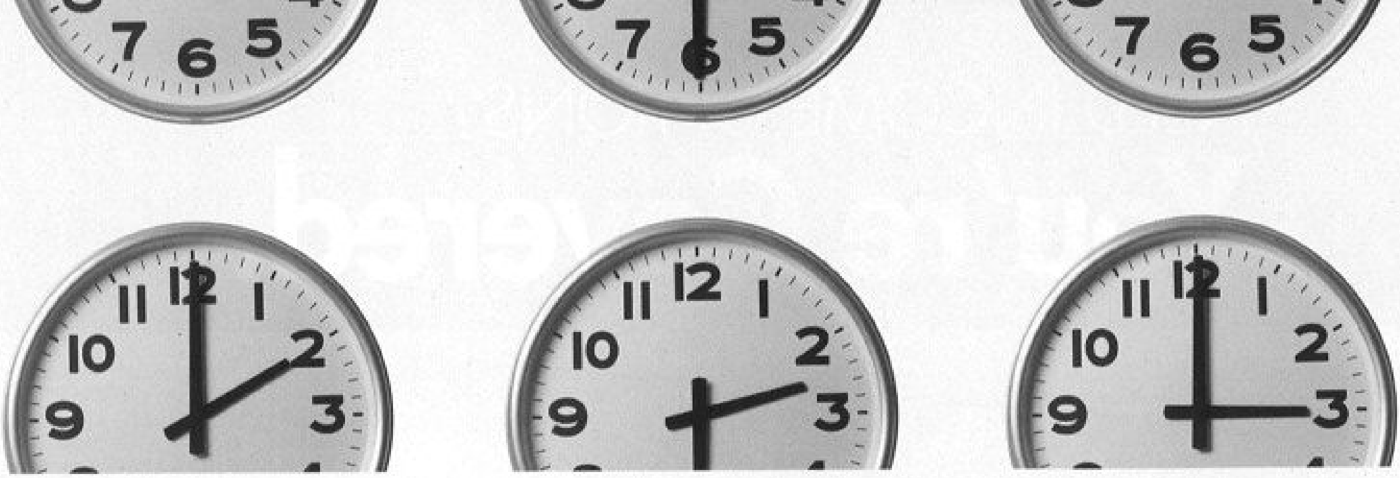

REARRANGING RETIREMENT

BY M. JAY SMITH, A CALGARY-BASED FREELANCE WRITER

Volatile markets make clients unsure about when they'll stop working. How to plan for an uncertain time horizon

Watching the news, it's easy to feel a sense of unease about the global economy.

"The public is getting a 24/7 diet of commentary," says Rod Tyler of Tyler & Associates in Regina. In contrast to the negative hype, he points out "corporations in North America are healthier today than they've ever been. They have more cash on their balance sheets, and profitability is excellent."

The problem is, people are prone to responding to hype. News of a down economy can prompt a client to voice a desire to push back retirement five or more years later than originally planned.

Then, when markets recover, that same client will shove his retirement age back to the original projection—or even shave off a couple of years.

Obeying these fleeting demands, as significant as they're portrayed at the time, is simply not practical. Nor is it a good idea for the client's portfolio.

One solution that's worked well for Winnipeg-based David Christianson is to let clients be less specific about their retirement dates. The senior advisor at Wellington West Total Wealth Management will show clients their income picture at age 63, say, and measure progress year-over-year to update the projection as they get older. "Then, when they get to be 63 and want to work another two-to-four years, we change the date and show them the effect of [working longer]."

A lot of his clients in their 60s have been going with a flexible date for years. "I'd say 20% of that has to do with the markets," Christianson says. "The rest is we've helped them achieve a balanced lifestyle, and they're making enough that they don't have to draw on their investments—and they're travelling four months of the year."

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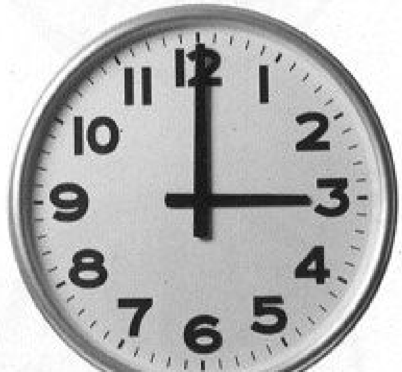

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NUMBERS OVER EMOTIONS

Sterling Rempel, a certified financial planner at Future Values Estate and Financial Planning in Calgary, says when emotions take over, it's important to bring the client back to the numbers. "This is where a planner's role as a manager of human behaviour comes in. Knee-jerk reactions to headlines tend to be wrong."

Rempel shows clients the pattern markets will likely follow and points out they historically always bounce back.

Being proactive also goes a long way to keeping things under control, says Christianson. Updating the client's projections annually both prior to and during retirement reveals whether they're ahead of, or behind, the prior year.

Short-term fluctuations are inevitable, but if you've tracked it year by year, you can show them how the portfolio recovered from prior downturns. That data lets the advisor immediately put prevailing economic events into context.

"You tell them last year it looked like you'd have $85,000 a year forever," says Christianson. "Now, because of what's happened in the market, it's dropped to $83,000. Is that really a material change?"

A clear illustration showing the client he's only looking at a $2,000 decrease in annual income "immediately flops any flip-flop that might otherwise be occurring."

A MORE INTERESTING SUBJECT

And, while clients fret over world affairs, notes Tyler, a far greater threat to their long-term economic health is the historically low level of current interest rates.

These, far more than equity activity, threaten to throw a wrench into retirement plans.

"There is no immediate prospect of interest rates going up," says Tyler. "And you have 9.4 million Canadians rushing towards retirement. The very thing they need, predictable income, is not readily available via the traditional way, which was a fixed annuity."

Rempel uses Monte Carlo simulations to stress test portfolios and assure clients. These tests take into account inflation rates, the possibility of low rates of return, and what happens if clients live longer than expected; allowing the advisor to make adjustments.

But comfort only comes if both advisor and client are on the same page. Meeting regularly helps prevent an advi- ▶36

Sterling Rempel
FUTURE VALUES AND ESTATE PLANNING

I'VE RETIRED. BACK TO WORK

Sometimes, creating retirement security for clients involves a bit of work. Regina advisor Rod Tyler says finding a part-time job or monetizing a beloved hobby can be tremendously satisfying — and not just financially.

Whether it's working part-time at a garden nursery or art supply shop, or starting a small business, maintaining activity outside the home can provide social structure for retiring clients. It also lets them explore interests that weren't part of their main careers.

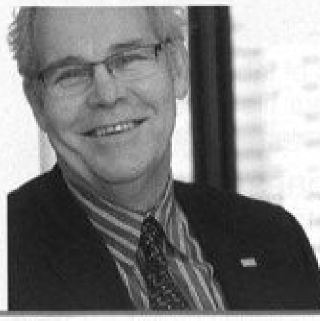
Tyler adds couples who retire often find it beneficial to pursue their own interests. "If you've been in a work situation your entire life, spending all your time together in retirement isn't necessarily the best thing," he says.

Of course, the financial incentive is undeniable. "Quite often," Tyler says, "these clients find that they can defer the use of certain assets for a period of time."

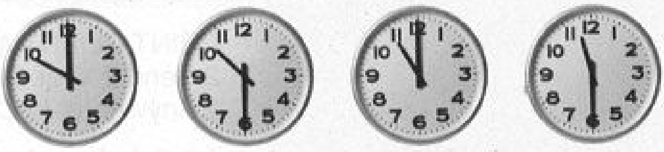
"SOME CLIENTS AREN'T READY TO WALK AWAY FROM THE SOCIAL LIFE AND PERSONAL VALIDATION A JOB PROVIDES."

Sterling Rempel

BRETT GILMOUR



Rod Tyler
TYLER AND ASSOCIATES



◄ 34 sor being blindsided by a client's sudden reaction to a change in the economy. And simple portfolio modifications (such as beginning to create a cash wedge in anticipation of retirement, or rebalancing stocks so that growth is more uniform) are easy ways to maintain a strong relationship—and ensure the client understands his retirement plan.

"If the client is flip-flopping, it's because they and the advisor don't understand the situation," adds Christianson, "so all they can do is respond emotionally and make assumptions that they're not as rich as they used to be."

WHAT'S THEIR MOTIVATION?

If a client still insists on moving off the retirement date, though, it's crucial to get at the psychological motivators.

Rempel had a client who chose to continue working in the face of what she perceived to be dips in the market. "She said it was because of the money, but it was other things, too," he says. "She wasn't sure if she was ready to walk away from the social life and personal validation that her job provided her."

Eventually, she did retire, and probably more comfortably than she would have. But the rationale behind her decision, although couched in financial terms, had more to do with her personal fears and anxieties.

And baby boomers certainly are redefining what it means to be retired. Christianson says a lot of clients throw 60 around as the age to stop working full-time—but adds that what they really want is to work fewer hours.

"A fellow who was in my office this morning is 79 and has no intention of retiring. He's quite serious," says Christianson. "My unscientific view is that it's mostly unrelated to the markets; it's more that they get some satisfaction out of work and want to be more balanced."

"YOU HAVE TO GIVE THEM A GOOD IDEA OF WHAT KIND OF INCOME WILL BE AVAILABLE. THEN THEY CAN DECIDE WHETHER THEY WILL CONTINUE WORKING."

Mike Bayer

HELPING CLIENTS GET REAL

What Christianson sees more often than clients changing retirement dates, are boomers who come to him as referrals and announce they'd like to retire in two years. Sometimes they add, "I'll work four years if I have to, but help us figure this out."

Often, his projections show ceasing work that soon means they won't have enough money to do what they want in retirement.

For Mike Bayer, a CFP at Strategic Analysis Capital in Toronto, the best way to deal with that issue, and understand how a client will respond to bad markets, is to do an in-depth risk profile.

The profiles help Bayer step in when he sees client behaviour jeopardizing retirement goals. "I've had to give written notice when I've felt that clients were being too aggressive," he says. "I've told them they have to understand they could face a severe shortfall if markets don't do what they expect."

And while the first flip-flop—extending retirement age in a belief the markets are inhospitable—helps the advisor create more long-term income, it makes reverting back to original retirement projections much more challenging. Portfolio growth lost during an ultra-conservative period can, if let go for too long, diminish a client's income outlook and make returning to the original plan unviable.

To bring the point home, Bayer creates an expense worksheet to show the client exactly what money is coming in versus going out.

"You have to give them a good idea of what kind of income will be available. Then they can decide whether they will continue working, delay retirement, or scale back spending." He notes they can also sell off their cottage, or move to a smaller home.

If they're unwilling to part with the house, Rempel suggests options: "Are there other ways to bring in revenue? Could you put a boarder in the basement? Or does the next generation want to purchase the house from their parents?" He says the latter option is surprisingly common.

Similarly, Rempel pushes clients to be mindful of their approach to retirement. "Maybe a client tells me 'I can't pay my mortgage, but I'm going to Mexico on a vacation.' That's a lifestyle choice. If a person isn't saving or participating in their own responsibility to save for retirement, we can't force that."

To date, he's only had two clients habitually ignore his advice, leaving him no choice but to terminate the relationships. "If a client asks for advice, but doesn't take it, I don't think we have a working relationship." AE

SMITH