Retirement Myths Debunked

WELLINGTON FINANCIAL

Executive summary

We are experiencing a silver Tsunami. The leading edge of the Boomers turned 65 six years ago. On average, 1,250 Canadians turn 65 years old every single day. Most Boomers were born between 1961 -1965. That's why you feel everyone has been turning 50. And people are living longer, much longer.

With all of this happening, it's small wonder that the media, politicians and the financial services business are all talking about retirement. That kind of focus may be good, because of what it means for savings habits and pressures on goods and services.

There are a lot of myths we have to be wary of if we want to ensure we have an adequate retirement income that lasts a lifetime.

What you need to know

Myth #1 - Retirement planning is just for older people

The definition of retirement is changing and even though it may seem like a long way off, use that to your advantage. Much like dieting and exercising, starting a plan and sticking to said plan are the hard parts.

Every little bit of savings helps and will make it easier, if you start early enough. Harness the power of compound interest where planning and saving a little now on a regular basis can let money work for you: 24 hours a day, seven days a week…for decades. Your money seems to grow slowly at first then starts to balloon as you get older, even if you put in the same amount of money.

Every year you delay means you'll need to save more money and perhaps take on more investment risk in order to reach your goals.

Myth 2 - I'll never be able to save enough for retirement.

It's surprising, even shocking, that with all of the attention devoted to an aging society and the need to save for retirement, that so few people are inspired to get started. Many do have a doom and gloom attitude about retirement. Myths aren't helping matters.

"I'll never be able to save enough for retirement." That may seem true when you're young, starting a family, paying off those school debts and dealing with a mortgage. Instead, you figure your income will go up in the future and you'll work on developing your money management skills and habits then.

Don't fall into the trap of thinking it'll be easier to save for retirement in just a few more years. After all, there are competing and expensive needs no matter how old you are.

First you pay off your college debt and the next thing you know, you're helping your kids pay off theirs. Then there is the house, wedding expenses, home renovations, grandkids and the list goes on and on. One day you'll stop and ask yourself, 'Where did the time go?'

Every year you delay starting to save ultimately means you'll need to save more in order to get on track for a retirement that's getting closer and closer.

The best time to start saving for retirement is when you are young and just starting to work. But if things just didn't work out that way for you, then consider starting now. Let the power of compound interest work for you as long as possible.

Myth #3 - I need $500K, $1M, $2M to retire

The fact is that your "number" can vary greatly depending on your personal situation and goals, how long you expect to live, whether you will be single or with a spouse/partner and when you will retire.

Consider asking an advisor who specializes in retirement planning, or better yet, retirement income planning, like me!

Consider trying some of the tools available from trusted sites produced by large financial institutions. And don't forget government benefits like the Canada or Quebec Pension Plan (CPP/QPP) and Old Age Security. If you want to maintain the same lifestyle before and after retirement, your number is tied to how much income you will need to provide the same consumption dollars. That's the money you normally spend on your own lifestyle. Add some extras to that bucket list of yours for those early years of retirement when you will be most active and spend more money.

Myth #4 - Never touch your capital.

Conventional thinking and approaches often work on keeping your assets intact. That may work for the wealthy, whose investments generate plenty of cash flow so that they can preserve their capital for their children and grandchildren.

For the rest of us, it's okay to spend your capital as a way of providing lifetime income. While saving may be a goal in itself during your working years, plan on an orderly spending of what you have saved during retirement. Isn't that what you planned? It really is okay to spend your capital. That's what it is there for.

The idea for many is to spend down in retirement. That's why you save. Work with a retirement income planner on ensuring that you have enough capital to provide you with the cash flow you need no matter what happens; no matter how long you live. Look at alternatives to provide legacies for children and favourite causes while giving you the cash flow you'll need.

Myth #5 - You need 70 to 85 percent of your current income level in retirement.

A growing number of analysts and researchers on retirement income and spending patterns have found that most people will be fine if they target 50% of their pre-retirement earnings. Statistics Canada has many years of supporting data on this.

Working with an advisor trained in the unique field of retirement income planning can prove greatly beneficial in order to work out what you need and what you want to do throughout the various phases of your retirement.

Myth #6 - You need that initial level of retirement income, indexed for the rest of your life.

I'm sure you can come up with a list of things that don't fit the "set it and forget it" philosophy. Set the cruise control and forget it. Set the room temperature and forget it. Invest in a certain investment that has a particular risk associated with it and forget it. You need to make adjustments as the situation changes, as your needs and priorities change. Retirement income planning works like that.

Retirement isn't one long vacation. It isn't one period in your life. It represents the longest set of phases in your life. Each phase will have different needs for cash flow.

You'll need more money in your early, active years. You then settle down to a more normal retirement where expenses drop. Then late in life, poor health, the loss of your spouse or partner, losing your driving license and your attitude and behaviour will cause you to spend even less money.

Yes, you may require money for long term care needs, but hopefully you planned for that before your retirement so that those needs aren't coming out of your regular cash flow late in life. The amount of money you'll need and the most efficient means of getting are important points you should review yearly. Set up an investment and income stream that is flexible and adaptable to changing circumstances. Stress test the plans, strategies and components to make sure they continue to do the job they were designed to do. Life changes and your needs for income will change with them.

Myth #7 - You'll have enough money to last through retirement as long as the average rate of return matches your plan

Some rules of thumb and long held assumptions may work well while you are saving for retirement. Holding on to them when you are spending those savings during retirement may become toxic to your financial health.

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When you need to withdraw money and the markets are down, or what you take out is less than what your investment is earning, you eat into your retirement nest egg. These losses can be difficult to recover because you have to make up for the lower rate of return in a given year and account for the money you spent that is no longer invested. Negative rates of return in the early years of spending can be devastating on how much money you will have left 10, 15 or 20 years down the road, even if the long term average rate of return matches your plan. It's not just about average rates of return; it's about the sequence of returns that make up the average.

Starting with a low or negative return has the potential to permanently upset your plans.

Myth # 8 - The government will take care of medical expenses

At the risk of sounding cynical, governments don't pay for anything. Working Canadians do. Taxpayers do. Taxes are directed to certain areas of need. Growing needs and rising costs means that there isn't enough public money to go around. That reality is hitting retirees and will continue to hit them harder as time goes on.

Our rapidly aging society is backing governments into a corner forcing our leaders to make tough decisions on health care. It seems that there are already too many elderly people to care for with existing programs and funding. Absolute costs are going up while services are being cut back. Get used to it. You are going to have to channel more income into paying for uncovered services or eat into your long-term savings to take care of yourself and your aging family.

Our society is moving quickly from child care issues to elder care issues. And the latter issue is much more expensive and long lasting. The movement now is pushing care out into the community. That sounds good and has some merits. But long-term care is not free. Much of it is provided by family. It's voluntary. It means sacrifices of energy, time out of the workforce and hits to the retirement savings plans of caregivers. The government is not picking up the tab.

Myth #9 - I can deal with a shortfall in retirement savings by working longer or taking up some part time work.

Recent studies have found that almost half of retirees left the workforce earlier than planned. Downsizing, layoffs and negative working conditions were some of the reasons. People ages 55 plus have an average of more than 13 months on unemployment. That's almost 5 months longer than younger people looking for jobs. (Source: Associated Press, AARP Public Policy Institute 2012)

The biggest reasons for leaving the workforce early were health related - either the worker's or someone in the family. Working longer is not an option you can definitely count on because staying on the job or getting another job is not a given. Almost two thirds of retired Canadians had less than a year to plan and adjust for what could be 30-40 years of retirement.
(Source: LIMRA Retirement Study, 2012; Retirement Myths and Realities Poll, 2013)

The bottom line

Be proactive when planning your retirement and remember: the earlier you start, the better! Healthy retirement planning will help ensure a more successful retirement. Contact your financial expert to get started today!

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