RETIREMENT TIMING

Working longer – it's not the only solution

BY PAUL BRENT

The stock market's swoon has many baby boomers on the cusp of retirement thinking they will have to remain in the work force longer than planned. But investment professionals say that often pre-retirement boomers are far too pessimistic about their portfolios.

"A lot of people are telling themselves that they can't retire, but they are doing it without any information," said Frank Wiginton, a certified financial planner with TriDelta Financial Partners of Toronto. In his experience, clients have a targeted nest egg, say $1.2-million, that they say they need to have to retire comfortably.

To illustrate his point, Mr. Wiginton relates the story of a retired Ottawa man, 62, who called for help to revamp his retirement portfolio in the midst of the market meltdown. "He was saying, 'I have to go back to work' because he watched his and his wife's portfolio go from $1.3-million to about $980,000. He said he had to have $1.2-million in order to survive."

When challenged, the man could not say how he arrived at the figure he felt was needed to support the couple in retirement. The couple's portfolio eventually bottomed along with the markets at about $780,000. "He was invested like he was 35 to 40 years old," the planner said. "He was 75 per cent equities and I think had 20 per cent in fixed income," with the rest in cash and GICs.

At the low point of the market and his portfolio, the Ottawa man did return to the work force, taking a job at his old company while his planner tackled his investments. "I showed him at $800,000, based on a five-per-cent rate of return with a much more conservative mix of fixed income and dividend-based shares, you can live another 30 years with over $1-million in assets."

Not only did the man not have to return to work, "it was causing him to fly up in the tax bracket," Mr. Wiginton said. The man did end up working last winter, eventually re-retiring as the weather got warmer to play golf and spend time with his grandchildren. "I gave him back his retirement just by doing a plan and using conservative [growth projections]."

Wade Walters, a certified financial planner based in Victoria, B.C., said that none of his clients as yet have put off retirement plans or returned to the work force as a result of the market crash and more recent rebound. "I do think that people are seriously looking at it," he said. For many, the market's resurgence has reduced the urgency of making such a decision.

From Mr. Walters's perspective, the market's recent roller coaster has forced at least some to take a hard look at retirement plans. "It is making the baby boomers be more realistic, but in terms of the 30-somethings? No."

Simply put, money is an emotional, hot-button topic for investors. In the dark days of the downturn financial advisers worked to convince many investors looking at double-digit declines in their portfolios not to dump investments and "lock in" those losses.

The idea that older boomers will have to delay retirement or un-retire comes from that same mindset, said Lee Anne Davies, head of retirement strategies with Royal Bank of Canada. "It is something that we have heard in the last couple of years as more of an emotional response to what had happened in the market."

Ms. Davies said that most investors become less anxious about their retirement situation when they sit down and go over their financial plan with an adviser.

"That is the benefit of a financial planner who can sit down with you, take the emotion out of it and say, 'Here is the reality of what this means and on the day you retire you don't use all your money. The markets will return, your investments will increase and your nest egg will continue to grow.' So it is not as dire as it appeared 18 months ago."

Ms. Davies, a gerontologist, said it is the health of Canadians that is the determining factor for those who keep working as well as for those who may retire early.

An RBC survey conducted last year also found that health was the No. 1 reason given by those who retired. The bank found that it is not just the individual's health that prompted the decision to leave the work force but the health of elderly parents as well as spouses.

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BACK TO WORK, PART-TIME

For John Kamphof, the math was pretty inescapable. A 20-per-cent drop in his RRSP and pension plan savings with the cratering of the stock market meant that his planned retirement last year at age 62 would be put on hold.

The Vancouver Islander is back at his old job as a union representative, now working part-time, and expects to enjoy semi-retirement until age 65. "The early retirement was sort of a really cool idea and then sort of a wet blanket got tossed on that, but this is working out quite well."

Mr. Kamphof's wife is already retired and the couple live a modest lifestyle, socking away as much as possible of his salary to rebuild their retirement portfolio and hopefully pull a little bit ahead. Currently, he says the couple's retirement holdings have made up their losses of 2008-2009, putting them about even with where they were pre-market crash.

Mr. Kamphof, who lived frugally before the financial crisis, worries that the next generation is ignoring recent history, taking on too much debt such as monster mortgages at historically low rates which he expects are bound to rise and prove crippling.

"I was raised to be very careful and to look into the future that way, and so I do," he said. "One does have to be careful and wise."

» *Paul Brent*

FROM PAGE 1 » PENSION

It's like turning down a raise

"So part of it is just bad education by the employer and a little bit of laziness on the employee side. You add those two together and people are lost when it comes to their group plans.

"To make matters worse, so many think that the company is taking care of them," he noted.

That may have been a reality in the era of defined-benefit pension plans, which provided most working Canadians' moms and dads with a worry-free retirement. Outside of government jobs, however, these pensions are an endangered species, and the workers who have them often worry that employers can't afford to fully fund them.

"It's really sad but people tend to focus more on the short term than they do on the long term," said James Kraemer, a chartered accountant and certified financial planner with TFI Financial Services, based in Winnipeg. Non-participation in matching plans "is fairly common and it is hard to explain why."

Mr. Kraemer, however, has come up with a sure-fire way to motivate his clients to participate in matching programs. "I tell them if your boss came to you and said, 'I want to give you a three, or four, or five per cent raise,' would you say 'No, I'm not interested?' That is essentially what they are doing, turning down a raise."

He chalks up the non-participation phenomenon to embarrassment among employees who do not understand, and are unwilling to ask, about the plans or that they can't be bothered to take the time to enroll.

"There are a variety of excuses but in the end there is no excuse," he concluded.

Adrian Mastracci, a fee-based financial planner and portfolio manager with Vancouver's KCM Wealth Management Inc., encourages his clients to participate in employer matching programs whenever they are offered but also to treat those retirement funds differently.

"I think the key is to have a [retirement] plan, the big plan, and then you include whatever the employer is offering as part of the big plan. Because in most of these cases you may have a choice of what to pick inside that group RRSP, so just ask yourself what should I be doing in that part of the plan?"

That's a worthwhile exercise, Mr. Mastracci said, because such matching plans typically offer a limited range of investment options, meaning more aggressive or exotic RRSP investments have to be made outside the employer's program.

"Know what you are building and know what sort of return on investment you need to have," he advised. "You will make better decisions in the end."

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