



Perils of procrastination

Financial advisors offer hope for those who've put off retirement planning too long

Jade Hemeon

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While financial advisors are well aware of the importance of retirement planning, a lot of people haven't got the message or have been so preoccupied with mortgages, bills and putting their kids through university that they simply haven't had any money left over for RRSPs.

Only a fraction of Canadians fully utilize their RRSP contribution room, and surveys show less than half even have an RRSP. Many have passed their 40th birthday without making a serious effort to save. As advisors, you may find them on your doorstep when they're hit by the sudden realization that they've left things a little late and better get cracking.

"I've seen people over 40 years of age and even older who haven't done any retirement planning," says Bill Bell, president of Aurora-based Bell Financial Inc. "They show up at my office and want to know how bad it's going to be. The reality is that they're not dead in the water, and it's never too late to start."

Mr. Bell says procrastinators may have missed out on the advantage of starting young when it comes to compound growth on investments, but could still have a good 25 years left to save. And people at middle age are probably at their peak income-earning capacity.

"At middle age many people are reaching the tail end of certain expenses and may be nearing a time when they have more cash," he says.

Jim Rogers, chairman of Vancouver-based Rogers Group Financial, says the first thing he does with non-savers is give them the facts. He helps them figure out exactly what they would need if they retired tomorrow, based on the expenses that would continue, and those that would disappear such as work-related and child-rearing costs. He also calculates all sources of income, including company pensions and government benefits. He then makes future projections, applying an inflation rate the client agrees is realistic. "The client must come up with the specific numbers that apply to them, otherwise the solution is of no value," Mr. Rogers says.

Once he knows the client's needs, Rogers can figure out how much is needed to generate the necessary income down the road, a point in time that is also determined by each individual. Calculating the growth potential of any savings the client may have, he can determine the shortfall, and what's needed to make it up. For a balanced portfolio, he typically projects a rate of return of about 3% higher than the inflation rate.

If somebody needs to save \$15,000 a year to meet their goals, for instance, he'll help them go through their budget and reorder spending and savings patterns. If they can only save half that amount, he pulls no punches in assuring them they won't achieve their desired lifestyle.



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Patricia Lovett-Reid, senior vice-president at TD Waterhouse Canada, in her Toronto office: "We're living much longer and the old paradigms don't apply."

"The numbers tell the tale, and it's not a subjective discussion," Mr. Rogers says. "My job is to tell people what is, and sometimes those are not comforting words. No client is well-served by molly-coddling, and you can be candid without being hurtful."

Tony De Thomasis, president of Thornhill, Ont.-based De Thomas Financial Corp., says most people in their forties who haven't saved have failed to do so due to poor management and heavy demands on their cash flow, rather than lack of intent. He spends a lot of time helping them reorganize debts, getting rid of the high-interest debt such as credit cards and taking advantage of anything that can be made tax-deductible. Together he and his clients figure out where the money is going, and find ways to come up with some savings.

"Some people can refinance or extend their mortgage, thereby lowering their monthly payments and freeing up some money that can grow tax-deferred in their RRSPs," he says. "Others are leasing cars, and can lower the payments."

Warren Baldwin, regional vice-president at T. E. Financial Consultants Ltd. in Toronto, says many people are daunted by future cost projections, and discouraged when they see how much they need to save. However, if new penny-pinching habits are established they can carry over into a more frugal retirement lifestyle.

"For the late starter, expenditures may need to be reduced dramatically, both now and in retirement," Mr. Baldwin says. "People may need to look at downsizing their house, which can free up capital and reduce costs. They may have to work-part time in retirement or delay it by a few years. It's a goal-oriented discussion. The key is to draw the line in the sand, then figure out a way to get there."

He cautions that there's no "go-fast" button for investment returns, and warns against aggressive catch-up strategies such as leverage or highly volatile investments. Mr. Rogers agrees, and questions any client who wants to hit for the fences about his or her ability to hit home runs in the past.

"I ask for evidence of their investment success," he says. "Most who've tried for the home runs have hit moose pasture."

Jonathan Sceeles, a CFP with Edward Jones in Toronto, says he usually makes different recommendations to an older investor who has started late than to one who has started young and accumulated a healthy portfolio by middle age. "Normally, I would recommend becoming conservative for investors around the age of 50," Mr. Sceeles says. "But late starters must make up for lost years, and have less time for growth to compound. They can't afford to be too aggressive, but there must be a sufficient equity component to provide for growth."

If there's any consolation for procrastinators, it's that people are much healthier in their sixties than they've ever been, and many can extend their income-earning and saving years.

"We're living much longer and the old paradigms don't apply," says Patricia Lovett-Reid, senior vice-president with TD Waterhouse Canada Inc. "Rather than an endless game of golf or series of vacations in retirement, many people want the challenge of some kind of work and are redefining their vision of retirement. Meanwhile, they can get ahead by doing a lot of little things right. It's not just about saving, it's about deferring tax, and taking advantage of income-splitting strategies to maximize returns."

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