The New Rules of Retirement

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TWMG

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Boomers: The New Face of Retirement

On January 1, 2011, the much anticipated migration of history's largest generation from the "Baby Boom" to the "Golden Boom" (that includes me) officially began with the first boomer turning 65. From that moment on some boomer somewhere in North America will turn 65 every 7.6 seconds for the next 18 years.

Finally, my generation that spurred a shockwave of unprecedented cultural change and economic expansion is entering its golden years. Yikes! It seems as though few people are celebrating. In fact, some of the boomers I meet are feeling downright despondent over the approaching milestone.

Why aren't we as boomers, considered to be the healthiest and wealthiest of all generations, ecstatic about their impending life of leisure and self-fulfillment?

I wondered why they simply aren't prepared. And, this doesn't necessarily refer to their financial preparedness, though that becoming problematic for many boomers approaching retirement.

As a generation, long characterized by their denial of their aging and death (remember, "60 is the new 40"?), we have refused to accept the traditional norms and expectations established by prior generations about a predetermined timeline for retirement.

Obstinate in boomer belief that "retirement" was something their parents or grandparents did many boomers I have noticed tended to avoid discussions and serious long-term planning having to do with life after work.

Rather than embracing their transition with anticipation and excitement, many are dragging their heels with mounting anxiety over entering their "senior" years.

This is the typical pre-retired individual I come across today. Can you relate or do you know somebody in this situation?

Janice has worked in the health care industry for the past 33 years. In less than two years she is eligible for retirement.

She loves her work but with the state of our health care system, it has become very stressful. Janice doesn't want to think about retirement. It makes her feel as though her life is over.

She has saved some RRSPs which she decided to start contributing to about 15 years ago. Her retirement income will be made up of Hospital (govt), RRSP Savings and government pensions.

With her home paid off, Janice has no idea what her retirement is going to cost. Even more important she has no plans of what she is going to do with her time. She has hobbies which include gardening and bird watching but beyond that she has no vision of what is important to her in the next phase of her life.

The Dawn of the "New Normal"

Even those who did plan ahead, with a realistic time horizon and some vision of their life in retirement recently, have been jolted from their dreams as a result of the "new normal" economy that has set in following years of fiscal neglect and market excesses that led to a global financial meltdown.

As we rode the gravy train of the powerful economic expansion of the 1980's and 90's, we couldn't have possibly imagined that many today would be contending with conditions that would cause them to delay their retirement or adjust the lifestyle requirements, either excessive spending or job loss. While some boomers have come to accept the "new normal", many are disheartened.

I remember having a conversation with an individual who was in the pharmaceutical industry for 27 years. He was as an executive who worked his way up the ranks. Then 3 years ago his company got bought out and he found himself being downsized. After trying to get over the shock he was faced with for the first time in his life with no career. He felt his life had no direction.

No one could have foreseen the convergence of two of the most consequential economic events in our history – the mass migration of the Baby Boom generation into their final life stage and the tectonic shift of a declining global economy – a perfect storm that has unleashed a number of forces that will forever change the retirement landscape.

With low interest rates on savings, pre-retirees are rethinking their plans and their vision especially as they consider the prospect of having to stretch their retirement income over 25 or 30 years.

The angst felt by the Baby Boomers has trickled down to all generations as revealed in a study conducted in 2011 by the Employee Benefit Research Institute that found workers of all ages are continuing to lose confidence in their ability to afford a comfortable retirement.

The study also found that, rather than adjusting their savings and spending patterns, people are simply changing their expectations of when their retirement years will begin and what they will look like.

Planning for retirement under the "new normal" requires a new set of rules based on a mindset different than the one that guided our parents and grandparents.

While they too had to sledge through some rough times on their way to retirement, they didn't face the same set of factors that are now forcing everyone to rethink their retirement plans.

Rule One: You Can't Avoid the Risks, so embrace them

The three inherent risks faced by retirees today are longevity, inflation and market risk. For as long as the need for retirement planning has existed (and that may only go back as far as the WWII era when workers began to actually retire), retirees have had to contend with inflation risk and market risk.

But, the game-changer, a factor that has profound implications for retirement planning, is longevity risk – <u>the risk of outliving your income which is a terrifying notion for any retiree.</u>

<u>Longevity Risk</u>
Your longevity, which is a measure of the average number of years of life expectancy, is not a static measure; rather it is an ever-expanding measure of life expectancy based on your attained age.

For example, a male who reaches the age of 60 can expect to live another 21 years until age 81 (24 years for a female).

For males who reach the age of 70, they could be expected to live until age 84, and so on. Prior to the advances in medical technology and the emphasis on healthy lifestyles that marked the last couple of decades, longevity risk was not as big a consideration as it is today.

While inflation and market risk have always had implications for retirement planning, when they are combined with longevity risk, their implications are not only compounded, they can have a devastating impact on a person's ability to live in comfort and security.

Inflation Risk

Inflation has always been the nemesis of retirees because of its effect on their standard of living, though its impact on people who retired in the 1950s, 60's and 70's was less significant for a few reasons.

First, life expectancies were shorter, generally lasting 10 to 15 years in retirement, which didn't allow for extended inflation creep.

Second, the majority of workers who retired in those decades received an income from employer pensions, many of which were indexed for inflation. Third, interest rates on savings more closely correlated with inflation which lessened the erosion of future purchasing power.

Today's retirees face a new set of problems with regards to inflation. First, because guaranteed pension plans are generally a thing of the past, retirees must rely on their own capital to generate sufficient income for their extended lifetimes.

Not only must they be able to accumulate capital at a rate that exceeds inflation, they must be able to sustain a rate of growth on their capital throughout their lifetime that exceeds inflation.

Second, in the current economic environment in which central banks are doing what they can to keep interest rates artificially low in order to stimulate economic activity, the interest rates on savings vehicles are not correlating with the true rate of inflation.

Because the central banks are pegging the direction of interest rates to the "new" Consumer Price Index (CPI), which doesn't include food and gas prices, savings rates are not adjusting to the actual rate of inflation as measured by the "old" CPI (pre-1992) which did account for food and gas prices.

Today, savers are actually earning negative rates of return when the actual rate of inflation is factored in.

Third, and this goes back to longevity risk, inflation has a much more significant impact on purchasing power when assets and earnings are exposed to it for 20 or 30 years. Even a modest rate of inflation of 3% will cut purchasing power nearly in half over a 20 year period.

Market Risk

The third inherent danger to retirement income is market risk. Again, market risk has always been a factor for retirees, but more so as pension plans began to disappear and they have had to rely on the accumulation of their own capital as a long term income source.

The implication of market risk was never more evident than during the market crash of 2008 when the values of stocks and mutual funds held in retirement plans plummeted by as much as 40% almost overnight. Anyone within 10 years of retirement saw their dreams evaporate.

Where prior generations may have been able to avoid market risk by avoiding risk-oriented investments, today's retirees must be able to embrace it if they hope to achieve and sustain any semblance of a comfortable standard of living.

For today's retirees avoiding market risk will almost certainly expose their assets and income to the risk of inflation and longevity, so an understanding of all risks is essential and achieving a balanced investment approach that will counter all risks is vitally important.

The good news is that, with retirement timeframes stretching out 25 to 30 years, most market risk is mitigated through the normal ebb and flow of the market cycles.

Rule Two: There are no formulas for a Successful Retirement

If you have read any literature on retirement planning or have received advice from a financial professional, chances are your were presented with the 70% rule, the one that states that retirees will need between 70 and 80% of their pre-retirement income in order to maintain their standard of living.

There are several flaws with this formula to me, and that is because the least of which is that it doesn't consider your actual income and expenses at the time of retirement.

If you do well between now and the time you retire, increasing your income to above average levels and paying down all of your debt, you may need a much smaller percentage of your pre-retirement income in retirement.

If you're income doesn't increase substantially, and you are still paying off debt, you could actually require as much as 100%. If you manage to save a higher than average portion of your income and live well below you means, you may not require as great a percent of your income in retirement.

Suffice to say, for many people using a general rule of thumb or formula for determining income needs can be woefully inadequate and result in saving too much or too little. Yes, saving too much is not necessarily a good thing if it requires too much sacrifice while you are working.

Secondly, who says that we need to live in the same manner and lifestyle in retirement as we do in our earning years?

Standard of living doesn't always equate with "quality of life". Today retirees are looking well beyond materialism and lifestyle needs to forge a life that, for perhaps the first time, will serve up more meaning through giving rather than getting.

Many retirees are willing to accept a more Spartan lifestyle if it means they can retire on time or a little early. Each individual's concept of lifestyle or standard of living needs is a matter of personal choice and a reflection of their perception of quality of life, which cannot be determined by a simple formula.

I know of a couple he is an engineer and she is a teacher. During their lifetime while they found time to travel. Their main objective was not own a home, in their minds it was not the most important thing. Now today as they are only a year or two away from retirement. They have more than enough investment savings into RRSPs and Non-registered investments to live the life they want to. Part of their retirement will mean even more extensive travel, but it will also allow them to pursue their individual hobbies.

Third, it doesn't take into account ever the evolving requirements of life and the type of expenditures that arise merely as a result of aging.

While some expenses, such as those having to do with raising and educating children, new, and sometimes bigger expenses will take their place. It is projected that the average boomer household will have more parents than children in it, and they will spend more time taking care of their parents than their children.

And, if current trends persist, they will have fewer kids to take care of them as they age. The true cost for the sandwich generation will be in caring for the elderly, either their parents or themselves. And this is important area today which many people do not think could ever happen to them.

Simple formulas and basic financial calculators cannot possibly account for the explosion of health care costs and the financial impact it will have on generations that will live 30+ years in retirement.

Health care costs are expected to increase by 8.5% in 2012, and that's only at the beginning edge of the boomer onslaught of aging retirees the likes of which no health care system has ever had to contend.

Retirement income planning needs to be grounded in today's realities and it must anticipate the cost of aging, not just the cost of inflation. It also must be based on the practical expectation that you will only be able to save as much as you are able to sacrifice while you are working.

Right now, your retirement vision, formed by your own needs, wants, attitudes and beliefs, rests in your mind, and it will undoubtedly change as your outlook and priorities change.

Rule Three: Retirement is not just a Lifestyle, it's a New Career

It's becoming increasingly apparent to me that fewer people will be able to retire as young as their parents or grandparents. For most people, the cost of a 25 or 30 year retirement is no longer affordable without some amount of employment income and they are working not by choice but they need to.

Some people will choose to work longer and delay employment. But the "new normal" is taking that option a way for most people as companies continue to shed their workforces and reduce their costs.

Layoffs and forced retirements are leaving many people in their 50s and 60s without a choice. More and more people are simply taking the attitude that part-time or full-time work in "retirement" is the norm.

Recent retirees and boomer pre-retirees have actually begun to forge a new normal for retirement by preparing for a new career well before their retirement date.

Some have created a “transitional” relationship with their employer, scaling back hours or changing their status to “consultant.” Such arrangements can sometimes extend the working relationship with an employer.

Some are branching out to start a business of their own or monetizing a hobby. Many boomers are already planning their new careers by hitting the books and learning new skills.

The prevailing attitude among a growing number of pre-retirees is that they aren’t going to limit themselves by trading a life of work for a life of leisure; rather they are going to take control and trade in work that they no longer want to do, for work they will really like to do.

By taking control of their new working life, they are more likely to be able to find an enjoyable balance of work and lifestyle that will sustain them financially, mentally, and psychologically.

Studies abound that show that the majority of retirees who try to step completely away from the action eventually grow despondent, while those who stay engaged and productive, are happier in all aspects of their lives.

Many people find the sudden loss of interaction to be especially difficult, and are saddened and disoriented by being separated from “the tribe”.

One couple I know when we had the conversation of what they had as a vision for the next stage of their working lives would look like. The husband wanted for some reason wanted to run a chicken farm. Which totally shocked his wife, never did she think that part of her retirement years would involve eggs. They are still years away from retirement, but I suspect this vision may be altered somewhat.

Rule Four: It’s not Your Father’s Retirement Planning anymore

As today’s retirees are finding that retirement requires at least as much psychological and emotional preparation as it does financial preparation, so retirement planning needs to include a thorough assessment of human assets and liabilities along with an assessment of financial assets and liabilities.

It is no longer enough for retirees to know who much they will need to live; they need to know how they will be able to make the most of this new life stage.

By focusing primarily on financial issues, traditional planning reduces retirement to an economic event with its financial objectives marked by a finish line. The dangerous misconception it perpetuates is that, if you hit the finish line, on time and on goal, your planning is done and you'll have a successful retirement.

While it may address the financial goal of creating a sufficient standard of living, it doesn't address the larger, more important issue of the quality of life. Studies have shown that a high standard of living doesn't necessarily translate into happiness, especially without a meaningful and fulfilling quality of life. Even with a diminished standard of living, retirees are much happier when they find a way to enjoy a quality life.

Traditional retirement planning looks at retirement as a continuum of life stages in which you work to live and sacrifice current spending in order to be able to spend when you are not working.

This actually may have sufficed at a time when people worked for 40 or 45 years and then retired for a few years of leisure. Today's retirees, who realize that they have two or three decades of life ahead of them, are showing us that retirement is not part of a linear sequence of life events; rather that it is a life cycle in and of itself.

While many retirees are forced to continue to work in order to meet their standard of living, they are doing so on their own terms using the opportunity to reinvent themselves by learning new skills, starting new ventures, forging new relationships while nourishing existing ones, and seeking greater fulfillment for themselves as well as their loved ones.

Rule Five: Planning for a Life in Retirement Requires Life Planning

As the "new normal" sets in a more holistic approach to planning is required that will prepare retirees, financially, psychologically, mentally, physically, and spiritually for the life cycle of retirement.

Life planning needs to replace financial planning which limits the scope and clarity of vision people need in order to secure a truly satisfying and fulfilling life. The evidence is overwhelming that the more prepared people are, mentally, physically and financially, the happier they are in retirement.

Although it may be difficult for younger people to clearly envision a life in retirement, life planning is a process anyone can use to discover and prioritize their most important values and then develop a plan to live by them throughout all of life's stages.

By focusing on values, it is easier to crystallize and prioritize needs and wants so that, not only are they reasonable and relevant, they are much more compelling and tangible when setting goals for achieving them.

By thoroughly exploring the source of our attitudes and beliefs around our finances, enables us to focus only on those that continue to serve our purpose.

As an ongoing process, it allows us to keep our attitudes and beliefs aligned with our values and priorities. Most people may never feel financially secure, but the more emotionally secure they feel about their future, the less financial stress they will feel.

Effective life planning does not ignore the financial components of planning; rather it places them in a more important context, which makes it easier to prioritize needs and wants while allocating resources to achieving them.

It does require that you have a keen understanding of your current financial situation in relation to your goals, and that you are always aware of the gap between where you are and where you want to be.

The steps you take towards closing both the emotional gap and the financial gap will consist of values-based lifestyle decisions as well as sound financial management.

As much as the perception of retirement has changed over time, the concerns and questions remain the same for most people. Will I have enough to live comfortably? Will my money run out before I do?

These are questions that can't be ignored; however, life planning is a process of discovering your vision and then implementing specific steps to achieving it. As such, it follows a line of questions that many people have never really considered, such as:

- What are your values? What beliefs and attitudes to you hold regarding family, health, security and service to others? Why are they important to you?
- What would you want to be able to say about yourself at some point in your retirement? What would you expect other people to say about you?
- What are your vivid and compelling wants, and why are they important to you?
- What have you and your spouse (or how have you as a couple) “pulled” together to create a shared, values-based vision of life? If you were to retire today, how would your values and attitudes translate into actions? What activities or type of lifestyle would enable you to live your values?

About 10 years Ben (not his real name) came to Canada after working in the U.S. For the past 20 years.

He was a professor and by the time I had met him at aged 45 he had some assets which included a revenue property that would make up part of his long-term retirement plans .Canadian Retirement planning though he knew it was important was always at the back of his mind.

He had a U.S teacher's pension he was entitled to at retirement. He had his current plan with the institution he taught at and some RRSPs which he had for both he and his wife.

The retirement vision he had for himself was one of maintaining good health. The death of his father at an early age always haunted him.

He wondered aloud back then often if he would live to see his 50th birthday.

He was especially adamant about making sure he had his will and other estate issues taken care of. To this day every few years he re-visits this area.

If he made it to 50, his vision was to spend more time with his grandchildren who were scattered around the world.

Beyond that, he saw this time of his life as a bonus. He said he would always enjoy each day as it came to him.

So while he took good care of himself and was active, he made sure that if he was not around, there would be assets to provide for his wife and children even though they were well on their way to leading their own financial lives.

From the time we first met, Ben divided his planned retirement savings into vehicles that he was comfortable with.

It was important to him that while he understood that investments that a better chance to grow had some risk to it, he only diversified into those investments with what he felt allowed him to sleep at night comfortably.

As an American born individual, Ben is not shy to tell you about the love he has for this country, it is where he met his wife raised a family and while he still has some ties to the U.S., he wanted to make sure he was taking advantage of all the Canadian retirement planning options that were open to him.

Today at 62, Ben enjoys his retirement, besides being an avid reader him and his wife travel to see his grand children.

His retirement lifestyle income comes from a U.S. Teacher pension, a Registered Retirement Income Fund (RRIF) a QPP payment and Non-registered Investments.

While he does not need the income from his rental property he reinvests it monthly as he feels he made need this money later in life for long-term care for him and his wife.

But right now he is in the best of health and enjoying all the things that matter most to him in his life.

Conclusion

By shifting your retirement focus from your standard of living to your quality of life, you will more likely achieve those things in life that will have a more enduring impact your health and well-being.

And, in doing so, you will have more options than you ever thought possible. While having more options and choices may seem prefereable, it can increase the difficulty in making the right decisions.

Quality, not quantity is the goal. Retirement is a tiime to harvest fulfillment, not to create more demands. It is also a time for regeneration which can only occur through a deliberatley planned transition that incorporates your own needs, wants and values.

For that, there are no stereotypes, standard formulas or generalized planning approaches; only your vision.