AUGUST 30, 2013

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Don’t be afraid of retirement planning

Determining your number is time well spent

Planning for retirement can be overwhelming. It requires thinking about long term goals and it forces consideration of a more sensitive subject, contemplating one’s own mortality. An RBC study reports that only 52% of Canadian boomers actually put a plan on paper despite understanding its importance. However, they worry about it. According to a recent Investors Group survey, financial concerns affect 32% of Canadian couples and 60% of them put retirement savings worries at the top of the list.

For many Canadians, a sense of futility comes from thinking: "I'll never be able to save enough money". They may be influenced by the old rule of thumb that suggests 70% of pre-retirement income is needed to maintain a current standard of living. However, some experts like Fred Vettese, the chief actuary of Morneau Shepell, believe that figure is far too high.

Determining the right figure starts with analysis. Cash flow models should be performed, accounting for such factors as lump sum cash needs for special events, future inflation, and debt reduction. To help with that process, the Government of Canada has created an excellent Canadian Retirement Income Calculator that takes into account such things as CPP, pensions, RRSPs, and other sources of income like annuities.

Once income goals have been set, analysis should be done to determine the income sources. For most people, a substantial portion will be drawn from investment portfolios. As retirement nears, these portfolios should be prepared for the transition and structured to replace employment income. This generally translates into a more significant weighting in fixed income as well as other investments that provide a regular income stream, such as high quality dividend-paying investments.

Good retirement income plans will also make use of guaranteed income sources that guard against volatile markets and inflation erosion. These include government benefits, available pension income, and annuities. Consideration should also be given to tax-effective withdrawals from registered accounts as well as strategies to minimize or eliminate clawbacks.

Proper retirement planning goes beyond the management of the retirement portfolio. Estate planning also enters the picture, both from the perspective of how the money will be distributed to heirs but also to the more sensitive personal issues. Often there is concern over the future management of the estate by the heirs who may not be competent with finances or are simply not ready to handle a large inheritance. Time should

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be taken to identify any potential shortcomings and rectify any weakness prior to the inevitable.

Canadians want to retire with sufficient income to carry them through and, hopefully, enough to leave something for their children. However, if they allow themselves to be overwhelmed in angst over an unattainable figure that is both high and inaccurate, they will never be motivated to begin saving. Determining the right number takes time, but the time is well spent.

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