
Living Longer & Retiring Faster

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Over the last one hundred years, every new generation of Canadians has enjoyed the benefit of a longer life expectancy. With dramatic improvements in health care, the human life span has never been longer. Additionally, some have set their sights on early retirement. The combination of living longer and retiring earlier creates a serious cash crunch because that greatly expands your time in retirement. A financial advisor can help you develop a plan to solve this critical problem.

Many Canadians may remember an attention-grabbing commercial from 1989 that trumpeted Freedom 55 [1] - the concept that you could retire at 55 years of age. Demographer David Foot, author of Boom, Bust & Echo [2], said, "It never had anything to do with facts, even originally. It was more a brilliant marketing strategy [3]". The average Canadian actually retires at age 62, but "Freedom 62" didn't convince the marketing team.

The previous generation retired at 65 with a life expectancy of 72; they only needed about 7 years of cash flow. Now, you are expected to live well beyond 80, and if you retire earlier, you could be looking at 20 or more years in retirement. Where will you get your income?

The financial math is absolute: the more years you spend in retirement, the more money you need. That means more savings, a higher investment return, or some combination of the two. Some may make the mistake of chasing more speculative investments to make up the difference. This plan often ends in disaster. Others may save too much and sacrifice their quality of life in the present. How can you achieve a healthy balance between living for today and saving for tomorrow?

One thing you can do is discuss it with your partner. If you are married, retirement planning is a team effort. It makes no difference if one partner is set on a certain path if the other is not in agreement. Like two people in a canoe paddling in opposite directions, the results will be unimpressive. According to a recent article[1] in the Financial Post, 68% of married people have not even talked to their partner about retirement planning. That's a lot of canoes going nowhere.

If you sit down with a financial advisor, they can show you how even the slightest increases in savings can affect your returns. The more you save and the earlier you save, the bigger the impact will be. Your advisor can also help you understand retirement options like a Tax-Free Savings Account (TFSA) and a Registered Retirement Savings Plan (RRSP). TFSA contributions are not tax-deductible, but withdrawals are tax-free. RRSP contributions are tax-deductible, but withdrawals are taxable. Which plan is right for you depends on a variety of factors. Everyone has a unique situation.

Some Canadians realize what's at stake. A Recent Poll [4][2] shows an increase in RRSP ownership among middle-aged Canadians, up to 68% from 58% in the previous year. This is a positive development. Meeting with a financial advisor can help you create reasonable goals that allow you to live a balanced lifestyle so you can enjoy life today and for many years to come.

[1] Financial Post, Feb. 4, 2015, [2] RBC 2014 Retirement Myths

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Did you need help with your retirement strategy?

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