A longer retirement requires a better plan

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The fact that people are living longer with more complex medical conditions is having a decided impact on what retirement plans look like today, says Tony Maiorino, vice-president and head of wealth management services for RBC in Toronto.

Larry Moser, vice-president, BMO InvestorLine in Ottawa, says it's important to provide a wake-up call to people planning their retirement.

"One generation ago, people worked to 65 and the average life expectancy was 72. Some of the current generation are retiring earlier and living well into their 80s if not their 90s. That's 30 to 35 years of planning versus seven."

Often, a tough conversation is in order, he says. “People will say, this is what I want to do — and the fact is their savings would only last five years. That’s why we implore clients to start planning early because things can eat into savings very quickly. The sooner they start saving, the better off they will be.”

The fact that people are living longer with more complex medical conditions is having a decided impact on what retirement plans look like today, says Tony Maiorino, vice-president and head of wealth management services for RBC in Toronto. “The Freedom 55 days have now become Freedom 65 or older. For many it could be Freedom 72,” Mr. Maiorino says. “The good news is most financial planners use an average life expectancy of 95.”

While people may have plenty to draw upon during the early stages of their retirement, escalating medical and extended care costs could put significant strain on their budgets over time. So the question remains, how prepared are people for an extended and more costly retirement?

RBC’s 2014 Retirement Myths and Realities poll says more thought is being put into the process today.

“Younger people are more focused on retirement than ever before,” Mr. Maiorino says. “People are becoming more sensitized to the fact they may live well past their expectations. In fact, of Canadians aged 18 and over, 52% stated retirement savings as a top priority.”

More people are also acting on that thought. For example, the poll indicates a significant jump in registered retirement savings plan ownership among 35- to 54-year-old Canadians. That’s a 10-point increase versus a year earlier, to 68% from 58% of respondents.

Unlike a mortgage or car loan that is paid out over time, saving for retirement does not happen as naturally, Mr. Maiorino adds. “That takes deliberate actions on a person’s part. Yet the reality is people spend way more time planning a spring vacation than they do planning their retirement.”

There are two things that Canadians need to do better with long-term retirement planning, he adds. The first is to talk to their partners about retirement and what it looks like: “Our poll shows that 68% of people have not had that discussion with their partner, but you need that baseline to ensure you're on the same page and have a common objective."

The second thing Canadians need to work on is sitting down and running through the numbers.

"Some financial plans need to change because they're based on assumptions," Mr. Maiorino says. "But what happens if the market gives 2% more interest? Or if you spend 2% less. How does that translate into what your retirement funding will look like? What things do you have control over? What can't you control? Ultimately the key is finding a balance between living for the day and enjoying yourself and saving for retirement."

In putting together a full financial plan, start by detailing living expenses and spending habits, Mr. Moser advises. "If you don't put pen to paper, you may be surprised how much of your spending may be excessive. The only way to fund your retirement is to be cash flow positive every month. So do your best to set up a continuous savings plan using whatever vehicle you can, whether it's an RRSP or RESP."

A good way to get an early start is taking full advantage of TFSAs, Mr. Moser says. "They're one of the greatest vehicles for retirement savings since the RRSP was introduced in 1965. If you are 30 years old and put away $5,500 a year in your TFSA, after 35 years you could have three-quarters of a million dollars for retirement based on a 5% return rate. Being able to withdraw that tax-free on retirement is a big help."

Planning is never a one size fits all approach either, Mr. Moser says.

"Are you planning to spend every last penny, or want to leave something for your next of kin or a charity? There are lots of ways you can do this. The important part is making sure you have a plan."