The New Retirement

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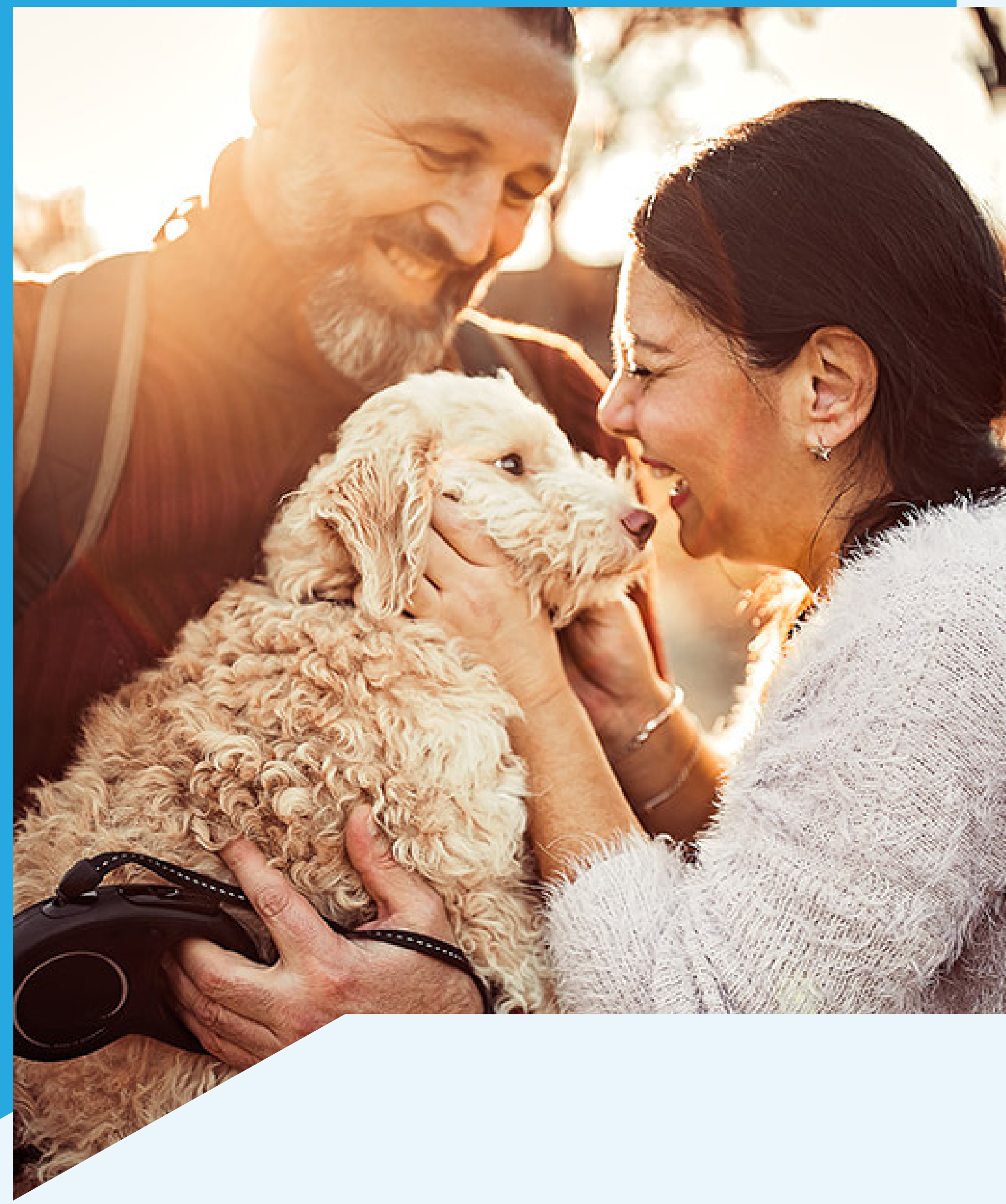
A new chapter in your life

Canadians are retiring in greater numbers than ever before, and once retired, they are living longer than previous generations. However, it's not just their huge numbers and longevity that set baby boomer retirees apart. It's also their aspirations to create active, purposeful, connected lives in retirement and the many opportunities they have to achieve those goals.

If you're planning for retirement or are newly retired, you've probably already realized that success in this new stage of your life is going to require more than just financial security. It will also call on you to make wise decisions to find meaning, foster deep relationships and give yourself the best chances of remaining healthy and active throughout your retirement.

This guide is here to help. In the following pages, we will look at how you can build a holistic plan to make the next chapter of your life the best it can be.



Navigating the challenges of retirement

A psychological transition

Retirement is often portrayed in the media as the golden years—a time to relax and enjoy the fruits of your labour. But the reality for many people is a challenging transition from work to retirement. They're troubled by a sense that their best years are behind them and struggle to find meaning and purpose. They may even have trouble admitting they're retired. Ageism and negative stereotypes can make the mental adjustment even harder.

A focus on health and well-being

Retiring can be beneficial for your health, thanks to reduced stress, more exercise, better sleep and more time for relationships and hobbies. Nevertheless, the potential for health problems grows as we age. Maintaining a healthy lifestyle, managing health concerns and getting the care you need become increasingly important as you get older. It requires effort and the help of professionals to ensure your health and well-being get the attention they deserve.

A new stage for couples

Couples often discuss big picture plans for retirement like finances, travel and housing arrangements. But too many neglect to talk about how they're going to relate on a day-to-day basis. Retirement is a major transition for both of you. Spending more time together and changing lifestyle patterns can create conflict and stress in a relationship. In the worst cases, it can even lead to "grey divorce."

A new mindset

Through most of our working lives, retirement is an abstract destination. We prepare for it by salting away money in our RRSPs, TFSAs and, if we're lucky, an employer pension plan. We're focused on maximizing the size of our nest egg with only vague ideas about how we'll actually spend two, three or even four decades in retirement. The result can be a disconnect between what pre-retirees believe is going to be important in retirement and their actual experience.

The Globe and Mail's personal finance columnist Rob Carrick asked his retired readers to share their biggest regret in retirement. Carrick's overall conclusion? Money doesn't buy retirement happiness. Of those who gave their greatest regret, just 5% said it was failing to save enough for retirement. Instead, social factors topped the list. The leading regrets included failing to work harder on connections with family, friends and community, and not thinking more about how to fill their days in retirement.

A vision for your retirement

Flipping the switch mentally from working to retirement can be difficult. In helping our clients make the transition, we've found the best approach is to create a vision for how you want your retirement to unfold.

That requires some deep thinking about who you are as a person and what you want to accomplish in the years ahead. Your spouse, friends and advisors know you best and can all help.

On the following page, you will find a checklist to help you create your vision of a successful retirement.

A Lifestyle Checklist

You need to consider more than just financial security when you're planning your retirement. You should also think about how you're going to deal with potential psychological and social pitfalls to create a lifestyle that will allow you to flourish in this stage of life.

Here's a checklist of lifestyle considerations to help guide your planning.

WHEN TO RETIRE

At what age do you want to retire? Will you continue to work part-time? Do you want to explore new types of work?

WHERE TO LIVE

Will you stay in your home? Or do you want to downsize and/or move to a quieter, less expensive or more temperate locale?

YOUR RELATIONSHIPS

How will you maintain and improve your connections with your spouse, family members and friends? What are opportunities to deepen your connections? Where are flashpoints for conflict?

YOUR HEALTH

Do you currently have serious health problems? How will you maintain your health? Do you have access to a team of professionals to support you?

YOUR ACTIVITIES

How will you fill your days? Which sports and exercise activities do you enjoy? How about hobbies, educational pursuits and volunteering?

OTHER CLAIMS ON YOUR TIME

What demands will be placed on your time and energy? Do you manage the finances and taxes? What are your household chores? Who else or what else needs you?

COPING WITH WORRY

How will you manage day-to-day stress and bigger problems? Will an exercise program or spiritual practice help? Can you talk to family or friends or get access to a therapist if needed?

GIVING BACK

How will you contribute your talents, knowledge and resources to making your community and the world a better place now and in the future?

4 things you may miss about work

You may be surprised how much you miss your time at work. It's another reason to plan for your retirement.

A regular pay cheque—Employees are used to seeing their pay arrive regularly in their bank account. In retirement, cash flow is often irregular as you draw from savings.

Solution: Have money from your investment account deposited each month in your bank account to free you from the hassle and worry of making sure cash will be there.

Your work friends—Social interaction is a big part of working life. No longer seeing friends and colleagues can leave a big hole in your life.

Solution: Stay in touch with your closest friends from work (but not by showing up at the office). Reach out to other friends and find activities that allow you to meet new people.

Your work identity—You only have to think about how often people ask at parties: "What do you do?" to realize how important our work identity is to our self image.

Solution: Stopping work often requires a challenging psychological adjustment. One helpful tool is an elevator speech—a brief, succinct description of what you're doing now to tell other people (and reinforce your new identity in your own mind).

Perks, big and small—You may have taken for granted some of the advantages of working, including such things as access to IT support, a photocopier and a comfortable work environment, not to mention a benefits package.

Solution: Spend the time and money to get what you need to pursue your retirement lifestyle by, for example, equipping a home office. If it makes financial sense, you can also buy supplementary health insurance to replace your work benefits.

Financing your retirement

Once you've defined a vision for your retirement, you'll be ready to address the million-dollar question: How am I going to pay for achieving that vision without running out of money?

After decades of saving money for retirement, switching gears to spending your savings can trigger a fear response in your brain. It even leads some people to keep on working long past the age when they could afford to retire.

In fact, a 2023 survey by Allianz Life[1] found that 61% of Americans were more afraid of outliving their money than they were of dying. Contributing to the anxiety is the demise of the defined benefit pension plan, which guarantees you a certain amount of monthly retirement income. While most public sector workers are in line for a defined benefit pension, just 9% of private sector workers participated in such a plan in 2019.[2]

When it comes to spending your savings, you're faced with a conundrum. Spend too much and you run out of money in old age; too little and you short-change your retirement and leave behind an unintentionally large legacy to your heirs.

Financial planners call this the "decumulation" phase of your life and it's notoriously complex. Indeed, Nobel Prize winning economist William Sharpe called it: "the nastiest, hardest problem in finance." To tackle this challenge, you have to consider two closely interconnected questions. First, how much income will I need in retirement? And second, how much can I safely withdraw from my savings each year. Let's take a closer look at these critical questions.

1 https://www.allianzlife.com/about/Newsroom/2023-Press-Releases/Americans-Facing-a-New-Retirement-Reality

2 https://www.advisor.ca/tax/tax-news/tax-reforms-needed-to-canadas-retirement-regime-c-d-howe-institute/

How much income will you need?

An oft-repeated rule of thumb is you should aim for 70% of their pre-retirement income before taxes to maintain your lifestyle in retirement. But is this a fair estimate for the real-life needs of Canadian seniors?

Many people assume their day-to-day expenses will drop substantially when they stop working because they no longer have to pay for such items as lunch at the food court, work clothes or transportation to their job. However, while those costs will disappear, research shows that day-to-day spending doesn't drop that much.[3]

Instead, it's no longer having to make mortgage payments, support children or save for retirement that make the big differences. And because you have less income, you will be taxed at a lower rate. The savings are especially important for many higher income earners because they tend to have paid off larger mortgages before retirement, saved more during their working years and paid higher taxes.

The bottom line? Although some will want 70% or more of their pre-retirement income, leading Canadian retirement experts Malcolm Hamilton[4] and Frederick Vettese[5] say most people will do just fine with less than 70%. That's reassuring, but do you have enough money saved to provide you with the income you want and need? An important part of the answer will depend on your "burn rate," how much money you spend each year and whether it's sustainable. That leads us to our next topic.

3 https://www150.statcan.gc.ca/n1/en/pub/11f0027m/11f0027m2011067-eng.pdf?st=wqDBAi5

4 https://www.cdhowe.org/public-policy-research/do-canadians-save-too-little

5 https://www.theglobeandmail.com/investing/personal-finance/retirement/article-what-is-a-good-retirement-income-target

What's a safe withdrawal rate?

Many of you will be familiar with the 4% rule. It states you can safely spend 4% of your nest egg in the first year of retirement and then adjust that dollar amount for inflation each year for the rest of your life with minimal risk of running out of money.[6]

In the real world, most people don't withdraw a fixed percentage from their portfolio each year. Instead, they take a flexible approach, adjusting their spending and withdrawals in response to portfolio performance, life events and evolving goals. CFA Institute researchers surveyed 1,500 retirees between the ages of 50 and 70.[7] A healthy 40% of respondents said a 20% drop in spending would have little or no effect on their lifestyle. An additional 45% said it would cause changes but they could be accommodated.

What's more, the reality is that many people spend far less than they could in retirement. An Employee Benefit Research Institute study[8] found that people in the United States who retired with more than $500,000 in savings on average still had 88% of it left 20 years after retirement. Even individuals with less than $200,000 in non-housing assets immediately after retirement still had 75% of those savings 18 years later. For many people, spending more, not less, is the challenge! Your focus shouldn't be on a magical safe withdrawal rate. Rather, review your portfolio performance with your financial advisor at least once a year and retirement income projections on a regular basis (and especially after bad years in the markets). Then, you can adjust your budget as necessary.

When should I take my CPP or QPP?

As many people know, you can increase your CPP or QPP pension by delaying taking it between the ages of 65 and 70. (Quebec recently raised the maximum age to take the QPP to 72.) Each year you wait, your pension increases by 8.4%. If you wait until 70, it adds 42% more to your pension income. On the flipside, your pension is reduced if you take it before 65, cutting it by 36% if you take it at 60.

Pension experts recommend that most people should wait. They point to the peace of mind that comes from having a larger stream of guaranteed income from the government that's fully indexed to inflation. And they note the tax advantages of drawing down your RRSP savings before starting to draw your government pension. You'll be in a lower tax bracket and having a smaller pool of savings will reduce your future mandatory registered retirement income fund (RRIF) withdrawals. Of course, not everyone can or should wait. If don't have enough savings to support yourself or are in poor health, you may want to take your CPP or QPP sooner rather than later.

6 https://www.morningstar.com/retirement/good-news-safe-withdrawal-rates

7 https://blogs.cfainstitute.org/investor/2023/02/09/redefining-the-retirement-income-goal/

8 https://www.ebri.org/content/asset-decumulation-or-asset-preservation-what-guides-retirement-spending

From go-go to no-go

Another important factor that's often-given short shrift in retirement planning is the idea that spending tends to decrease as we get older until our final years. The tendency to spend less as we grow older should be part of your retirement planning to ensure you get the maximum benefit from your savings.

Go-Go years

This is typically the first 10 to 15 years of retirement. Your health is hopefully good; you have abundant energy; and you're enjoying an active lifestyle.

For many people, this is prime time for travel, hobbies, fitness activities and socializing. You might want to splash out on a new car or some project you've always wanted to take on. These will likely be among the most expensive years of your retirement with the exception of the final years when you may need care.

Slow-Go years

These are typically the years from about 75 to 85. You may still want to travel and enjoy leisure activities, but you will typically be scaling back.

It might also be time to downsize from the family home or sell one of your cars. For these reasons, you'll be spending less money than during the go-go years.

No-Go years

By the time you're around 85, travel and other leisure activities will become more challenging and you may need more health care.

While spending on activities will drop substantially, you may have high expenses for long-term personal care.

Putting together your retirement financial plan

It's important not to wing it when it comes to your financial plan for retirement. Ideally, you will start preparing years before you actually stop working, but it's never too late to get started. Here's what to consider when putting your retirement financial plan together.

Review your retirement goals: With your lifestyle checklist from page 5, think about your hopes, desires and needs for retirement.

Estimate monthly spending: Get an idea of how much you and your spouse are currently spending each month so you can match that number to your retirement income and goals for the future. Most people don't follow a budget, so figuring out how much you spend can be challenging, especially when it comes to occasional or seasonal expenses. Use your credit card and bank statements to come up with a ballpark estimate.

Review your income sources: Are you on track to meet your income needs in retirement? To find out, start by gathering information about your different retirement income sources, including projected government pensions (CPP,[9] QPP[10] and OAS[11]), work pensions, RRSPs, TFSAs and non-registered savings.

Plan big ticket expenses—It's best to plan ahead for large one-time expenses such as buying a car, taking a dream trip or helping your children buy a home. Looking forward to these major expenses allows you to put money aside for them and avoid drawing down your savings unsustainably, or worse, taking on debt.

Think about estate planning—What kind of an inheritance do you want to leave for your children and/or grandchildren? How about charitable donations? Think about your big picture goals for your estate and make sure you have a will, power of attorney and healthcare directives. You should also get advice on how to structure your affairs so as to reduce taxes upon your death.

Make your plan—Once you get a view of your expenses and income in retirement, it's always a good idea to get the advice of a qualified financial planner to create your retirement plan with you. They will use software to make financial projections based on your income sources, spending needs and assumptions about future investment returns, inflation and life expectancy. You can also find good financial planning calculators[12] online to help you estimate your retirement income. Whether working with an advisor or doing it yourself, make sure to use conservative assumptions to build a margin of safety into your plan. Then, review and update your plan consistently to account for changing circumstance and conditions.

[9] https://www.canada.ca/en/services/benefits/publicpensions/cpp/cpp-benefit/amount.html
[10] https://www.rrq.gouv.qc.ca/en/retraite/rrq/calcul_rente/Pages/calcul_rente.aspx
[11] https://www.canada.ca/en/services/benefits/publicpensions/cpp/old-age-security.html
[12] https://www.canada.ca/en/services/benefits/publicpensions/cpp/retirement-income-calculator.html

Your annual portfolio review

It's important to meet with your investment advisor at least once a year to review your retirement financial plan and ensure it's on track. In our team, we call the process Retirement Income Optimization and it involves reviewing the following items.

- What are your current sources of income and how will they evolve in the future? What is your current net worth?
- What is the current value of your portfolio? How is your portfolio allocated between safer bonds and riskier equities?
- What was your rate of return last year and what was the return over the last 3, 5, 10–plus years?
- Is your portfolio tax optimized, including for capital gains and losses, RRSP/RRIF withdrawals, dividends from investment holding companies, and the possibility of Old Age Security pension clawbacks?
- How much did you withdraw from your portfolio last year as percentage of its total value the previous year (your burn rate)? Will this burn rate be stable going forward or do you expect it to increase over time?
- Do you have any large, one-time big-ticket expenses coming up this year?
- Do you need to adjust your withdrawals or change the timing of big one-time expenses in response to what happened in the markets last year?
- Do you have any new major health or life changes?

Tax strategy in your retirement

Having the right tax strategy can save you thousands of dollars over the course of your retirement. Here, a financial advisor and your tax specialist can give you valuable guidance. One key consideration should be when to draw from your RRSP and convert it to a RRIF so as to reduce mandatory withdrawals. Another issue as you move into retirement is managing income tax on multiple streams of income. You have to ensure you're setting aside enough money for tax owing on savings withdrawals and also adjust the amount that's being withheld at source for government and employment pensions so you're not left with a big bill at tax time or having too much withheld.

Now it's up to you

Retirement can be a wonderful time of life, but, as we've seen in this guide, you shouldn't underestimate the psychological and financial challenges of transitioning from work to retirement. Those challenges range from finding new meaning and purpose in your life to switching from many years of saving money to spending it.

Making a success of your retirement will call on you to nurture your most important relationships, find activities that provide you with joy and meaning, and tend to your health and financial well-being. While it takes time and effort to bring those pieces together, the payoff will be the best possible chance of enjoying a rich and satisfying new chapter in your life.

We have many years of experience guiding clients in successfully preparing for and navigating through the challenges of retirement. If you think we can help you regardless of what stage of life you are at currently, please don't hesitate to reach out to our team.

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