RETIREMENT PLANNING

You’re 65 – too old to make a financial plan?

Buying an annuity at 65 while delaying the beginning of payout to 80 would allow seniors to add to their income stream late in life when medical expenses start to ramp up, says Wanda Morris, vice-president of advocacy for CARP.

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Retirement is the time to relax. Sit back and spend your savings, company pension or Canadian Pension Plan income.

Of course it isn't that easy. There are choices to make and advice to be sought. Every expert with a retirement or financial focus agrees it's never too late to make a financial plan tailored to your own unique retirement circumstances – even after reaching the age of 65.

Wanda Morris, vice-president of advocacy for CARP, formerly known as the Canadian Association of Retired Persons, points out that retirement is the most complex time of your financial life. "When you compare the significance and the importance and the complexity of the decisions you have to make with the information that's available, there's such a mismatch out there.

"Should you take your CPP [Canada Pension Plan] now or defer it? Your OAS [Old Age Security]? Will working another two or three years make a critical difference?" she says.

And who is going to help you make the decisions? Are there enough financial advisors out there with the training to deal with ongoing questions about Registered Retirement Income Funds (RRIFs), annuities, rebalancing the risk in an investment portfolio?

Ms. Morris says finding those specialists can be tricky.

"Many people who hold themselves out as providing financial advice likely don't have the expertise. They aren't working day to day with the nitty gritty of draw-down strategies, of decumulation strategies," she says.

But finding that advisor is pretty crucial, as is making a plan.

Ms. Morris is a fan of certified financial planners working to a "best interest" standard, who are working for a fee for the client rather than getting their remuneration from selling a financial product.

"Even if [retirees are] in their 70s or 80s, going to see an independent professional who is clearly just there to help them make their best decisions and not just to earn fees off an account is very valuable."

In terms of products for seniors, Ms. Morris would like to see a greater range of deferred annuities available in Canada which would allow income deferral into the 80-year age range.

Buying an annuity at 60 or 65 while delaying the beginning of payout to 80 or so would allow seniors to add to their income stream late in life when medical expenses start to ramp up. Because you're deferring payout, and there is a chance that you might die and no payments will be made, the annuity can be bought at a discount. Such annuities are available in the United States.

Fred Vettese is chief actuary with Morneau Shepell, a leading Canadian human resources and retirement plan administration firm. He has written three books on financial retirement strategy.

"We call it decumulation. It's all about how you spend down, or draw down your savings in the most efficient manner.... You might think this is a lot easier than saving money in the first place, but it's not."

Mr. Vettese says his views on retirement strategy run counter to most of the advice seniors hear from their advisors, although they jibe with the current thinking of academics.

For instance, Mr. Vettese favours deferring Canada Pension to age 70, rather than taking it at 65. It might be a better idea to use RRSPs at the beginning of retirement instead, he says.

Canada Pension Plan payments are "at least 42 per cent higher – for technical reasons it ends up being almost 50 per cent higher – at age 70 than it would be at 65," Mr. Vettese says.

Using the RRSPs first reduces the risk, and as you grow older, the higher CPP provides a safer income stream.

"Your RRSPs are the most variable part of your money.... The return over any given year, if you have 50/50 asset mix, it can be as low as minus 10 per cent or as high as plus 15 per cent... Over 10 years you can have as low as 0 per cent or as high as 8 or 9 or 10 per cent. ... You can take out most of the variability if you spend down those moneys first and have the safe money afterward."

Seniors are also faced with changing economic factors that challenge accepted assumptions. Old guidelines that proposed a much lower equity percentage in an investment portfolio to minimize risk for older investors may not apply any more.

"The more classic idea that bonds are there for stability and safety – that's kind of out of the window because interest rates are so low, there's actually a lot of risk with bonds right now," says Mr. Vettese.

"The conclusion was you probably can, or should, take a bit more risk these days by investing more heavily in equities than would have been the case historically."

Mr. Vettese has reservations about financial advisors, especially the way they are remunerated. He says he would like to see robo-advisors, web-based financial services which use algorithms to manage and balance investment portfolios based on inputs from clients, take on the challenge of serving the retired with products geared to their specific financial circumstances.

Until that happens, Mr. Vettese recommends that seniors still consult a financial advisor to work on their financial and investment plans.

"They should ask questions. They should understand the advisors have different interests. For instance the advisor wants you to keep all your RRSP assets forever and never spend them because they make money off those assets....There's lots of good advice an advisor can give. Really understand where they're coming from and take any advice they give with a grain of salt."

Lana Robinson, executive director, CIBC financial planning and advice, says it's never too late to plan. The biggest mistake for those heading into their 70s and 80s would be not to have a plan or mistaking a budget for a plan, she said.

They might say " 'Well I have a budget and I'm living to my budget' but is that really a plan? Have you taken into account all the needs you might have? Have you anticipated the cost of health care? Have you anticipated whether your goal is to have in-home care as opposed to living in a retirement home?

"For someone who hasn't been paying that much attention to it, it's possible that they haven't been giving some of these issues broader thought. I would say that would be a call to action to speak to an advisor," says Ms. Robinson.

For those establishing their retirement plan, Ms. Robinson says they must understand what they want in terms of lifestyle. Do you want travel, time at the cottage?

"What are those goals going to cost you? And what is your time horizon in terms of trying to fund those goals? And then you work backward saying what are my sources of income and do I have the right investment strategy to get there?"

Ms. Robinson suggests seniors looking for a comprehensive financial plan, including estate planning, need to pay attention to planning designation.

"I think you want to work with a certified financial planner or maybe your investment advisor has someone available on their team that can do the in-depth planning... if your own specific advisor doesn't have that background."