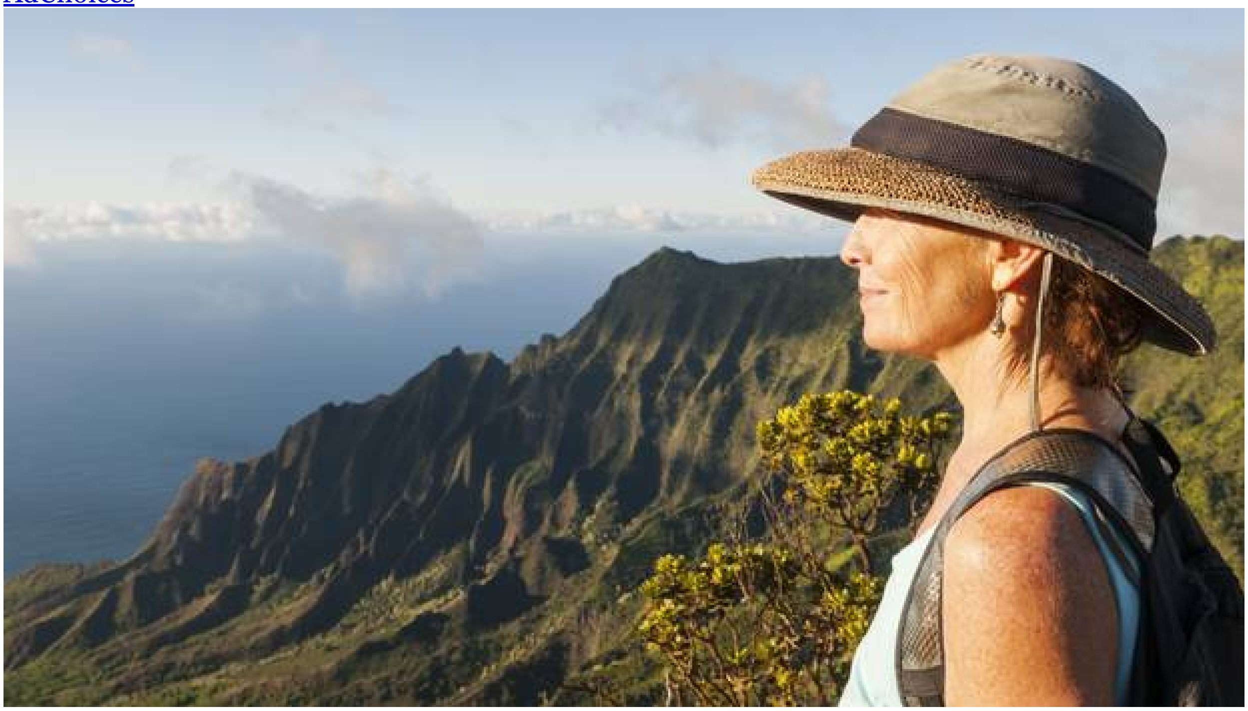

Sheila Walkington, co-founder of Money Coaches Canada in Vancouver, says that as retirement gets closer, most people develop a clearer vision of what they want to do. ‘My job is to help them by laying out the options.’
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Move up retirement? Examine goals closely first

DIANE JERMYN
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As you move closer to retirement, it makes sense to re-examine your retirement goals along with your investment portfolio to see whether they require tweaking.

Some people may want to move up their retirement date and consequently consider how they might accumulate more money in a shorter timeline – possibly by dialing up more risk in the stock market, simply saving more or lining up a part-time job to supplement retirement income.

Finding the right strategy for each client is a part of the financial advisor’s role. A periodic rebalancing can help you reach that retirement dream.

Sheila Walkington, co-founder of Money Coaches Canada in Vancouver, says people change their goals all the time so she’s continually re-examining goals for financial plans, at least once a year with regular clients. She says that as retirement gets closer, most people develop a clearer vision of what they want to do.

“My job is to help them by laying out the options,” says Ms. Walkington. “Given what they’ve told me and what they’re willing to do, I’ll offer a couple of options or maybe a combination. I don’t make the decisions, but ultimately, as a planner, I help them figure out the best route, to weigh the pros and cons, the risk and return.”

Ms. Walkington says the asset allocation and stock for a client’s portfolio comes from many things, including risk tolerance and time frame. She likes to have a five- to seven-year time frame minimum for investing in stocks.

"I'm not sure we'd increase the exposure to stock the closer you are to retirement because if you don't get better returns, there's bigger risk," says Ms. Walkington. "You have to make sure the money's there when you need it. Shortening the time frame actually calls for a more conservative portfolio, whereas if somebody is doing the opposite – say working until 60 instead of retiring at 53 – that's a great time to increase their risk because they have a bit more time before they need the money. Plus, they'll actually need less money if they work longer."

If someone wants to retire earlier, she'd suggest looking at reducing cash flow spending because that's generally easier to adjust. So instead of retiring at 65 with $60,000 a year, maybe they could retire at 60 but on $52,000 a year. Often part-time jobs to supplement retirement don't pan out, unless it's an extension of a job someone is already doing.

"People say they want to work part time when they retire, but it often doesn't happen," says Ms. Walkington. "That part-time job may not be available or they may never get around to applying for it. Suddenly working at Starbucks doesn't sound like much fun when you could be in your garden all day."

Ron Graham, principal with Ron Graham & Associates Ltd. in Edmonton, sees his role as making sure clients stay on track for their financial goals. Ideally, once a year, he compares where the client wants to be with where they actually are. Then a plan can be put in place for the next year to make up any shortfall.

"If it's a shortfall, people may choose to save a bit more money," says Mr. Graham. "In terms of looking at their portfolio, if an asset mix was set at, say, 60 per cent stocks and 40 per cent bonds – and if the stock market hasn't done as well and therefore their returns overall weren't as good – then it would be time to rebalance the portfolio. If people need a higher return to meet their goal, they may have to take on more risk. The problem is that people assume if they just take on more risk and get a better return, they'll meet their goals. But higher potential returns come with much greater volatility.

"It's important to educate the client about what's going to happen to their portfolio. You will lose money from time to time. If you're not willing to lose money, then you shouldn't be in these investments. If you don't want to take risks, your portfolio will be geared more toward bonds and less toward stock."

The time period for making adjustments should start 10 years before retirement, Mr. Graham says. Generally, if you're more than 10 years away from retirement, you're still looking for your money to grow over a period of time so that you can create more income in retirement.

"If you're within 10 years of retiring, you want to start to make changes to that portfolio so that it's potentially a little less risky," says Mr. Graham. "Your goal is changing from growth to the creation of income. Within five years of retirement, you should definitely be looking at where your first dollar of retirement money is going to come from."

When Adrian Mastracci, a fee-only senior portfolio manager at Lycos Asset Management Inc. in Vancouver, does an annual review with clients, he starts by asking what's changed for them as well as looking at their actual game plan.

He prompts them by listing where their goals may change: health, helping the family, if they need a retirement home or to modify the house for a disability. Maybe a son or daughter is getting married or they need capital for an emergency.

"I'm very involved if a client is making a change," says Mr. Mastracci. "My role is making sure the client understands what the implications are for going wherever they want to go. The client is always in charge but I want to make sure the client understands how to make that decision. The clients know if they're happy. You bring in both spouses and look them in the eye and say, 'What do you think?' And everybody says yes or no.

"My role is not to say, you can't do that. It's to say, here you are today, here's where you want to go. These are the things you have to achieve. If you're okay with that, I'm okay with that. If the client says they can't stand the risk, then we've got to change something and move that yardstick to where they're comfortable."

Mr. Mastracci says his key focus for any portfolio is managing the effects of investment risk. Time horizons are very important because you're investing for the long run.

“Most people look at investing for today but I try to get them away from that and to look down the road,” says Mr. Mastracci. “If you’re 60, you’ve got maybe 20, 30 or 40 years to live. It’s usually more than just a short term.”