COMMON CENTS by Glenn Stewardson

Retirement *or* get ready to spend money!

One of the most difficult times of financial change in our lives is when we move from our mid-life activity of saving money to spending money in our first years of retirement. This dramatic transition can be made easier with a little bit of planning.

In the beginning In our financial life we move through four stages. In our early years (25–40) we are spenders. We start our careers with eyes on the corporate ladder, promotions, and “getting ahead”. With increased salaries, we buy a house, cars, furniture, toys and, perhaps, a cottage. We don’t finance all of this with our own money. Much of it is other people’s money, and we continue to work hard to pay off mortgages and loans.

Saving money In the second stage (ages 35–60), we become savers. We realize that it’s time to pay ourselves and we start savings programs that are meant to provide for our future retirement. In this phase, we build assets in pensions, RRSPs, shares of businesses, rental properties and universal life insurance.

The challenge of the saver is simple: Save and invest as much as you can, putting it in RRSPs for tax-deferred growth, and benefit from immediate tax breaks. In many cases we put effort into saving for over 25 years. No wonder the next stage is so difficult! Depending on our health and our retirement plan, from ages 55 –75, we must go back to being spenders. This is the time to reap the rewards of years of savings, but many people can’t do it. They can’t bear the thought of spending this money; they don’t know how to spend it and still remain confident in their financial future.

Spending again In these years you need to withdraw a monthly income from your RRSPs. After all, this is why you saved them! In addition, you will begin to see your potential returns diminish and the overall value of your portfolio decline. You will begin to question your financial savvy. Should you have invested more in spousal RRSPs? In non-RRSP investments? Why didn’t you buy rental properties? Or create a tax shelter?

This is when a plan is vital, not only for your peace of mind, but to provide you with the financial security to meet your lifestyle needs, no matter how long you live. Certainly in the first 10 to 15 years of retirement, you should be confident in your ability to travel and participate in the activities you’ve been looking forward to. It’s important to be active, to make dreams come true, early in retirement. This is not the time to wait for a “rainy day”, as that day may never come.

The plan A retirement plan includes a long-range schedule of withdrawals from savings. Taking into account what you want to accomplish in which years, you can determine what percentage of your assets you can “pay” yourself on a monthly basis. This percentage is different for everyone. There are some wonderful financial calculators and programs that help you plan for the retirement you are envisioning and help you determine what your monthly income should be and when to begin your withdrawals. It is important to seek out expert advice as well. Work with a Certified Financial Planner (CFP) who will assist you with your retirement calculations and, even before you reach this stage, help you plan a portfolio that will give you the right asset mix to reap all the possible benefits of your saving years.

And then? By looking far enough ahead, you may discover, in the fourth financial stage (70 up) that you can’t spend all the money you’ve saved. Now what? I’ll provide answers next issue.

Glenn Stewardson, CFP, FMA is a Senior Financial Planning Advisor with Assante Capital Management Ltd. (Member CIPF). Email Glenn at gstewardson@assante.com or check out his website at www.assante.com/advisors/gstewardson/home.html