Retirement trends

Planning when to retire

How the timing of retirement impacts finances

The timing of one's retirement and when one starts to withdraw from their savings may mean the difference between having a retirement nest egg that lasts a lifetime, or running out of money and cutting back during retirement.

Government pensions

There are two main government pensions: Canada (CPP)/ Quebec Pension Plan (QPP) and the Old Age Security (OAS). The amount of the CPP/QPP pension benefit you will receive depends on how much, and for how long, contributions have been made to the plan during your working years as well as the age at which you begin to receive these pensions. As for the OAS, the size of the pension benefit depends on how long you lived in Canada after age 18. The maximum OAS is payable if you have lived in Canada for 40 years. The 2012 federal budget proposes to phase in an increase in the age at which you can begin receiving OAS from age 65 to age 67 for those who are currently under 54 years of age. As a result, if you retire at age 65 you will have to fund the two year shortfall in income expected from the OAS from your personal savings.

Personal savings and investments

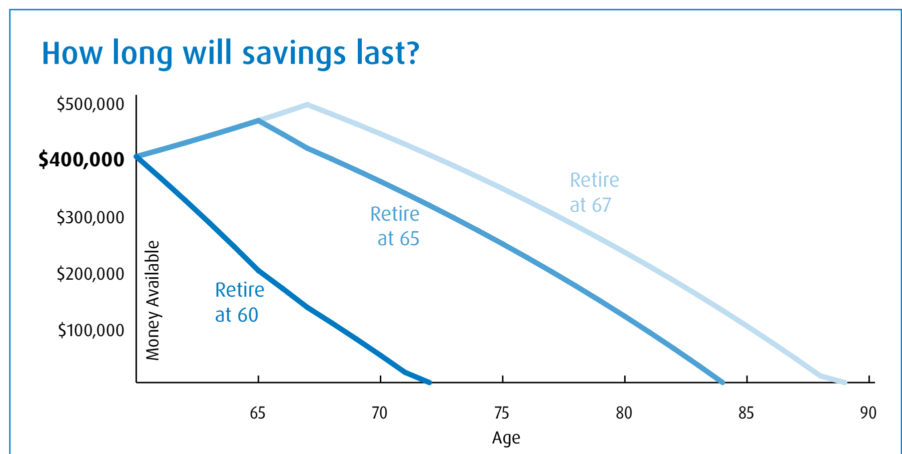
The third source of retirement income is the nest egg one accumulates over a lifetime of working. This includes one's Registered Retirement Savings Plans (RRSPs), Tax-Free Savings Accounts (TFSAs) and non-registered assets. The earlier you have to draw from your personal savings to fund income needs during retirement the greater the risk that you may run out of savings.

In addition, market performance and real investment returns fluctuate year after year and play a large role when withdrawals are being made. This has direct consequences on the balance in the accounts and on all future withdrawals.

Easing into retirement

Many people approaching retirement today see it as a transition period rather than a hard stop. During this time one can reduce hours at work and free up time to engage in other pursuits, while continuing to generate income. This can postpone the moment at which withdrawals from retirement assets become necessary allowing savings to continue to grow, and allow for additional time to pay down mortgages and other debt. The graph below demonstrates this impact. Your retirement date is one of the most important variables of a retirement plan – and has a direct bearing on how much retirement savings will be needed and how long those savings will have to last.

In general, a person who wants to retire earlier will need more retirement savings.



The chart assumes that the individuals all have $400,000 in retirement funds at age 60, growing at 6% annually and withdrawing $50,000 at the end of each year in retirement. The first individual retires at age 60, the second at 65, and the third at 67. It also assumes annual receipts as follows: $12, 000 from CPP (QPP) starting at age 65 and also an additional $6,500 from OAS starting at age 67.

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Securing your retirement

Boomers revising their Retire-by date

Not long ago, the future offered the baby boom generation an exciting array of choices. Many dreamed about retiring on their own terms, creating a sustainable and meaningful time of life, and the decision to work longer often had more to do with self-fulfillment than financial preservation. Now, amidst continued market turbulence, the landscape has changed and boomers are finding themselves having to revisit their options.

How much will I need?

No matter how well one prepares for volatility, market fluctuations can be unnerving. You question not just how much money will be needed to retire, but if there will be enough money to retire at all. This situation can be particularly troublesome for Canadians who are nearing or living in retirement.

91% of Canadian boomers polled agreed that having enough money for retirement requires a lot of planning and advice.

Insufficient savings

Forced to come to terms with a new economic landscape, many are starting to believe that setting their retirement clocks back a few years may be their best option to rebuild their savings. Even some retired Canadians are seriously considering returning to work. In addition to protecting their nest eggs from volatile market conditions, many worry about not having sufficient income from their Registered Retirement Savings Plans (RRSPs), Canada (CPP)/Quebec Pension Plan (QPP) and Old Age Security (OAS) to afford daily living expenses.

By delaying retirement, boomers are essentially buying time. Their objectives are clear: to keep reserves intact, secure a steady income stream for a few more years, and sit it out in the hopes of recouping some of their losses when the markets recover.

Self-reliance is the new norm

Most of us recognize that government retirement programs by themselves will simply not be sufficient in our retirement years. Instead, a blend of government and company pensions, personal savings, home equity, and insurance products will be required.

Over the years, more of the burden of funding retirement has shifted onto the individual and away from governments and employers. Instead of living with reduced expectations during one's retirement years; working longer hours or returning to paid work are potential solutions that can provide more security. More than ever before, the big question on the mind of Canadians is How do we get there?

Approaching retirement – stay the course and keep saving

If you are 5–10 years away from retirement, you can afford to wait for and will benefit from a stock market recovery. Your best strategy is to continue to save as much as you can. If you're just a few years away, continuing to contribute as much as possible to an RRSP each year is still recommended. This is especially true for those in an above-average tax bracket as contributions provide significant tax savings that can be used to make additional investments. Contributing to a Tax-free Savings Account (TFSA), provides one more way to boost the growth potential of your savings and eliminate income tax as you save money for retirement.

If retiring this year, proceed with caution

When and how much income you need from your portfolio will determine how long your money will last. Drawing from it during a market downturn before your investments have a chance to recover increases the risk of running out too soon.

Still, there are a few things you can do to lessen the blow. First, entering retirement with less debt increases the chances of having sufficient income. You might consider consolidating high interest rate debt with a home equity line of credit.

Second, delaying portfolio withdrawals for as long as possible to allow a full or partial recovery of equity prices and portfolio values. You can often accomplish this by working part-time and earning enough to supplement your other income sources.

With retirement lasting 25-30 years, there is still plenty of opportunity for long-term investing. For those over 65, investing with a TFSA may help to eliminate or reduce the claw back of OAS and other government benefits.

Over 50% of Canadian pre-retirees polled are either planning to, or are considering delaying their retirement date.

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If currently retired, minimize withdrawals within a registered plan portfolio

If you converted your RRSP to a Registered Retirement Income Fund (RRIF) in a previous year, you will have to take a minimum withdrawal out this year based on your age and account balance at the beginning of the year. But taking out more than you need can cause you to pay too much tax and leaves a smaller amount in your tax-sheltered RRIF. An additional strategy is available if you have a younger spouse. You can base the required RRIF withdrawals on your younger spouse's age. This will result in a lower minimum withdrawal.

Confidence with a plan

Understanding how much is needed in retirement is critical to feeling confident about what the future holds. These retirement strategies when implemented can go a long way to help address your retirement concerns and put a plan in place. Without knowing what your savings needs are, it is virtually impossible to determine if you are on track, how far off track you may be and whether significant changes are needed now and/or during retirement years. When and if retirement must be put on hold, life doesn't have to be. It's more important than ever to have a documented retirement plan and to review it regularly.

Divergent paths to retirement

How men and women plan differently

Men and women share the same dreams and goals in retirement: better health and more free time, with or without the family. Often, that is where the similarities come to an end. The differences in approach between the genders when it comes to retirement planning caught the eye of the BMO Retirement Institute who took a closer look at the issue.

Difference in investment style

Women, generally, are less confident in their knowledge about finances than men and this uncertainty extends to retirement planning and financial products and services.

We know that knowledge leads to hands on involvement and those who consider themselves knowledgeable are at least three times more likely to report being very involved in monitoring and managing their retirement which results in healthier savings.

In terms of risk, it comes as no surprise that studies indicate men are more likely than women to take risk. They are twice as likely as women to describe their RRSP investment style as aggressive and this willingness to assume risk results in relatively higher growth in their retirement savings.

Unique challenges women face planning for retirement

While retirement is typically presented as a couple experience, the reality, especially for women, is it's very often lived alone. Women also tend to have worked decreased hours, take more leaves of absence and are more likely to leave their career altogether to fulfill their role as caregiver resulting in a smaller nest egg.

The gap is even greater for single women who tend to accumulate at least one-third less than women in couples, according to a recent study. Combine that with less financial knowledge and an aversion to risk results in women tending to be at a financial disadvantage.

There's more to retirement than money

Conversely, when you look at the non-financial aspects of retirement, women come out ahead. Men, who often tie their sense of purpose and identity to their work, can find it challenging to replace that in retirement. Women's identities tend to come from nurturing family and relationships in addition to their work, giving them purpose for years to come. It would be wise for men to consider how they intend to fill their days in their retirement plan. Those counting on their spouses to keep them busy may be surprised to find that women have already figured out how they will pass the time.

Men and women complementing each other

Both sexes can learn from each other, and improve the outcomes of their retirement by adopting each other's positive characteristics.

Women could benefit from being more engaged in the process of financial planning. Men, on the other hand, would do well to keep in mind that retirement is a life event as well as a financial event, and that preparing for the social aspect of retirement is equally important as preparing for its finances.

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Checklist
Between 2 and 10 years to retirement

A clear path to retirement requires a clear plan

If retirement is now on the horizon and no longer a distant goal, you'll want to make sure preparing for it is a priority. Using this time to continue to save and build your assets, while paying off outstanding debt can really make a difference. This is also the perfect time to put some serious thought into what your retirement will look like.

This checklist will help you do just that.

Create your retirement picture.

- Set an approximate retirement date (even if it's simply the year you intend to retire), and discuss it with your spouse/partner and family.

Make saving a priority.

- Maximize your Registered Retirement Savings Plan (RSP) contribution and consider an RSP loan for making catch-up contributions. You will only be able to contribute to your RSP until you turn 71.

Consider your current and future expenses.

- Identify any new expenses you may have during retirement by planning for three stages of retirement:

  Early stage retirees tend to spend more, as they do the things they put off when working and go out frequently.

  Middle stage retirees tend to settle into a routine and spend more time with family.

  Later stage retirees start thinking about estate planning issues. Health and care-giving issues may become more apparent and costly.

Determine where your money will come from during retirement.

- Create a snapshot of how much you own. Doing so will help you understand how your assets could help fund your future. For instance, an RSP can be a source of income during retirement while other accounts can pay for a child's education or a major purchase. Calculate your net worth by taking the total value of your assets and then subtracting any liabilities you may have, such as a mortgage, car lease or credit card debt.

Protect yourself and your loved ones.

- Review and update the beneficiary designations for RSPs, Registered Retirement Income Funds (RIFs), TFSAs, and insurance policies.

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