CAN BABY BOOMERS... Escape FROM Debt Mounting

TAKE SHELTER FROM OUTSPENT SAVINGS AT RETIRE

By Heidi Staseson

David Phipps is stymied. His retired client with a $200,000 portfolio and no pension has just plunked down $45,000 on a shiny new pickup truck. He said he'd go into debt to have it. A couple, each of whom is 70 years old, has yet to pay off their mortgage. Another client, at the ripe old age of 75, claims she still loves her job marketing cosmetics.

These are just a few examples of retired clients, who, by opting to live beyond their means during their pre-retirement years, and choosing to forgo smart financial planning, are now paying a hefty price for living the good life. Soon, they'll be in for a rude awakening when they realize their savings are all but drained—and they've still got a good quarter century left of what was supposed to be a time of leisure.

This same stark reality is awaiting many baby boomers who are failing to prepare for retirement. A 2004 study by Desjardins indicates most retired Canadians would opt to use their personal savings to fund their retirement years—a daunting thought since 31% currently report less than $10,000 in personal savings and investments. Statistics Canada reaffirmed the grim data in June when it announced the personal savings rate had slid to -0.6% in the first quarter—the first negative reading since 1961.

And HSBC recently released a report on the future of retirement that asked respondents in 10 countries, Canada included, which factors are important for a pleasant retirement. "Not having to worry about money" ranked in the top three answers in seven of the countries, including Canada. So why then aren't many Canadians saving enough for retirement?

Quite simply, old habits die hard, says Phipps, a senior financial advisor with Assante Capital Management Ltd. in Ottawa. Clients aren't getting the message because they're reticent to change. "Some of these individuals seem to take a live-for-today attitude. Retirees who [spend] unwisely are exhibiting the same behaviour they had throughout their working years, and communicating the need to change their habits is very difficult," he explains.

The cautionary note Phipps provides to pre-retiree clients is that if they don't change their spending habits now, retirement will resemble more of a purgatory than a vista of pleasure.

With eight million Canadian baby boomers gearing up for retirement while contemplating longer-than-ever lives (conceivably spending upwards of three decades in retirement), there seems to be a lot

Continued on page 21

Illustration by Dominic Bugatto

Continued from page 19

more questions than answers blowin' in the wind. Now is a prime opportunity to get retiring clients back on track. Where to start? First, understand that what boomers expect and desire through their retirement years isn't remotely the same as their predecessors.

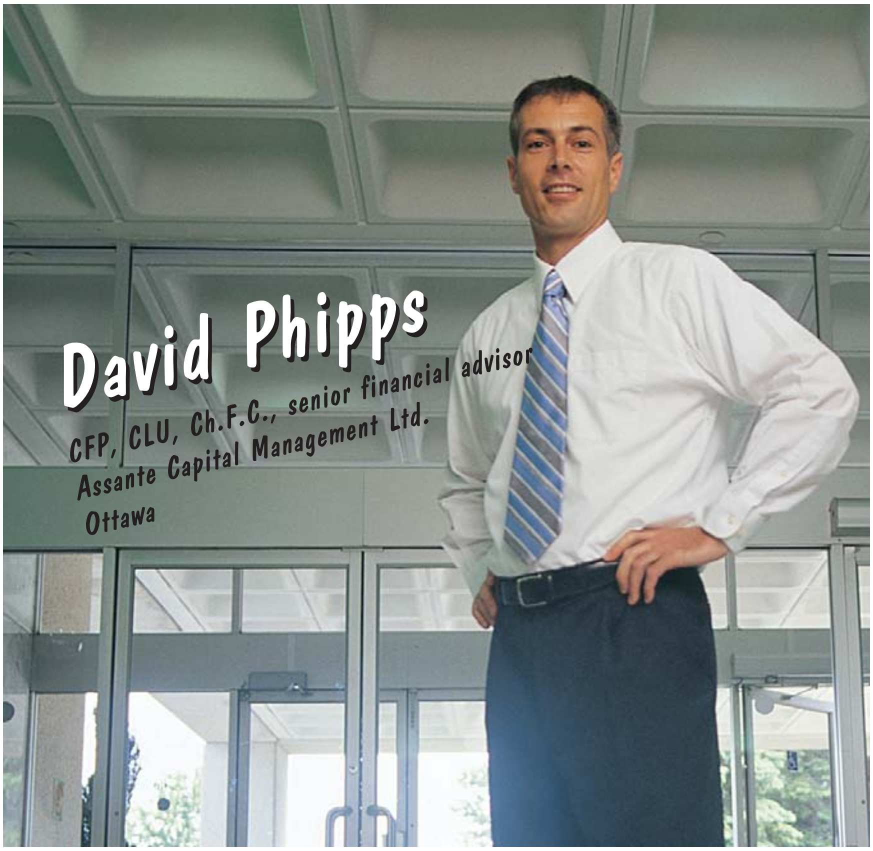
Oh No, We're Old!

Every minute, another Canadian turns 50, and on New Year's Day, 2006, the first baby boomers will turn 60. Healthier and wealthier than their parents, these folks are highly educated and creative thinkers.

While their parents viewed retirement as one last trip into the sunset that would include only a few years of vitality and optimal health, the boomers see retirement as a game show platform of lifestyle options: Do they pick Showcase One, with the trip around the world, the fully loaded RV and newfound career hand-crafting canoes? Or Showcase Two, featuring the La-Z Boy recliner and five-bedroom bungalow to house their spouse, 33-year old son and 82-year-old mother who is showing signs of dementia?

Reflecting this mentality of choice, the average baby boomer carries five to 10 credit cards. Yet, according to Statistics Canada, 42% of Canadians have no savings, and 45% of pre-retirement households (ages 45 to 64) had outspent their income in 2001, up from 34% nine years earlier.

More alarmingly, the HSBC study reports these people are more inclined to seek the help of peers and pundits over financial professionals. Just one-third of Canadians reported having consulted an advisor to help them prepare for retirement.



Vancouver CFP Diane McCurdy, president of McCurdy Financial Inc., and author of *How Much Is Enough?* (McGraw-Hill Ryerson) says the reserve stems from their snug status in the Sandwich Generation. "They're so busy working and taking care of their kids, their kids' kids, and their parents, they have no time to plan ahead," she says.

And, according to Ken Dychtwald, Ph.D. and president and CEO of San Francisco-based AgeWave (partner in the HSBC study), many boomers are wont to distrust authority. "The generations born after World War II tend to be more individualistic, less respectful of authority and more willing and comfortable to challenge authority," he says.

So how do you win the trust of people who are disinclined to trust you in the first place? How shrill does your wake-up call have to be when imploring your retiring boomer clients to cut back? Here's a starting point: Emphasize you are there to help them, at best, maintain the comfort level they experienced through their working lives.

But We're Still Rich, Right?

It's the wealthier spenders who are most at risk in terms of witnessing a startling shift in income upon retirement. "Almost no high-income earners save enough to maintain the standard of living they're accustomed to," says Phipps. "[An advisor will say], 'Oh, you've maxed out your RRSP. You're done.' "

Not quite. While the client may have maxed his RRSP contributions, if he's already used to a lifestyle of trinkets and travel based on a $275,000 income, then he's not saving enough to replicate that. "Typically, the people who have no savings are the people who spent every

Continued on page 22

Continued from page 21

dollar they had during their working years," says Phipps. "They always had a new car in the driveway. They went to restaurants all the time."

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More frugal spenders, on the other hand, will take less of a hit. "If the person who was saving was forgoing pleasures during their working years, they don't have the dramatic drop in lifestyle because they were already leading a modest lifestyle, plus they have the savings," Phipps explains. "If you're earning $40,000 or $60,000 a year, you're already used to living on pretty much nothing. You're going to McDonald's, not fancy restaurants." He says it's the people who are making $110,000 or $170,000—who feel rich by comparison and for whom driving a Lexus is par for the course—who are going to get a slap in the face if they don't save.

McCurdy agrees the HNW boomers are especially prone to this reprisal because of an overriding sense of feeling forever young. "They've worked hard and they've played hard. They weren't really paying attention," she says. "They aren't trying to recapture their youth—they think they've never lost it, and at best they're trying to retain it."

But having nothing left to save and no cash flow to recoup is a significant life change. And, as Dychtwald notes, 30 years is a very long time to be watching TV and essentially disengaged from mainstream society. So, although the $1 million advisor challenge is to find the cure-all for outspent client savings, Phipps starts with Band-Aid solutions.

First, he consolidates their debt and simplifies their investment portfolios. Then he calculates the anticipated modest return in the equity and fixed income markets over the next decade. He likens the conversation to that of a pension plan committee mulling over an actuarial estimate requiring a yield of 7% on a portfolio annually to meet its obligations. If the current projection only reaches 6%, the only options are to reduce benefits or increase contributions.

Herein lies the battle, explains Phipps. Employees don't want to have their benefits cut, but shareholders don't want to put more money in. It's a lot like advisors dealing with individual clients, he says, where they don't want their retirement income curtailed, yet they also don't want to add more to the pot. But he says there's no magic wand advisors can wave to avoid the reality of a low-yield investment environment. Either clients have to save more or they get less.

Lastly, advisors ought to champion the virtue of living mortgage-free. Which is the better scenario: Having a $200,000 house with a $100,000 mortgage and $100,000 in your RRSP, or having a $200,000 house that's all paid for and nothing in your RRSP? Phipps declares the latter as the winner, because the person with the house paid off avoids benefit clawbacks, whereas the person with mortgage payments still has a sizeable monthly outlay that lowers his modest income. Further, assuming the client doesn't have a pension plan, any money accrued from the RRSP will incur

No Plan of Attack

While more than half of Canadians plan to retire early, the majority won't have adequate savings to cover this new life stage.

- 66% of Canadians surveyed want to retire before they turn 65.
- 79% who are not yet retired do not have a retirement plan.
- 59% of those not yet retired say they are behind in saving for retirement.
- 13% cite retirement saving as their most important financial priority.
- 33% say they are still trying to keep their heads above water.
- 27% plan to rely on income from their own investments.
- 10% plan to live off the proceeds of a house sale by making use of the equity in their homes.

Source: 14th Annual RBC RRSP Survey, 2005

clawbacks of the government benefits. "Being rent-free is really critical," he says. "You're going to be on a reduced income anyway and [having a mortgage] is not the time to have a reduced income. It's still a significant expense."

Age of Enlightenment

Offering savings solutions to boomers is one thing, but getting them to see the light is a whole other story, says Phipps. "You tell these people, 'You've got to start saving,' and they're still putting it off."

Joyce Marbach concurs. She has a 57-year-old retired client who's burned through his million-dollar LIRA so fast she's not sure she can help. But it's not for lack of trying. The client started by taking out $50,000 to help his daughter buy a condominium, while allotting $5,000 a month for himself. Rather than spending commensurate to his actual earnings, the client simply leapt into the cash, taking what he wanted with no thought for the future. She told him she had concerns about the longevity of that lump sum, but it fell on deaf ears. "He doesn't listen. It's like his head's in the clouds," says Marbach, vice-president and senior investment advisor at Wellington West Capital in Regina. "I tried showing him a projection if

Continued on page 24

Continued from page 23

he keeps doing this. At that point, if he's not prepared to accept it, there's nothing we can do."

Such ignorance often comes down to the client's indifference about future consequences, says Charlie Tinling, a CFP with Tinling Financial Group in Winnipeg. "Many people say, 'I'll spend all my money and have a good time, and then I'm going to let Big Brother look after me,' " he says. "The other side is they couldn't care less. They're going to give it to their kids now so they can enjoy it, and they can see their kids enjoying it, rather than give it to them after they're dead."

McCurdy believes turning a potentially ruinous situation around for a client is a matter of being upfront and finding a person's hot buttons. Seven years ago, she had a 58-year-old client, a lawyer, who was making $450,000 a year and spending $475,000. He had four university-aged kids—whom he spoiled—and a penchant for vacations and cars. The client came to McCurdy asking for help but when she told him he was in really big trouble, he walked. "He just left like he was never coming back," she recalls. However, the client had a change of heart when he found he couldn't sleep at night, and he intuitively knew McCurdy was right.

She told him he was going down for the count. "He was going to lose his home, he was going to lose everything," she says. "You just can't keep having that kind of debt. The banks were putting pressure on him. He wasn't even thinking of retiring. He couldn't afford to retire. He was going to have to work forever."

But she turned the situation around by cashing in his life insurance policy. "He was insurable so we reinsured him with term insurance," McCurdy says. "He had a lot of cash in his insurance and we got rid of the debt and turned it around in terms of what he could and couldn't spend."

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Additionally, she stipulated the children would have to start supporting themselves.

Essentially, it was one big reality check, with a rosy ending. Now McCurdy's client has his $300,000 mortgage paid off, has maxed his RRSP contributions and has a handy sack stashed away in non-registered savings.

For McCurdy, finding the right solutions requires tailoring a situation to the individual client, giving the straight facts, and most importantly, withholding blame. "I just say, 'It's no one's fault.' Obviously they're here today so they want to fix it." She also gets clients to compose a wish list of goals. If she's working with couple, for example, they'll each do one and then cross-check the two lists. "Often, you'll be surprised," explains McCurdy. "One spouse may say, 'Oh, I didn't know you wanted to climb Mt. Everest. I want to do that too.' Or one might want to go golfing and the other wants to go to a spa. They then build that in separately, so both people are getting what they want. You work to their goals and their wishes so they don't mind cutting back to save because there is only so much money to go around. Then they're conscious choices instead of unconscious choices."

McCurdy says an added bonus for advisors seeking to become boomer retirement experts is the ability to transfer services among generations, as children of clients turn to advisors for help with their own wealth objectives. Another plus is that client-centred service inherently begets referrals. Jokes McCurdy: "In the old days, when we were kids, we were told you don't talk about sex, religion, what goes in the home, money and politics. Now that's all anybody talks about. So if you're a good advisor, they're going to be talking about you—they talk about everything!"

Most advisors who have boomer clients will confirm that finding those necessary hot buttons is no easy task, especially as these folks are much more complex in their dreams and aspirations. Dychtwald says it's a new phenomenon—a different piece of the financial puzzle—that is becoming increasingly important to millions of future retirees. Some of them were big earners throughout their working years, he says. But now they "find themselves adrift in their retirement without a clear understanding of how to best manage their circumstances."

A new phenomenon indeed, but a necessary one for advisors to tackle as they get ready to catch this next big wave. **AE**

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