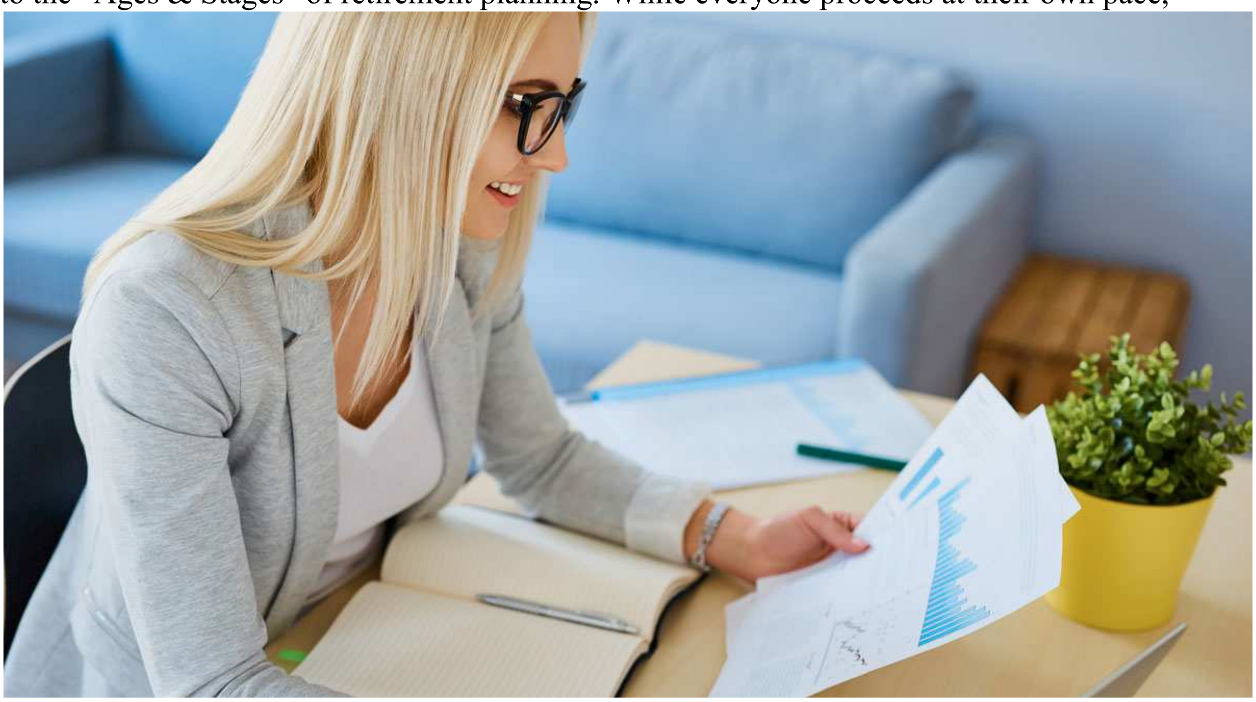
MoneySense

Your retirement plan has a life cycle

Retirement planning strategies for every age

by Jonathan Chevreau, MoneySense, June 30th, 2017

Every human goes through a predictable life trajectory: literally from cradle to grave. In parallel with this is a financial life cycle that tracks our lives as we age, which is why *MoneySense* refers to the "Ages & Stages" of retirement planning. While everyone proceeds at their own pace,



every decade should play its part in the financial lifecycle, from your 20s and right into your 90s and beyond if you're lucky enough to live that long.

Let's take a tour:

Your 20s: Building a Foundation for Financial Independence

The financial life cycle can begin in earnest as early as age 18, which is when you can start saving in a Tax-free Savings Account or TFSA. You don't need earned income to qualify for the annual $5,500 TFSA contribution room. In your 20s, you'll be trying to finish higher education (ideally paying off any student debt), so you can get your foot on the career ladder. Some marry, enter the housing market and start families; others may defer this to their 30s and beyond —or never.

The key habit to establish now is to live within your means and save the difference. A TFSA is the foundation of your future financial independence, although it can also be used for a down payment on your first home or to start a business. As you reach higher tax brackets, you should start an RRSP, or Registered Retirement Savings Plan.

An RRSP lowers your taxes as you contribute each year and will become a huge part of your future retirement nest egg. There's no reason you can't choose both an RRSP and a TFSA but if you want only one, Matthew Ardrey (a wealth advisor and vice president with Toronto-based TriDelta Financial) favours the TFSA.

Your 30s: Career consolidation, Debt Reduction & Building Wealth

Every case is different but we'll assume by your mid 30s you've settled down with that special someone, launched a career and are climbing the corporate ladder. Perhaps you've purchased your first home. While interest rates are still near historic lows, if and when they start to rise wouldn't it be nice to be free of both rising rent payments and mortgage payments?

Retirement will be more doable without consumer debt or a mortgage. A good way to pay off a mortgage is to read Sean Cooper's recently published book: *Burn Your Mortgage*. If you can do that, divert what you used to pay in mortgage payments into increased retirement savings. Once you max out on your RRSP contributions you can start saving outside registered plans.

As debt is paid off, people often spend more, so forced savings can impose some discipline. Try to "pay yourself first" by automatically moving money from your paycheque to RRSPs and TFSAs. A good initial target is 5 to 10% of gross family income, suggests Adrian Mastracci, portfolio manager with Vancouver-based Lycos Asset Management Inc.

By the end of this age and stage, Mastracci suggests aiming for financial assets worth two or three times gross family income (not including your residence).

Your 40s: Debt Paydown and Wealth Accumulation

The 40s are a period of career consolidation and rising earnings. Yes, a tiny minority who saved half their paycheques since they were 20 may now be early retirees trotting the globe but 40 is a tad early to fully retire. Those with family responsibilities will be lucky to save 10% of their paycheques, particularly if the kids go on to higher education.

So keep your nose to the corporate grindstone and continue to jettison debt and build wealth, automating saving via pre-authorized chequing arrangements (PACs). As with taxes deducted at source, you don't miss (as keenly) what you don't actually receive: the same principle goes with wealth accumulation.

Aim to accumulate financial assets between four and six times your family income, according to Mastracci's guideline. Start ballparking your retirement capital projection and revisit every three to five years.

Your 50s: Freedom fantasies, determine your number

There's no doubt the famous marketing campaign about achieving "Freedom" by your mid-50s may be top of mind in this decade. If you stuck with a job landed right after college and your employer offered a lucrative inflation-indexed Defined Benefit pension plan, you may indeed be sitting pretty by age 55, financially speaking.

But if you don't have an employer-sponsored pension or were late to the child-rearing party, odds are you'll need to remain fully employed at least to age 60. Get your advisor to tweak your retirement plan, and determine what your "Number" is. You may be at your peak earning years, so can accelerate your savings, says Mastracci.

Of course, higher earnings can make you a target for layoffs, so use every year of extra earning capacity to accelerate your debt paydown program and keep adding to your Retirement Stash. As you near age 60, that stash should be worth about six to 12 times your family income.

Your 60s: Semi-Retirement, Work Optional

Your 60s is when the possibility of full- or at least semi-retirement becomes tangible, as you prepare for the big transition from "slaving and saving" to "leisure and spending." Fortunately, new sources of passive income start to kick in this decade.

You can take early benefits from the Canada Pension Plan (CPP) the moment you turn 60, albeit at reduced levels than if you wait till the normal 65. Old Age Security (OAS) can begin at 65 although waiting till 70 will result in higher benefits. Purely from a financial perspective, the longer you wait the better, as is also the case with employer pensions and investments.

For those without classic DB pensions, RRSP and TFSA investments will be a critical source of retirement income. By now, Mastracci likes to see a total nest egg worth at least 20 times your family income.

Every case is different so you'll need professional advice to craft a plan that's relevant for you and your partner. If you enjoy your job, there's much to be said for sticking with it awhile longer. If you don't, it's probably not be too late to retrain and launch an encore career, which is what I like to call a "Victory Lap". With life expectancies steadily rising, your "encore" may turn out to last a decade or more.

Try not to go overnight from 100% work mode to 100% leisure mode. Unless you're a victim of a corporate downsizing and experience "Sudden Retirement Syndrome" you may want to consider a more gradual semi-retirement or phased retirement. Full-stop retirement is not a 52-week-a-year vacation, although you may wish to take your first summer off just to get "doing nothing" out of your system.

Remember, you still may have a few more decades of life to live and could come to miss the structure and social interaction of work. These are the "work optional" years, to use a phrase popularized by Doug Dahmer of Emeritus Retirement Solutions. Rather than quitting full-time work cold turkey, consider a sabbatical or moving down to a four-day or three-day work. Or work part-time.

As I say in my book, *Findependence Day*, now you're working because you WANT to, not because you HAVE to! Even if you're not working, Matthew Ardrey says you still need a purpose, which may be achieved through volunteering.

Your 70s and beyond: Golden years and traditional retirement

The 70s is when most of us really do retire in the traditional sense. So if you've built your stash and are still healthy, now's the time to start enjoying it.

While the number of centenarians is on the rise, there's no guarantee you and your spouse will both reach your late 90s. Even if you do, health may become an issue. If you keep healthy, eat well and exercise properly, your body may well go the distance, only to be confronted with loss of mental or cognitive function: the growing scourge of dementia. Cancer is also a looming threat: in June the Canadian Cancer Society warned half of Canadians will be afflicted with some kind of cancer by the time they reach old age and a quarter will eventually die from it.

Family genetics will be key here: if you and your spouse have good genes and see 100 as a possible future birthday, you may want to pursue your creative goals in a "victory lap": perhaps indulging a love of painting, composing or writing, or volunteering with one or more charities or travelling the world as a "voluntourist."

By now you should be well into the "decumulation" rather than "wealth accumulation" years. If you haven't already, review and revise your financial plan, including asset mix changes that will better meet your retirement income goals.

This is not the time to chase risky growth stocks. However, Mastracci cautions, investors shouldn't get too conservative either: quality dividend-paying stocks still have a role even for retirees. This is also time to ensure that your estate planning is in place to provide a legacy for your family and society at large.

If you've traversed all the stages surveyed here, financially, you should be "set." Bottom line is that – finally! — you can do whatever you want when you want. Work may be optional if you see it as a healthy part of your work/life balance. But if you opt for total leisure, that's perfectly fine with us!   You've earned it.

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