Your Money

Thinking Through the Three Stages of Retirement

A longer retirement demands careful planning

By Olev Edur

First, the good news: we're living longer than ever before.

A few generations ago, retirement at the age of 65 typically meant only a few years of leisure, but according to a 2014 Sun Life study, life expectancy at 65 is 84 for a male and 87 for a female. And, the study notes, "at age 65, the chance of the last survivor of a male-female couple living to age 90 is more than one out of two." Living to 90—or older—means a retirement lasting 25 years—or longer.

Now for the sobering side to these numbers: the question of how to finance all those additional years. And for many, there's also the psychological challenge of figuring out what to do with all that spare time.

In addition, most of us will spend a number of those years in less than perfect health,

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according to a 2012 StatCan report by the Public Health Agency of Canada Steering Committee on Health-Adjusted Life Expectancy. Depending on factors such as income, lifestyle, and pre-existing health conditions, a retiree's "health-adjusted life expectancy"—the number of years he or she can expect to live in a healthy state—could be five years fewer than the average figures cited above.

Retirement is no longer a single unvarying period, but rather a progression through three distinct stages. Initially (ideally) your health is good and your time is filled with activities such as travel and recreation. Gradually, as you age, activities become less physical and occur closer to home, with commensurately lower costs. And eventually the time will come when you need some help.

"We often describe the three phases of retirement this way," says Janine Purves, senior financial advisor at Assante Capital Management Ltd. In Richmond Hill, ON. "There's the go-go phase, when you're really active. You're loving the freedom and the ability to do whatever you want with your time—maybe do some travelling, volunteer work, whatever. That's the stage we obviously look forward to and think of as our retirement.

"Next, there's the slow-go phase, when you're starting to age a bit, maybe starting at 75 or 80," Purves continues. "You start travelling less, because it's become more tiresome, and you just don't have as much energy for all those other activities.

"Then there's the no-go phase, when it becomes hard to get around and you start having more health issues, and that might be the phase in which we spend most of our retirement," Purves says. "You need to be cautious about overspending because of this concern."

All of which makes retirement planning more important (and complicated) than ever before. This is a time when professional advice can be invaluable. Professionals who spend their working hours thinking about finance, investment, insurance, or tax law will be familiar with all the different products and regulations that bear on your plans, as well as the strategies for maximizing the benefits.

There are, however, still many things about retirement that you must consider for yourself. Advisors can help guide your planning, but they can't make the ultimate decisions. It's up to you to determine your preferences and needs, catalogue your assets, and so on. And it's up to you to articulate in broad strokes what retirement really means to you. Here are some tips and suggestions from the experts on what you should consider.

Defining Your Retirement

Before dealing with money issues, you need to develop a picture of what you'll be doing in retirement.

"Yes, you have to look at the numbers," Purves says, "but you've also got to think about the psychological and physical side. You can't garden every day, for example, if your knees start hurting. Thinking about these issues helps you identify what's needed and how you're going to fill each day.

"Some people prepare over many years for their retirement, so they're really ready to move on. They've thought about how they'll fill their days," Purves says. "If you've done a lot of thinking about retirement, you'll have more things to do. It's easier to make the transition when you've taken the time to think things through. When people have had the same job for 40 years, when they identify with work and there were things there that gave them fulfillment and then that's all gone, they need to find out how to get that sense of fulfillment back."

Of course, everyone's picture of retirement is going to be different. Some people seek activity, while others have more passive hobbies; some people retire completely, while others keep working part- or full-time for many years into "retirement." These choices will all affect your financial and lifestyle calculations.

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"More and more people don't completely retire now, for example, and that changes everything," says Terry McIntyre, a financial advisor with Manulife Securities in Mississauga, ON.

In addition, life is full of change, so you need to be prepared. "Don't make a plan that is rigid," McIntyre cautions. "Your plan should have flexibility so that if something happens, it can be adjusted without problems. Looking at contingencies when planning takes a lot of the anxiety out of the situation."

If you have a partner, that can change the picture, too.

"A couple might reach different phases at different times, and this is going to affect your planning," Purves says. "For example, one of you may be at Stage Two and still want to do things, whereas the other one may be at Stage Three. Is one of you going to want to go travelling on your own?

"You have to pull all of these different elements together. You have to look at the different phases, and don't ignore the fact that things will shift and change. Keep in mind that you most likely are going to live to age 90."

Life expectancy will have a major influence on your planning, psychologically as well as financially, but how do you know how long you'll be around? The figures mentioned at the outset are just averages, after all, and very few people are truly average.

"Everyone ages differently," says Jack Courtney, vice-president of private client planning for Investors Group in Winnipeg. "My father was a contractor and started working hard when he was in his teens, so he aged perhaps more quickly than some of his peers. One financial planner of my acquaintance did no physical activities and he's still going strong at age 96, while another ran marathons and did everything to stay healthy but dropped dead while shovelling snow. You've got to guess, but it's best to plan on the safe side and aim for 95—most planners build their projections around the assumption of a lifespan to age 95. But you also need to look at your family health history and your lifestyle. Your finances will tie into your longevity and health expectations."

Counting the Dollars and Cents

Once you have an idea of what your retirement is going to look like in its entirety, you can turn to the financial implications.

"Start by figuring out what you've got for income sources, and then think about how that will change when you stop working," says Carol Bezaire, vice-president of tax and estate planning at Mackenzie Investments in Toronto. "What income sources will you have? RRSPs? TFSAs? Pensions? Government benefits? A lot of people still have business interests when they retire; for example, I have a property with rental income."

In calculating your income, it helps to divide it into two categories: fixed, guaranteed earnings, and non-guaranteed earnings from investments and other such assets. These can be matched against your fixed versus variable living expenses.

"When it comes to Canada Pension Plan [CPP] and Old Age Security [OAS], the current maximum for both is just under $20,000 a year," Bezaire says. "If that's all you have for income, you can start adding the Guaranteed Income Supplement [GIS], as well—it doesn't affect your CPP or OAS, and in calculating your income for GIS purposes, you can exclude OAS.

"You should sit down and calculate all your fixed expenses—rent or property taxes, hydro, and so on—and then add up your flexible expenses—things like travel, entertainment, gifts, and bequests to the kids," Bezaire says. "Then compare your basic needs with your fixed income sources, and if things are tight, maybe you can cut back on the travel or entertainment. Make sure everything you must have is covered—everything else is negotiable."

Courtney agrees with this approach: "Take all your guaranteed income and then look at your fixed expenses—housing, food, and so on—and see how closely they balance out. Then think about what you can do with the rest of your income. If you go through this process, you'll sleep better at night and you might find you have more to spend than you thought.

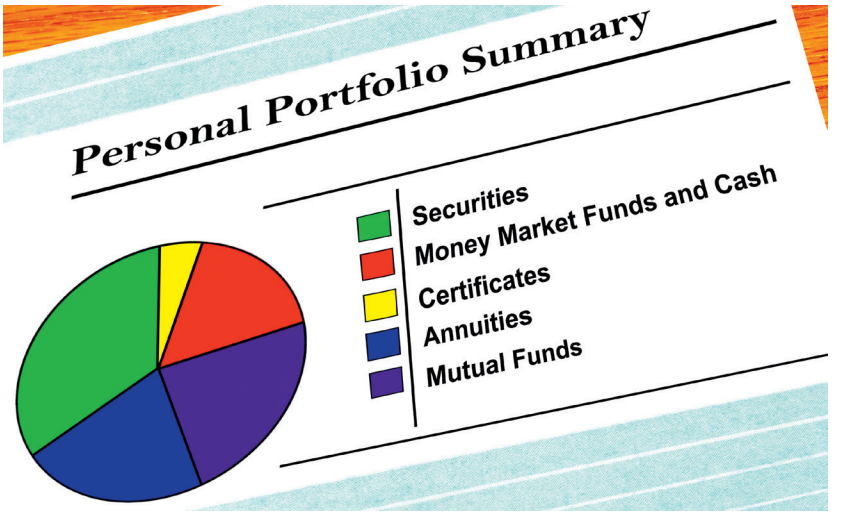
"We see people who want to do certain things in retirement yet hold back because they're uncertain whether their money will last," Courtney adds. "That's one of the benefits of retirement planning: it gives you confidence about what you can spend."

Purves stresses the importance of being realistic about assessing your expenses. "Budgets are good, but if you're not going to follow a budget, there's no point in doing one," she says. "We don't change when we retire—habits are habits. You need to understand what you're spending now, and then think about how that might shift when you retire. So pull out all your credit card and bank statements and see where the money is actually going.

"You also have to take into account all those extra little expenses—there can be so many for the average person," Purves adds. "You may want to contribute to the kids' weddings or help them buy homes. If there's

enough money for that, fine, but what has to be compromised if there's not? You can't choose to pay or not pay your hydro bill, but you can choose whether you're going to buy that filet or lobster dinner.

"We do a whole budget including cash flow statements, but we also ask clients to use only cash for 60 days and forget about the credit cards," Purves continues. "That's really important, because by spending cash, you're forced to make choices and you become more conscious of your spending habits."



Assembling an Investment Portfolio

Once you have a general idea of your income sources and your anticipated expenses, you can start assembling an investment portfolio that matches your income needs at a risk level that is comfortable for you and that provides for those extras you want.

"Structuring investments is different for each retiree," McIntyre says. "A number of factors come into play, and everyone has different interpretations of things. For example, high or moderate risk will mean different things to different people. This is where professional advice becomes valuable."

Most retirees' investment options will include mutual funds, for example, but Bezaire suggests you consider corporate class funds rather than regular mutual funds:

"Regular funds are basically trusts, but corporate class funds function more like corporations. It depends on the portfolio, but traditional funds flow everything out to unit-holders in the form of dividends, capital gains, or interest income. With corporate class funds, all income is taxed in the corporation, so you can receive no interest, just favourably taxed capital gains and dividends. Earnings are retained in the corporation, so you can cash out later and get the benefits of tax deferral and compounding. It's a more flexible arrangement.

"Right now, fixed income investments pay very little, but people still go for safety, so they buy GICs," Bezaire says. "You can earn more with a fixed income fund or a balanced fund, and there is the prospect of the earnings compounding."

McIntyre favours variable annuities based on segregated ("seg") funds. "Seg funds are the same as mutual funds, but the big difference is in the guarantees. Annuity payments can continue for life, but with regular annuities, if you die early, you lose the balance of those payments. With variable annuities, if the money is not all gone, the rest goes into your estate—the life insurer issuing the annuity takes on the risk of the money running short.

"There are different types of variable annuities, available from many different companies, and they can be tailored to suit the individual investor," McIntyre says. "They can go anywhere from 100 per cent bonds to as much as 80 per cent equities. You may not get the best rates on the market, but your dollars won't disappear if they're not used up, and the longer you live, the more money you'll get."

Bezaire stresses the importance of tax planning through strategies such as income splitting. "With couples who have investments, usually most of those investments are in the name of the higher earner," she says. "The current rate of interest you must charge on spousal loans is only one per cent, so the higher earner should think about selling some of those investments to the other spouse and taking back a promissory note." (As

Solution to Chris's Cryptic page 61.

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long as the interest is paid each year, the investment earnings won't be attributed back to the higher earner.)

"If you're both receiving CPP, you can elect to have both your benefits split 50/50 down the middle," Bezaire says. "That way, less money goes to the government and more stays in your pocket."

Caregiving Considerations

Given the statistics on health-adjusted longevity, it's wise to contemplate the days when you're going to need help getting by.

"This is the retirement phase that nobody wants to think or talk about," Purves says. "People just assume that one day they will have a heart attack and drop dead. But for most people, the reality isn't like that.

"Everybody thinks that they'll be able to spend lots of money at the beginning of retirement and if they get ill, the system will pay to look after them, but that's not going to happen. Caregiving can get costly, so it's worth looking in advance at what kind of accommodations are available, and also about family logistics."

"When it comes to future accommodations, your basic choices are assisted living, nursing homes, and in-home personal support," Bezaire says. "The choice will depend on your health and your family situation, as well as your cash flow. If you're thinking of a nursing home, the rent in most places will be based on your income. If you go into assisted living, you also get meals and housekeeping, for about the same price as renting a regular apartment.

"In thinking about going into a facility, you should scope them out ahead of time, after deciding where you want to live," Bezaire adds. "For example, you may want to live somewhere that's close to the kids, or by the cottage if you like the countryside."

"Everyone goes through the same process," Courtney says. "My friends, clients, associates—they all want to stay in their own homes and they're worried about the cost of assisted living. But assisted living doesn't necessarily mean a nursing home. We're lucky that we have many assisted-living facilities here in Manitoba that are run by non-profit service clubs, and they're great. My father went into one, and he was able to socialize more and he was eating better—it was a big improvement in his life."

As for costs, Courtney notes that in many cases, homeowners can rely on the value of their homes to help finance the move into other accommodations. "Your monthly costs may go up, but you have liquidity in your home—that's a major asset base to draw on."

Bezaire points out that in many cases, other family members can step in as caregivers.

"Many families have started having three generations living together in the same home," she says. "In this situation, your family can help provide that needed care, and this will be cheaper than moving into a nursing home or assisted-living facility."

One point mentioned by all four advisors is the merit of buying long-term-care (LTC) insurance, if you have sufficient resources, in order to guard against the cost of unexpected health issues. We'll cover that subject in more detail in the next issue of *Good Times*.

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Putting It All Together

Whatever your plans for retirement, all four advisors stress the importance of getting your whole family involved in the planning process.

"We've often found that when the kids aren't involved, they tend to look at it from their own perspective and don't really understand what the parents want," McIntyre says. "I'm a huge supporter of having the next generation involved in knowing what will give their parents 'sleepability.' If a family has to step in as parents age, they'll be able to continue to work with the personalized plan that meets parents' sensibilities. You have to get the kids involved so they know what to expect—and what's expected of them."

In sum, effective retirement planning can involve many factors, these differ from person to person and family to family, and circumstances can always change.

"Everyone is different," Courtney says. "Your employment and savings history, inheritances, as well as your family history and your health all influence your financial situation. The only way to deal with it is to develop a plan that is unique to you."