Dream big then plan for it

Planning today can help put you on the right path towards the retirement lifestyle you want.

YOU'VE SEEN THE ADS: happy couples clinking tropical drinks under a beach umbrella, someone sending a ball soaring across an idyllic golf course, grandparents welcoming a large extended family to their cottage on a lake.

But your retirement isn't about other people's dreams – it's about yours. And whatever you envision, the best way to make sure it happens is to create a retirement plan. Most of us realize that important and complex projects require a plan, plus a commitment to execute that plan. Retirement is no different. The planning we do today can significantly broaden the options we have after we stop working – so it's well worth the effort.

Your retirement plan will help you answer one of the most important questions: When can I afford to retire? After all, you may have a retirement dream and you may have an ideal retirement age – but are they realistic? Can you afford to retire in the way you want, when you want? And do you have a backup plan in case things don't work out exactly the way you hope?

Uncertainty in any or all of those areas keeps many people up at night as they approach the end of their working lives. To help move towards greater certainty, you need to have a reasonable idea of how much your retirement will cost and how much income you can count on. Let's tackle these questions head-on.

How much will your retirement cost?

In theory, the cost of retirement calculation is simple:

cost = annual expenses × number of years in retirement[1]

In reality, it's not so simple because there are many variables at play. Expenses in retirement will depend on your chosen lifestyle, health, debt, inflation, taxation and many more factors. The number of years in retirement will depend on when you retire and, of course, how long you live.

As a starting point, prepare a retirement budget worksheet and take it to the next meeting with your advisor. You can work together to make sure your estimates are as precise and realistic as possible. It's often a good idea to run two sets of numbers in parallel: the cost of a relatively modest retirement and then one offering greater financial flexibility. If you and your advisor plan for the second, you'll have a fallback position in case factors outside your control – such as inflation and taxation – take a bigger bite out of your savings than anticipated.

[1] For illustration purposes only.

How much income can you count on?

Once you have a good sense of the cost of your retirement, discuss all potential sources of retirement income with your advisor. Again, there's a deceptively simple formula:

retirement income =
income guaranteed for life + income from savings and investments[2]

The trouble here is that while it may be relatively straightforward to project income from the Canada/Quebec Pension Plan, Old Age Security, defined benefit workplace pensions and guaranteed investments, it's much more difficult to project other income, such as defined contribution workplace pensions and savings and investments that are exposed to financial markets.

Your personal situation will also have many variables at play. If you own a home, you may be looking at downsizing, or relocating to a community where housing and living expenses are lower. If you're thinking along these lines, you'll need to consider real estate values now and at the time you plan to move – all numbers that are subject to market forces.

Another variable is whether you intend to work part-time in retirement. Maybe you would like to start your own business, consulting in the field you used to work in or embarking on an entirely new enterprise. This extra income can give you significantly more financial flexibility.

Based on your unique circumstances, your advisor can help you work out the likelihood that you will be able to generate enough income to pay all of your expenses in retirement. The goal is to have a high degree of certainty that you're on track, that you've considered as many variables as possible and that you've done some contingency planning to help protect yourself from the unexpected. All of this should give you greater confidence about your future and the retirement you want to enjoy.

Not as ready as you'd like to be?

Despite your best efforts, you may find out you're not quite as financially prepared for retirement as you'd like to be. Here are five strategies that may work for you:

1. **Set aside more money** now to build a larger pool of money that you can access during retirement.

2. **Commit to a rigorous debt repayment** plan with the aim of eliminating debt before retirement.

3. **Consider delaying your retirement date** to give yourself more time to save and your investments more time to grow.

4. **Adjust your investment mix** to allow greater growth potential, within your tolerance for risk.

5. **Re-evaluate your priorities** and make choices that fit within your projected budget.

In addition, ask your advisor about solutions to help you catch up. Some products offered by insurance companies provide the opportunity to accumulate bonuses[3] on top of any market returns to help boost retirement income.

Confident you're on track?

During the course of retirement planning, you may realize you are in a comfortable position with regard to your retirement plan. If you're in this situation, consider these options:

1. **Move your retirement date up** and enjoy more years living your chosen retirement adventure.

2. **Adjust your investment mix** to help provide greater protection from risk as you transition into retirement.

3. **Plan to enjoy** a few more indulgences in your retirement.

4. **Help out family members** with their financial goals: set up a Registered Education Savings Plan for your grandchildren, or contribute to a down payment for a child's home.

You could also plan to leave a larger legacy to loved ones or to a favourite charity. If this is something you'd like to explore, you may be interested in specialized products that guarantee your beneficiaries will receive 100 per cent of your principal investment no matter what happens in the financial markets – while still letting you access your money at any time if your retirement costs more than you expect.

Prepare for the retirement you want

With appropriate retirement planning, you can make choices that can lead you to a retirement lifestyle that makes you happy and that you can sustain long after you've stopped working. Schedule a meeting with your advisor to discuss the attached worksheet and how to turn decades of diligent working, saving and investing into income to support your retirement dreams. ■

[2] For illustration purposes only. [3] The bonuses referenced are not cash deposits; they increase the basis for calculating guaranteed income.

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